

Town of Haw River
Financial Statements
June 30, 2017

**Town of Haw River
North Carolina**

June 30, 2017

Town Council Members

Buddy Boggs, Mayor
H. Lee Lovette, Mayor Pro-Tem
Jeff Fogleman
Steve Lineberry
Kelly Allen

Administrative and Financial Staff

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

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Financial Section

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

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America Counts on CPAs

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Haw River, North Carolina, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Haw River'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 of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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.

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

Opinions

In our opinion, based upon our audit, 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 as of June 30, 2017, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note VII to the financial statements, in 2017 the Town adopted new accounting guidance, GASB 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*, and *Amendments to Certain Provisions of GASB Statements 67 and 68*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 9 through 19, and the Other Postemployment Benefit and Law Enforcement Officers' Special Separation Allowance Schedules of Funding Progress and Employer Contributions on pages 56 through 59, the Local Government Employees' Retirement System's Schedules of the Proportionate Share of Net Pension Asset (Liability) and Contributions, on pages 60 through 61, 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 consists of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Haw River's basic financial statements. The individual fund financial statements, budgetary schedules, other schedules, as well as the accompanying schedule of expenditures of federal and state awards as required by Title 2 *U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for the Federal Awards* is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The individual fund financial statements, budgetary schedules, other schedules and the schedule of expenditures of federal and state awards are the responsibility of management and were derived from and

relate directly to the underlying accounting and other records used to prepare the 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 performed as described above, the individual fund financial statements, budgetary schedules, other schedules and the schedule of expenditures of federal and state awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2017 on our consideration of the Town of Haw River's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is 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 Haw River'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
November 30, 2017

Management's Discussion and Analysis

Town of Haw River
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017

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, 2017. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

Financial Highlights

- The assets and deferred outflows of resources of the Town of Haw River *exceeded* its liabilities and deferred inflows of resources at the close of the fiscal year by \$7,515,286 (*net position*).
- The government's total net position *increased* by \$111,951, due to an *decrease* in the governmental activities net position of \$276,469 and *increase* in the business-type activities net position of \$388,420.
- As of the close of the current fiscal year, the Town of Haw River's governmental funds reported combined ending fund balances of \$1,649,746 with a net decrease of \$32,279 in fund balance. Approximately 68.98 percent of this total amount, or \$1,137,902, is restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$511,844, or 22.57 percent of total general fund expenditures for the fiscal year.
- The Town of Haw River's total debt increased by \$507,192 (52.21%) during the current fiscal year. The key factors in this increase were installment purchase obligations increased by \$579,296; however, principal payments were made in the amount of \$72,104.

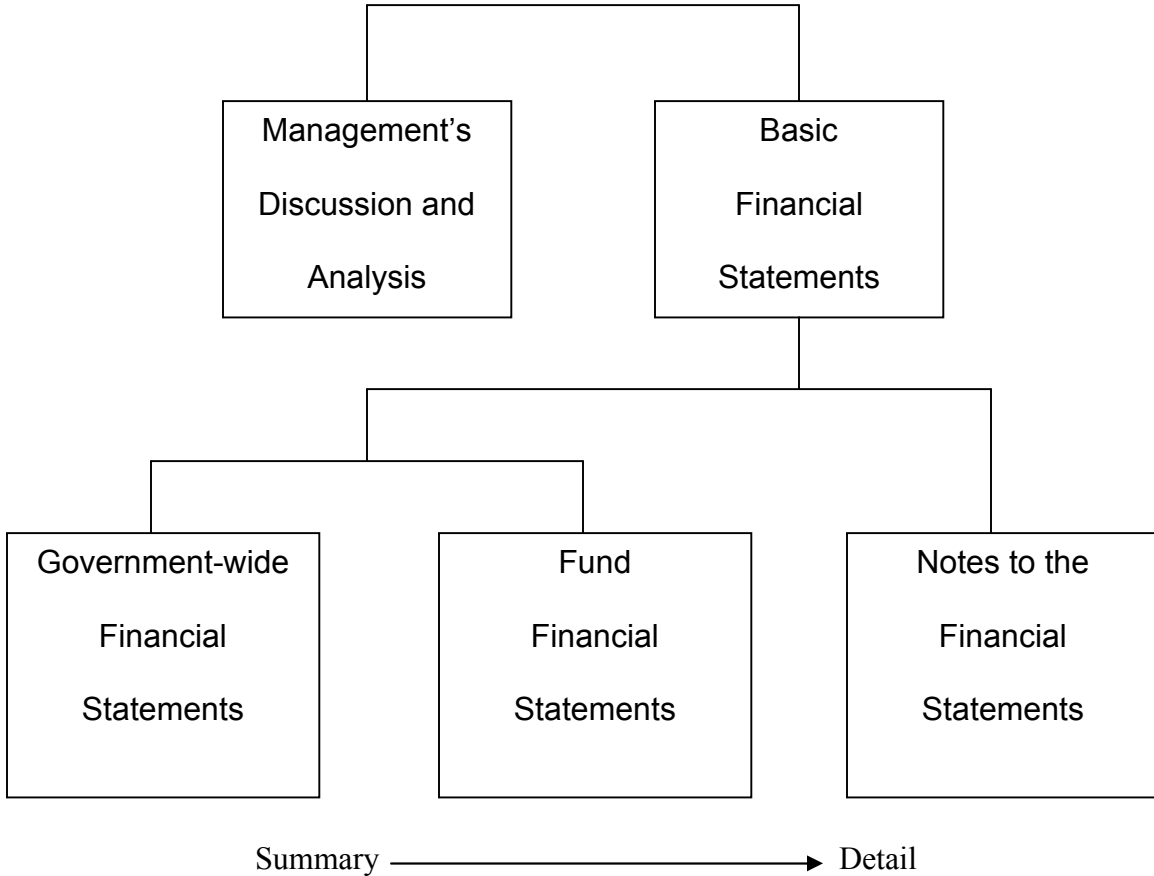
Overview of the Financial Statements

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, 2017**

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, 2017**

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, 2017**

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, 2017**

Government-Wide Financial Analysis

Town of Haw River's Net Position

Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 1,693,814	\$ 1,818,606	\$ 1,509,147	\$ 1,339,597	\$ 3,202,961	\$ 3,158,203
Net pension asset	-	-	-	-	-	-
Capital assets	1,918,424	1,811,230	4,658,714	4,003,840	6,577,138	5,815,070
Deferred outflows of resources	211,209	45,303	48,407	11,144	259,616	56,447
Total assets and deferred outflows of resources	<u>3,823,447</u>	<u>3,675,139</u>	<u>6,216,268</u>	<u>5,354,581</u>	<u>10,039,715</u>	<u>9,029,720</u>
Long-term liabilities outstanding	449,024	432,760	1,217,640	820,801	1,666,664	1,253,561
Net pension liability	221,742	57,158	55,435	14,290	277,177	71,448
Total pension liability	298,424	-	-	-	298,424	-
Other liabilities	153,939	203,702	100,960	77,828	254,899	281,530
Deferred inflows of resources	22,576	27,308	4,689	6,828	27,265	34,136
Total liabilities and deferred inflows of resources	<u>1,145,705</u>	<u>720,928</u>	<u>1,378,724</u>	<u>919,747</u>	<u>2,524,429</u>	<u>1,754,730</u>
Net position:						
Net investment in capital assets related debt	1,622,921	1,589,654	3,475,449	3,253,840	5,098,370	4,843,494
Restricted	949,066	1,028,518	33,295	32,625	982,361	1,061,143
Unrestricted	105,755	336,039	1,328,800	1,162,659	1,434,555	1,498,698
Total net position	<u>\$ 2,677,742</u>	<u>\$ 2,954,211</u>	<u>\$ 4,837,544</u>	<u>\$ 4,449,124</u>	<u>\$ 7,515,286</u>	<u>\$ 7,403,335</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 \$7,515,286 as of June 30, 2017. The Town's net position increased by \$111,951 for the fiscal year ended June 30, 2017. However, the largest portion (67.84%) 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, \$982,361, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$1,434,555 is unrestricted.

**Town of Haw River
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017**

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

- Increase in Operating Grants & Contributions of \$19,240 compared to prior year.
- 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 98.59%, which is healthier compared to the statewide average of 97.05% for similar-sized municipalities.

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

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues:						
Program revenues:						
Charges for services	\$ 460,038	\$ 470,206	\$ 1,601,007	\$ 1,519,734	\$ 1,989,940	\$ 1,989,940
Operating grants and contributions	27,434	8,194	-	-	8,194	8,194
Capital grants and contributions	141,374	262,002	361,417	35,624	297,626	297,626
General revenues:						
Property taxes	733,961	710,334	-	-	710,334	710,334
Other taxes	78	7,791	-	-	7,791	7,791
Grants and contributions not restricted to specific programs	728,184	704,902	-	-	704,902	704,902
Other	6,811	15,131	-	-	15,131	15,131
Investment earnings	5,707	3,257	2,244	1,156	4,413	4,413
Total revenues	2,103,587	2,181,817	1,964,668	1,556,514	3,738,331	3,738,331
Expenses:						
General government	389,888	367,056	-	-	389,888	367,056
Public safety	1,065,273	939,318	-	-	1,065,273	939,318
Transportation	375,780	165,882	-	-	375,780	165,882
Environmental protection	126,216	110,102	-	-	126,216	110,102
Culture and recreation	172,488	169,192	-	-	172,488	169,192
Interest on long-term debt	6,038	7,085	-	-	6,038	7,085
Water and sewer	-	-	1,564,361	1,549,817	1,564,361	1,549,817
Stormwater	-	-	11,887	12,039	11,887	12,039
Total expenses	2,135,683	1,758,635	1,576,248	1,561,856	3,711,931	3,320,491
Increase (decrease) in net position before transfers	(32,096)	423,182	388,420	(5,342)	356,324	417,840
Restatement	(244,373)	-	-	-	(244,373)	-
Increase (decrease) in net position	(276,469)	423,182	388,420	(5,342)	111,951	417,840
Net position, July 1	2,954,211	2,531,029	4,449,124	4,454,466	7,403,335	6,985,495
Net position, June 30	\$ 2,677,742	\$ 2,954,211	\$ 4,837,544	\$ 4,449,124	\$ 7,515,286	\$ 7,403,335

**Town of Haw River
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017**

Governmental activities. Governmental activities decreased the Town's net position by \$276,469, thereby accounting for the decrease in net position of the Town of Haw River. Key elements of this increase are as follows:

- Restatement of \$244,373 was required in order to book the liability of the Separation Allowance Total Pension Liability as required by GASB 73.

Business-type activities: Business-type activities increased the Town's net position by \$388,420 accounting for the total increase in net position of the Town of Haw River. Key elements of this increase are as follows:

- Water and sewer revenues increased by \$81,273 and grant revenues increased by \$325,793.

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 \$511,844, while total fund balance reached \$1,649,746. The Town currently has an available fund balance of 22.57 percent of total General Fund expenditures, while total fund balance represents 72.75 percent of that same amount.

At June 30, 2017, the governmental funds of Town of Haw River reported a combined fund balance of \$1,649,746 with a net decrease in fund balance of \$32,279.

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, 2017**

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 \$1,225,625, and those for the Stormwater Fund amounted to \$103,175. Net position increased in the Water and Sewer Fund by \$377,389 and net position in the Stormwater Fund increased by \$11,031 in the current fiscal year. The change in net position of the Water and Sewer Fund is due to more revenues and expenses in the fund related projects and grants. 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, 2017, totals \$5,098,370 (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:

- Boom truck – Transportation \$134,031.
- Shelter rehab - \$18,615.
- Sidewalks capitalized at \$106,062- Sidewalk grant.
- CWSRF Sewer lining project capitalized \$826,936.
- Portable stage and skirting - \$6,085.

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

	Governmental Activities		Business-type Activities		Total	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Land	\$ 167,968	\$ 167,968	\$ 1,040	\$ 1,040	\$ 169,008	\$ 169,008
Construction in progress	-	-	-	-	-	-
Buildings	253,042	246,926	-	-	253,042	246,926
Infrastructure	780,517	710,055	-	-	780,517	710,055
Equipment	249,202	303,010	-	-	249,202	303,010
Vehicles	467,695	383,271	-	-	467,695	383,271
Plant and distribution systems	-	-	4,657,675	4,002,800	4,657,675	4,002,800
Total	\$ 1,918,424	\$ 1,811,230	\$ 4,658,715	\$ 4,003,840	\$ 6,577,139	\$ 5,815,070

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, 2017, the Town had total installment purchase obligations outstanding of \$740,768.

**Town of Haw River
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017**

**General Obligation and Bonds
Figure 5**

	Governmental <u>Activities</u>		Business-type <u>Activities</u>		<u>Total</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Installment purchase obligations	\$ 295,503	\$ 221,576	\$ 445,265	\$ -	\$ 740,768	\$ 221,576
Revenue Bonds	-	-	738,000	750,000	738,000	750,000
Total	\$ 295,503	\$ 190,697	\$ 1,183,265	\$ 750,000	\$ 1,478,768	\$ 971,576

Town of Haw River's Outstanding Debt

The Town's total debt increased by \$507,192 during the past fiscal year due to increase of installment purchases in the general fund and water/sewer fund by the Town.

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 \$10,654,661.

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.

- Due to strong private economic factors, we expect marginal increase in sales tax revenues. Small growth projections are predicted again for the coming year.
- The Town unexpectedly had a 3% in ad-valorem evaluation; however it is the hope of the Town to see that stabilize in the next fiscal year.
- The Town does expect a minimal increase by the City of Burlington. The Water and Sewer fund due to the slip lining sewer line projects has produced significant reduction on inflow and infiltration, which resulted in greater revenue in the sewer fund. The Town will be building a new pump station (Lang Street Pump Station) to accommodate residential and commercial expansion on the northwest (Holt Road, New Hanover Road, and Church Street) portion of the town.
- With changes to the political climate regarding the Affordable Care Act. We continue to have increases and plan changes driven by the legislation that adversely affect the Town and its employees.

**Town of Haw River
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017**

- The Town is pleased with the stabilization on its earnings on its investments, but it is our hope that slow hikes to the Federal interest rate will increase Town investment revenues in the coming fiscal year. We have had to continually address increases in operational expenses without corresponding increases in operational revenues.
- The Town's workforce has gotten much younger due to several older long term employees retiring. This has helped to reduce current salary cost but has had a negative impact on the OPEB cost associated with retirees and their benefits.
- The Town will be continuing it's focusing in the coming year on re-development of Old Mill property located off Main Street. There has been progress as the Granite Mill ownership group has identified a developer that is proposing a residential/retail project for that facility. With the hopes of construction starting in the spring of 2018.
- The Newlin Industrial Park project, as a 200-acre industrial site is currently being promoted by the NC Department of Commerce, the Alamance County Chamber of Commerce, and the Town. The dedication of this site will give the Town the ability to increase its tax base through new industrial development that will provide needed funds and jobs for the sustainability of the Town of Haw River.

Budget Highlights for the Fiscal Year Ending June 30, 2018

Governmental Activities: There are several challenges faced by management when preparing for the fiscal year ending June 30, 2018. Due to higher call volumes, we will need to face the need for more staff, which will reduce governmental funds for other departments. We anticipate experiencing increases in health insurance, worker's compensation insurance, property and liability insurance, and operational cost. We foresee an increase in Sales & Use Tax that should help offset some of the increases. We are hopeful to hold our ad-valorem tax rate at .48/100-dollar evaluation.

Business – type Activities: We anticipate water and sewer rates in the Town to increase slightly due to an increase of rates by the City of Burlington. The future budget allows for maintenance and repair costs. We have completed a grant/loan funded project to reduce inflow and infiltration into our sewer system. In the 2018 calendar year, we will begin the Lang Street Pump Station replacement project.

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, 2017

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 856,329	\$ 1,189,367	\$ 2,045,696
Taxes receivable (net)	27,458	-	27,458
Accrued interest receivable on taxes	5,760	-	5,760
Accounts receivable (net)	96,932	267,564	364,496
Due from other governments	216,812	-	216,812
Restricted cash and cash equivalents	490,523	52,216	542,739
Total current assets	1,693,814	1,509,147	3,202,961
Non-current assets:			
Capital assets:			
Land, non-depreciable improvements and construction in progress	167,968	1,040	169,008
Other capital assets, net of depreciation	1,750,456	4,657,674	6,408,130
Total capital assets	1,918,424	4,658,714	6,577,138
Total assets	\$ 3,612,238	\$ 6,167,861	\$ 9,780,099
DEFERRED OUTFLOWS OF RESOURCES			
Pension Deferrals	211,209	48,407	259,616
Total deferred outflows of resources	211,209	48,407	259,616
LIABILITIES			
Current liabilities:			
Accounts payable	10,850	3,001	13,851
Accrued interest payable	2,573	1,635	4,208
Customer deposits	-	52,216	52,216
Current portion of long-term liabilities	140,516	44,108	184,624
Total current liabilities	153,939	100,960	254,899
Long-term liabilities:			
Net pension liability	221,742	55,435	277,177
Total pension liability	298,424	-	298,424
Due in more than one year	449,024	1,217,640	1,666,664
Total liabilities	1,123,129	1,374,035	2,497,164
DEFERRED INFLOWS OF RESOURCES			
Pension Deferrals	22,576	4,689	27,265
Total deferred inflows of resources	22,576	4,689	27,265
NET POSITION			
Net Investment in capital assets	1,622,921	3,475,449	5,098,370
Restricted for:			
Transportation	398,310	-	398,310
Public safety	177,695	-	177,695
Cultural and recreation	59,317	-	59,317
Stabilization by State Statute	313,744	-	313,744
USDA	-	33,295	33,295
Unrestricted	105,755	1,328,800	1,434,555
Total net position	\$ 2,677,742	\$ 4,837,544	\$ 7,515,286

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, 2017

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental Activities:							
General government	\$ 389,888	\$ -	\$ -	\$ -	\$ (389,888)	\$ -	\$ (389,888)
Public safety	1,065,273	276,642	25,853	27,760	(735,018)	-	(735,018)
Transportation	375,780	61,835		113,614	(200,331)	-	(200,331)
Environmental protection	126,216	102,739	1,581	-	(21,896)	-	(21,896)
Cultural and recreation	172,488	18,822	-	-	(153,666)	-	(153,666)
Interest on long-term debt	6,038	-	-	-	(6,038)	-	(6,038)
Total governmental activities (See Note 1)	2,135,683	460,038	27,434	141,374	(1,506,837)	-	(1,506,837)
Business-type activities:							
Water and sewer	1,564,361	1,578,089	-	361,417	-	375,145	375,145
Stormwater	11,887	22,918	-	-	-	11,031	11,031
Total business-type activities	1,576,248	1,601,007	-	361,417	-	386,176	386,176
Total primary government	\$ 3,711,931	\$ 2,061,045	\$ 27,434	\$ 502,791	(1,506,837)	386,176	(1,120,661)
General revenues:							
Taxes:							
Property taxes, levied for general purpose					733,961	-	733,961
Other taxes					78	-	78
Grants and contributions not restricted to specific programs					728,184	-	728,184
Unrestricted investment earnings					5,707	2,244	7,951
Miscellaneous					6,811	-	6,811
Total general revenues not including transfers					1,474,741	2,244	1,476,985
Transfers					-	-	-
Total general revenues and transfers					1,474,741	2,244	1,476,985
Change in net position					(32,096)	388,420	356,324
Net position, beginning					2,954,211	4,449,124	7,403,335
Restatement					(244,373)	-	(244,373)
Net position, beginning, restated					2,709,838	4,449,124	7,158,962
Net position, ending					\$ 2,677,742	\$ 4,837,544	\$ 7,515,286

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, 2017

	Major Fund	Total
	General	Governmental Funds
ASSETS		
Cash and cash equivalents	\$ 856,329	\$ 856,329
Restricted cash	490,523	490,523
Receivables, net		
Taxes	13,925	13,925
Fire district levy	13,533	13,533
Accounts	96,932	96,932
Due from other governments	216,812	216,812
Due from other funds	-	-
Total assets	<u>1,688,054</u>	<u>1,688,054</u>
LIABILITIES		
Accounts payable and accrued liabilities	10,850	10,850
Due to other funds	-	-
Total liabilities	<u>10,850</u>	<u>10,850</u>
DEFERRED INFLOWS OF RESOURCES		
Property taxes receivable	13,925	13,925
Fire District taxes receivable	13,533	13,533
Total deferred inflows of resources	<u>27,458</u>	<u>27,458</u>
FUND BALANCES		
Restricted		
Stabilization by State Statute	313,744	313,744
Transportation	398,310	398,310
Public Safety	177,695	177,695
Cultural and Recreation	59,317	59,317
Assigned		
Subsequent year's expenditures	188,836	188,836
Unassigned	511,844	511,844
Total fund balances	<u>1,649,746</u>	<u>1,649,746</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 1,688,054</u>	

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

Town of Haw River, North Carolina
Balance Sheet
Governmental Funds
June 30, 2017

Amounts reported for governmental activities in the Statement of Net Position (Exhibit 1) are different because:		
Total Fund Balance, Governmental Funds		1,649,746
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Gross capital assets at historical cost	\$ 5,184,947	
Accumulated depreciation	(3,266,523)	1,918,424
Contributions to the pension plan in the current fiscal year are deferred outflows of resources on the Statement of Net Position		
		211,209
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.		
		5,760
Liabilities for earned revenues considered deferred inflows of resources in fund statements.		
		27,458
Pension related deferrals		
		(22,576)
Other long-term 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.		
		(1,112,279)
Net Position of governmental activities		\$ 2,677,742

Town of Haw River, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2017

	Major Fund	Total
	General Fund	Governmental Funds
REVENUES		
Ad valorem taxes	\$ 736,576	\$ 736,576
Other taxes and licenses	78	78
Unrestricted intergovernmental	728,184	728,184
Restricted intergovernmental	484,295	484,295
Sales and services	121,561	121,561
Investment earnings	5,707	5,707
Miscellaneous	23,183	23,183
Total revenues	2,099,584	2,099,584
EXPENDITURES		
Current:		
General government	367,129	367,129
Public safety	957,657	957,657
Transportation	569,094	569,094
Environmental protection	120,982	120,982
Cultural and recreation	186,375	186,375
Debt service:		
Principal and interest	66,507	66,507
Total expenditures	2,267,744	2,267,744
Excess (deficiency) of revenues over expenditures	(168,160)	(168,160)
OTHER FINANCING SOURCES (USES)		
Installment purchase proceeds	134,031	134,031
Transfers from other funds	-	-
Sales of capital assets	1,850	1,850
Total other financing sources (uses)	135,881	135,881
Net change in fund balance	(32,279)	(32,279)
Fund balances, beginning	1,682,025	1,682,025
Fund balances, ending	\$ 1,649,746	\$ 1,649,746

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, 2017

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

Net changes in fund balances - total governmental funds (Exhibit 4) \$ (32,279)

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	269,868	
Depreciation expense for governmental assets	<u>(162,674)</u>	107,194

Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities. 50,696

Benefit payments paid and administrative expense for LEOSSA are not included on the Statement of Activities 16,849

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 8,733

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

New long-term debt issued	(134,031)	
Principal payments on long-term debt	60,104	
Decrease in accrued interest payable	<u>364</u>	(73,563)

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	(23,914)	
Pension expense	(89,550)	
Other postemployment benefits	<u>3,738</u>	(109,726)

Total changes in net position of governmental activities \$ (32,096)

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, 2017

	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues:				
Ad valorem taxes	\$ 699,000	\$ 699,000	\$ 736,576	\$ 37,576
Other taxes and licenses	100	100	78	(22)
Unrestricted intergovernmental	703,000	703,000	728,184	25,184
Restricted intergovernmental	554,291	662,095	484,295	(177,800)
Sales and services	121,500	121,500	121,561	61
Investment earnings	4,060	4,060	5,707	1,647
Miscellaneous	10,000	13,765	23,183	9,418
Total revenues	2,091,951	2,203,520	2,099,584	(103,936)
Expenditures:				
Current:				
General government	407,646	410,548	367,129	43,419
Public safety	964,943	1,008,794	957,657	51,137
Transportation	724,176	801,800	569,094	232,706
Environmental protection	110,598	122,367	120,982	1,385
Cultural and recreation	220,578	224,680	186,375	38,305
Debt service:				
Principal and interest	66,510	66,510	66,507	3
Total expenditures	2,494,451	2,634,699	2,267,744	366,955
Revenues over (under) expenditures	(402,500)	(431,179)	(168,160)	263,019
Other financing sources (uses):				
Transfers to other funds:				
Enterprise Fund	-	-	-	-
Sale of capital assets	2,500	2,500	1,850	(650)
Proceeds from installment purchase	140,000	140,000	134,031	(5,969)
Total other financing sources (uses)	142,500	142,500	135,881	(6,619)
Fund balance appropriated	260,000	288,679	-	288,679
Net change in fund balance	\$ -	\$ -	(32,279)	\$ (32,279)
Fund balance, beginning			1,682,025	
Fund balance, ending			\$ 1,649,746	

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, 2017

	Major Enterprise Fund			Non-Major Enterprise Fund	
	Water and Sewer Fund		Total	Stormwater Fund	
	Water	Sewer		Total Funds	Total Funds
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 772,011	\$ 315,328	\$ 1,087,339	\$ 102,028	\$ 1,189,367
Restricted cash	37,073	15,143	52,216	-	52,216
Accounts receivable (net)	188,539	77,009	265,548	2,016	267,564
Due from other funds	-	-	-	-	-
Total current assets	997,623	407,480	1,405,103	104,044	1,509,147
Noncurrent assets:					
Capital assets:					
Land and construction in progress	738	302	1,040	-	1,040
Other capital assets, net of depreciation	3,306,949	1,350,725	4,657,674	-	4,657,674
Capital assets	3,307,687	1,351,027	4,658,714	-	4,658,714
Total noncurrent assets	3,307,687	1,351,027	4,658,714	-	4,658,714
Total assets	4,305,310	1,758,507	6,063,817	104,044	6,167,861
DEFERRED OUTFLOWS OF RESOURCES					
Contributions to pension plan	34,369	14,038	48,407	-	48,407
Total deferred outflows of resources	34,369	14,038	48,407	-	48,407
LIABILITIES					
Current liabilities:					
Accounts payable and accrued liabilities	2,675	1,092	3,767	869	4,636
Customer deposits	37,073	15,143	52,216	-	52,216
Compensated absences - current	6,280	2,565	8,845	-	8,845
Installment obligations - current	-	22,263	22,263	-	22,263
Bond Anticipation Notes - current	-	13,000	13,000	-	13,000
Total current liabilities	46,028	54,063	100,091	869	100,960
Noncurrent liabilities:					
Other non-current liabilities:					
Net pension liability	39,359	16,076	55,435	-	55,435
Installment obligations	-	423,002	423,002	-	423,002
Other postemployment benefits	41,118	16,795	57,913	-	57,913
Compensated absences	8,325	3,400	11,725	-	11,725
Revenue Bonds - noncurrent	-	725,000	725,000	-	725,000
Total noncurrent liabilities	88,802	1,184,273	1,273,075	-	1,273,075
Total liabilities	134,830	1,238,336	1,373,166	869	1,374,035
DEFERRED INFLOWS OF RESOURCES					
Pension Deferrals	3,329	1,360	4,689	-	4,689
Total deferred inflows of resources	3,329	1,360	4,689	-	4,689
NET POSITION					
Net investment in capital assets	2,467,569	1,007,880	3,475,449	-	3,475,449
Restricted - USDA	-	33,295	33,295	-	33,295
Unrestricted	870,194	355,431	1,225,625	103,175	1,328,800
Total net position	\$ 3,337,763	\$ 1,396,606	\$ 4,734,369	\$ 103,175	\$ 4,837,544

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, 2017

	Major Enterprise Fund			Non-Major Enterprise Fund	
	Water and Sewer Fund		Total	Stormwater Fund	
	Water	Sewer		Total Funds	Total Funds
OPERATING REVENUES					
Charges for services	\$ 954,247	\$ 593,277	\$ 1,547,524	\$ -	\$ 1,547,524
Taps and connection fees	2,350	-	2,350	-	2,350
Surcharges	-	1,200	1,200	-	1,200
Other operating revenues	19,181	7,834	27,015	22,918	49,933
Total operating revenues	<u>975,778</u>	<u>602,311</u>	<u>1,578,089</u>	<u>22,918</u>	<u>1,601,007</u>
OPERATING EXPENSES					
Administration	97,138	39,762	136,900	-	136,900
Water distribution	716,879	-	716,879	-	716,879
Sewer collection	-	517,923	517,923	-	517,923
Stormwater	-	-	-	11,887	11,887
Depreciation	122,163	49,898	172,061	-	172,061
Total operating expenses	<u>936,180</u>	<u>607,583</u>	<u>1,543,763</u>	<u>11,887</u>	<u>1,555,650</u>
Operating income (loss)	<u>39,597</u>	<u>(5,271)</u>	<u>34,326</u>	<u>11,031</u>	<u>45,357</u>
NONOPERATING REVENUES (EXPENSES)					
Investment earnings	1,593	651	2,244	-	2,244
Interest and other charges	-	(20,598)	(20,598)	-	(20,598)
Total nonoperating revenues (expenses)	<u>1,593</u>	<u>(19,947)</u>	<u>(18,354)</u>	<u>-</u>	<u>(18,354)</u>
Income (loss) before contributions and transfers	<u>41,190</u>	<u>(25,218)</u>	<u>15,972</u>	<u>11,031</u>	<u>27,003</u>
Capital Contributions	-	361,417	361,417	-	361,417
Change in Net Position	<u>41,190</u>	<u>336,199</u>	<u>377,389</u>	<u>11,031</u>	<u>388,420</u>
Total Net Position, beginning	<u>3,093,456</u>	<u>1,263,524</u>	<u>4,356,980</u>	<u>92,144</u>	<u>4,449,124</u>
Total Net Position, ending	<u>\$ 3,361,402</u>	<u>\$ 1,372,967</u>	<u>\$ 4,734,369</u>	<u>\$ 103,175</u>	<u>\$ 4,837,544</u>

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, 2017

	Major Enterprise Fund			Non-Major Enterprise Fund	
	Water and Sewer Fund		Total	Stormwater	
	Water	Sewer		Fund	Total funds
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash received from customers	\$ 956,597	\$ 594,477	\$ 1,551,074	\$ 22,855	\$ 1,573,929
Cash paid for goods and services	193,398	(360,032)	(166,634)	(11,106)	(177,740)
Cash paid to or on behalf of employees for services	(1,051,953)	(215,844)	(1,267,797)	-	(1,267,797)
Customer deposits (net)	1,632	667	2,299	-	2,299
Other operating revenues	19,181	7,834	27,015	-	27,015
Net cash provided (used) by operating activities	118,855	27,102	145,957	11,749	157,706
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Decrease in Due from other funds	-	-	-	-	-
Transfers from other funds	-	-	-	-	-
Total cash flows from noncapital financing activities	-	-	-	-	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition and construction of capital assets	-	(826,936)	(826,936)	-	(826,936)
Capital Contributions- State Grant	-	361,417	361,417	-	361,417
Principal paid on installment purchase obligations	-	(12,000)	(12,000)	-	(12,000)
Proceeds from installment purchase obligations	-	445,265	445,265	-	445,265
Interest paid on long-term debt	-	(20,598)	(20,598)	-	(20,598)
Net cash provided (used) by capital and related financing activities	-	(52,852)	(52,852)	-	(52,852)
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest and dividends	1,593	651	2,244	-	2,244
Net increase (decrease) in cash and cash equivalents	120,448	(25,099)	95,349	11,749	107,098
Balances, beginning	741,386	302,820	1,044,206	90,279	1,134,485
Balances, ending	\$ 861,835	\$ 277,720	\$ 1,139,555	\$ 102,028	\$ 1,241,583
Reconciliation of operating income to net cash provided by operating activities					
Operating Income	\$ 39,597	\$ (5,271)	\$ 34,326	\$ 11,031	\$ 45,357
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation	122,163	49,898	172,061	-	172,061
Change in assets, deferred outflows of resources, and liabilities:					
(Increase) decrease in accounts receivable	(44,296)	(18,093)	(62,389)	(63)	(62,452)
(Increase) decrease in prepaid items	-	-	-	-	0
(Increase) decrease in deferred outflows of resources-pension	(957)	(391)	(1,348)	-	(1,348)
Increase (decrease) in accounts payable and accrued liabilities	(2,976)	(1,215)	(4,191)	781	(3,410)
Increase (decrease) in deferred inflows of resources-pension	(27,018)	(11,036)	(38,054)	-	(38,054)
Increase (decrease) in net pension liability	29,213	11,932	41,145	-	41,145
Increase (decrease) in customer deposits	1,632	667	2,299	-	2,299
Increase (decrease) in accrued vacation payable	1,620	662	2,282	-	2,282
Increase (decrease) in accrued postemployment benefits	(124)	(50)	(174)	-	(174)
Total adjustments	79,258	32,373	111,631	718	112,349
Net cash provided by operating activities	\$ 118,855	\$ 27,102	\$ 145,957	\$ 11,749	\$ 157,706

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, 2017

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, 2017

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. Sales taxes are considered a shared revenue for the Town of Haw River because the tax is levied by Alamance County and then remitted to and distributed by the State. Most intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not

Town of Haw River, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2017

measurable until received in cash. Grant revenues which are unearned at year-end are recorded as unearned revenues. Under the terms of grant agreements, the Town funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there is both restricted and unrestricted net position available to finance the program. It is the Town's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

D. Budgetary Data

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

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

1. Deposits and Investments

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

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

2. Cash and Cash Equivalents

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

3. Restricted Assets

Powell Bill funds are classified as restricted cash because it can be expended only for the purposes of maintaining, repairing, constructing, reconstructing or widening of local streets per G.S. 136-41.1 through 136-41.4. Monies donated to the Town by the Haw River Civic Center Association Inc. are classified as restricted cash because they can only be expended for maintenance, upkeep and enhancement of the Haw River Civic Center Building per the terms of the agreement with the donor organization. Federal forfeiture funds are also classified as restricted cash because it can be 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.

Town of Haw River, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2017

Haw River Restricted Cash

Governmental Activities			
General Fund	Public Safety	\$	32,896
	Cultural and Recreation		59,317
	Transportation		398,310
Total Governmental Activities		\$	<u>490,523</u>
Business-type Activities			
Water and Sewer Fund	Customer Deposits	\$	52,216
Total Business-type Activities		\$	<u>52,216</u>
Total Restricted Cash		\$	<u><u>542,739</u></u>

4. Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad valorem taxes on property other than motor vehicles on July 1st, the beginning of the fiscal year. The taxes are due on September 1st (lien date); however, interest does not accrue until the following January 6th. These taxes are based on the assessed values as of January 1, 2016. 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. Inventory and Prepaid Items

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.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements and expensed as the items are used.

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; \$5,000 computer software and computer equipment \$500. Donated capital assets received prior to June 15, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 15, 2015 are recorded at acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical cost. General infrastructure assets acquired prior to July 1, 2003, consist of the road network and water and sewer system assets that were acquired or that received substantial improvements subsequent improvements subsequent to July 1, 1980, and are reported at estimated historical cost using deflated replacement cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Town of Haw River, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2017

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
Computer equipment/software	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 has one item that meet this criterion, contributions made to the pension plan in the 2017 fiscal year. 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 three items that meet the criterion for this category – ad valorem tax receivable, fire tax receivable, and pension deferrals.

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.

Town of Haw River, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2017

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.

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,

Town of Haw River, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2017

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.

12. Pensions

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

For purposes of measuring the net pension expense, information about the fiduciary net position of the Firefighters' and Rescue Squad Workers' Pension Fund (FRSWPF) and additions to/deductions from FRSWPF's fiduciary net position have been determined on the same basis as they are reported by FRSWPF. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

II. Detail Notes on All Funds

A. Assets

1. Deposits

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

At June 30, 2017, the Town's deposits had a carrying amount of \$907,826 and a bank balance of \$1,065,987. 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, 2017, the Town's petty cash fund totaled \$300.

Town of Haw River, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2017

2. Investments

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

Investment Type	Fair Value	Maturity	Rating
NC Capital Management Trust – Government Portfolio	<u>1,680,309</u>	N/A	AAAm
Total:	<u>\$ 1,680,309</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 Government Portfolio carried a credit rating of AAAM by Standard & Poor's as of June 30, 2017.

3. Receivables – Allowances for Doubtful Accounts

The amounts presented in the Balance Sheet and Statement of Net Position for the year ended June 30, 2017 are net of the following allowances for doubtful accounts:

General Fund:	
Taxes receivable- allowance	\$ 10,504
Fire Districts levy -allowance	<u>9,022</u>
Total	37,962
Enterprise Funds:	
Accounts receivable	<u>1,965</u>
Total allowances	<u>\$ 39,927</u>

4. Capital Assets

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

Governmental activities:	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets not being depreciated:				
Land	\$ 167,968	\$ -	\$ -	\$ 167,968
Construction in progress	-	-	-	-
Total capital assets not being depreciated	<u>167,968</u>	<u>-</u>	<u>-</u>	<u>167,968</u>
Capital assets being depreciated:				
Buildings	852,654	23,690	-	876,344
Equipment	1,679,110	6,085	-	1,685,195
Infrastructure	1,404,705	106,062	-	1,510,767
Vehicles	810,642	134,031	-	944,673
Total capital assets being depreciated	<u>4,747,111</u>	<u>269,868</u>	<u>-</u>	<u>5,016,979</u>

Town of Haw River, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2017

Less accumulated depreciation for:				
Buildings and improvements	605,728	17,574	-	623,302
Equipment, furniture and fixtures	1,376,100	59,893	-	1,435,993
Infrastructure	694,650	35,600	-	730,250
Vehicles	427,371	49,607	-	476,978
Total accumulated depreciation	3,103,849	\$ 162,674	\$ -	3,266,523
Total capital assets being depreciated, net	1,643,262			1,750,456
Governmental activity capital assets, net	\$ 1,811,230			\$ 1,918,424

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

General government	\$ 19,631
Public safety	96,608
Transportation	38,696
Recreation	3,028
Environmental protection	4,711
Total depreciation expense	\$ 162,674

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
<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	1,040	-	-	1,040
Capital assets being depreciated:				
Plant and distribution systems	8,314,828	826,936	-	9,141,764
Equipment and furniture	193,978	-	-	193,978
Vehicles	32,192	-	-	32,192
Total capital assets being depreciated	8,540,998	826,936	-	9,367,934
Less accumulated depreciation for:				
Plant and distribution systems	4,317,389	167,772	-	4,485,161
Equipment and furniture	193,978	-	-	193,978
Vehicles	26,831	4,289	-	31,120
Total accumulated depreciation	4,538,198	\$ 172,061	\$ -	4,710,259
Total capital assets being depreciated, net	4,002,800			4,657,675
Business-type activities capital assets, net	\$ 4,003,840			\$ 4,658,715

B. Liabilities

1. Pension Plan and Postemployment Obligations

a. Local Governmental Employees' Retirement System

Plan Description. The Town of Haw River is a participating employer in the statewide Local Governmental Employees' Retirement System (LGERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS membership is comprised of general employees and local law enforcement officers (LEOs) of participating local governmental entities. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend

Town of Haw River, North Carolina
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For the Fiscal Year Ended June 30, 2017

benefit provisions to the North Carolina General Assembly. Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the State Senate, one appointed by the State House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. The Local Governmental Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454, or at www.osc.nc.gov.

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

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

Contributions. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. Town of Haw River employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Town of Haw River's contractually required contribution rate for the year ended June 30, 2017, was 8.0% of compensation for law enforcement officers and 7.25% for general employees and firefighters, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Town of Haw River were \$63,188 for the year ended June 30, 2017.

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

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

At June 30, 2017, the Town reported a \$277,177 liability for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2015. The total pension liability was then rolled forward to the measurement date of June 30, 2016 utilizing update procedures incorporating the actuarial assumptions. The Town's proportion of the net pension asset was based on a projection of the Town's long-term share of future payroll

Town of Haw River, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2017

covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2017, the Town's proportion was 0.01306%, which was a decrease of 0.00286% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2017, the Town recognized pension expense of \$71,906. At June 30, 2017, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 5,208	\$ 9,713
Changes of assumptions	18,984	-
Net difference between projected and actual earnings on pension plan investments	153,244	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	2,143	13,732
Town contributions subsequent to the measurement date	63,188	-
TOTAL	\$ 242,767	\$ 23,445

\$63,188 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as an increase of the net pension asset in the year ended June 30, 2017. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2018	\$ 22,761
2019	22,779
2020	69,625
2021	<u>40,969</u>
Total	<u>\$156,133</u>

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

Inflation	3.0 percent
Salary increases	3.50 to 7.75 percent, including inflation and productivity factor
Investment rate of return	7.25 percent, net of pension plan investment expense, including inflation

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

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

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

Town of Haw River, North Carolina
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The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2015 are summarized in the following table:

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

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

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

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

	1% Decrease (6.25%)	Discount Rate (7.25%)	1% Increase (8.25%)
Town's proportionate share of the net pension liability (asset)	\$ 657,870	\$ 277,177	\$ (40,806)

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

**Town of Haw River, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2017**

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, 2016, the Separation Allowance's membership consisted of:

Retirees receiving benefits	2
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	8
Total	<u>10</u>

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. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

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

3. *Actuarial Assumptions.*

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

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

The discount rate is based on the yield of the S&P Municipal Bond 20 Year High Grade Rate Index as of December 31, 2016. Mortality rates are based on the RP-2000 Mortality tables with adjustments for mortality improvements based on Scale AA.

4. *Contributions.*

The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the benefit payments on a pay as you go basis through appropriations made in the General Fund operating budget. The Town's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. There were no contributions made by employees. The Town paid \$40,704 as benefits came due for the reporting period.

Town of Haw River, North Carolina
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For the Fiscal Year Ended June 30, 2017

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

At June 30, 2017, the Town reported a total pension liability of \$298,424. The total pension liability was measured as of December 31, 2016 based on a December 31, 2015 actuarial valuation. The total pension liability was then rolled forward to a measurement date of December 31, 2016 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2017, the Town recognized pension expense of \$17,644.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	3,637
Town benefit payments and plan administrative expense subsequent to the measurement date	20,634	-
TOTAL	\$ 20,634	\$ 3,637

\$20,634 reported as deferred outflows of resources related to pensions resulting from benefit payments made and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total pension liability in the year ended June 30, 2018. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2018	\$907
2019	907
2020	907
2021	907
2022	9
Thereafter	-

\$20,634 paid as benefits came due subsequent to the measurement date are reported as deferred outflows of resources.

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

	1% Decrease (2.71%)	Discount Rate (3.71%)	1% Increase (4.71%)
Total pension liability	\$ 314,468	\$ 298,424	\$ 283,427

**Town of Haw River, North Carolina
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Schedule of Changes in Total Pension Liability

Law Enforcement Officers' Special Separation Allowance

Beginning Balance	\$325,121
Service Cost	7,671
Interest on total pension liability	10,880
Changes of benefit terms	-
Differences between expected and actual experience in the measurement of the total pension liability	-
Changes in assumptions or other inputs	(4,544)
Benefit payments	(40,704)
Other changes	-
Ending balance of the total pension liability	<u>\$ 298,424</u>

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

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

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, 2017 were \$16,534, which consisted of \$16,054 from the Town and \$480 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, 2017 were \$30,524 which consisted of \$25,849 from the Town and \$4,675 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 (FRSWPF), 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

Town of Haw River, North Carolina
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authority to establish and amend benefit provisions to the North Carolina General Assembly. Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the State Senate, one appointed by the state House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. The 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, by calling (919) 981-5454, or at www.osc.nc.gov.

Benefits Provided. FRSWPF provides retirement and survivor benefits. The present retirement benefit is \$170 per month. Plan members are eligible to receive the monthly benefit at age 55 with 20 years of creditable service as a firefighter or rescue squad worker, and have terminated duties as a firefighter or rescue squad worker. Eligible beneficiaries of members who die before beginning to receive the benefit will receive the amount paid by the member and contributions paid on the member’s behalf into the plan. Eligible beneficiaries of members who die after beginning to receive benefits will be paid the amount the member contributed minus the benefits collected.

Contributions. 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, 2017 were \$3,660. For fiscal year June 30, 2016, the State contributed \$13,900,000 to the plan. The Town of Haw River’s proportionate share of the State’s contribution is \$9,738.

Refunds of Contributions. Plan members who are no longer eligible or choose not to participate in the plan may file an application for a refund of their contributions. Refunds include the member’s contributions and contributions paid by others on the member’s behalf. No interest will be paid on the amount of the refund. The acceptance of a refund payment cancels the individual’s right to employer contributions or any other benefit provided by FRSWPF.

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

At June 30, 2017, the Town reported no liability for its proportionate share of the net pension liability, as the State provides 100% pension support to the Town through its appropriations to the FRSWPF. The total portion of the net pension liability that was associated with the Town and supported by the State was \$25,500. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015. The total pension liability was then rolled forward to the measurement date of June 30, 2016 utilizing update procedures incorporating the actuarial assumptions. The Town’s proportion of the net pension liability was based on a projection of the Town’s long-term share of contributions to the pension plan relative to the projected contributions of all participating employers. As the Town is not projected to make any future contributions to the plan, its proportionate share at June 30, 2016 and at June 30, 2015 was 0%.

For the year ended June 30, 2017, the Town recognized pension expense of \$7,473 and revenue of \$7,473 for support provided by the State. At June 30, 2017, the Town reported no deferred outflows of resources and no deferred inflows of resources related to pensions.

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

Inflation	3.5 percent
Salary increases	Not applicable
Investment rate of return	7.25 percent, net of pension plan investment expense, including inflation

**Town of Haw River, North Carolina
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For more information regarding actuarial assumptions, including mortality tables, the actuarial experience study, the consideration of future ad hoc COLA amounts, the development of the projected long-term investment returns, and the asset allocation policy, refer to the discussion of actuarial assumptions for the LGERS plan in Section a. of this note.

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

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

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, seven retirees are eligible for postretirement health benefits. For the fiscal year ended June 30, 2017, the Town made payments of \$75,651 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 June 30, 2016, the date of the latest actuarial valuation:

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	General Employees	Law Enforcement Officers
Retirees and dependents receiving benefits	4	3
Active plan members	10	8
Total	14	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 9.04% of annual covered payroll. For the current year, the Town contributed \$75,651 or 10.08% of annual covered payroll. The Town obtains healthcare coverage through private insurers. There were no contributions made by employees. The Town's obligation to contribute to the HCB Plan is established and may be amended by the Town Council.

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

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

Annual required contribution	\$ 71,247
Interest on net OPEB obligation	11,005
Adjustment to annual required contribution	(10,513)
Annual OPEB cost (expense)	71,739
Contributions made	(75,651)
Increase (decrease) in net OPEB obligation	(3,912)
Net OPEB obligation, beginning of year	275,125
Net OPEB obligation, end of year	\$ 271,213

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, 2017 were as follows:

For Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2017	\$ 71,739	105.5%	\$ 271,213
2016	\$ 90,815	98.6%	\$ 275,125
2015	\$ 96,939	52.5%	\$ 273,894

Funded Status and Funding Progress. As of June 30, 2016, 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 \$955,544. The covered payroll (annual payroll of active employees covered by the plan) was \$751,096, and the ratio of the UAAL to the covered payroll was 127.2 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

Town of Haw River, North Carolina
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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 June 30, 2016 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 June 30, 2016, was 30 years.

2. Other Employment Benefits

The Town has elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, State-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest month's salary in a row during the 24 months prior to the employee's death, but the benefit may not exceed \$50,000 or be less than \$25,000. All death benefit payments are made from the Death Benefit Plan. The Town has no liability beyond the payment of monthly contributions. The contributions to the Death Benefit cannot be separated between the post-employment benefit amount and the other benefit amount. The Town considers these contributions to be immaterial.

3. Deferred Outflows and Inflows of Resources

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

Source	Amount
Pension deferrals	\$ 190,575
Benefit payments made and administrative expenses for LEOSSA	<u>20,634</u>
Total	\$ 259,616

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

Source	Statement of Net Position	General Fund Balance Sheet
Pension deferrals	\$ 27,265	\$ -
Taxes receivable, less penalties (General Fund)	-	27,458
Total	<u>\$ 27,265</u>	<u>\$ 27,458</u>

Town of Haw River, North Carolina
Notes to the Financial Statements
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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.

5. Claims, Judgments and Contingent Liabilities

At June 30, 2017, 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, 2017, including \$11,075 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2018	43,858	3,716
2019	<u>45,638</u>	<u>1,896</u>
Total	<u>\$ 89,496</u>	<u>\$ 5,612</u>

In June 2016, the Town entered into an installment purchase contract to finance two police cars. The financing contract requires 5 annual payments of \$18,935 beginning in fiscal year 2017 with an interest rate of 2.09%.

Annual debt service payments of the installment purchase as of June 30, 2017, including \$3,798 of interest, are as

Town of Haw River, North Carolina
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follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2018	17,431	1,504
2019	17,795	1,139
2020	18,167	767
2021	<u>18,546</u>	<u>388</u>
Total	<u>\$71,939</u>	<u>\$ 3,798</u>

In April 2017, the Town entered into an installment purchase contract to finance a 2017 Freightliner Grapple Truck. The financing contract requires 7 annual payments of \$20,511 beginning in fiscal year 2018 with an interest rate of 1.75%.

Annual debt service payments of the installment purchase as of June 30, 2017, including \$8,981 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2018	18,674	1,837
2019	18,492	2,019
2020	18,816	1,695
2021	19,145	1,366
2022	19,480	1,031
2023-24	<u>39,424</u>	<u>1,033</u>
Total	<u>\$ 134,031</u>	<u>\$ 8,981</u>

Business-type Activities:

b. Installment Obligations

In May 2017, the Town entered into an installment purchase contract with the LGC to finance the sanitary sewer project. The financing contract requires 20 annual payments of \$22,263 beginning in fiscal year 2018 with no interest.

Annual debt service payments of the installment purchase as of June 30, 2017, including \$0 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>
2018	22,263
2019	22,263
2020	22,263
2021	22,263
2022	22,263
2023-2027	111,315
2028-2032	111,315
2033-2037	<u>111,315</u>
Total	<u>\$ 445,265</u>

Town of Haw River, North Carolina
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c. Revenue Bonds

\$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%.

\$ 738,000

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2018	13,000	20,295
2019	13,000	19,938
2020	14,000	19,580
2021	14,000	19,195
2022	14,000	18,810
2023-thereafter	<u>670,000</u>	<u>322,822</u>
Total	<u>\$ 738,000</u>	<u>\$ 420,640</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, 2017, is as follows:

Operating revenues	\$ 1,547,524
Operating expenses*	<u>1,371,702</u>
Operating income	175,822
Nonoperating revenues (expenses)**	<u>2,244</u>
Income available for debt service	178,066
Debt service, principal and interest paid (Revenue bond only)	\$ <u>32,625</u>
Debt service coverage ratio	545%

*Per rate covenants, this does not include the depreciation expense of \$172,061.

**Per rate covenants, this does not include revenue bond interest paid of \$20,625.

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>
Governmental activities:					
Installment purchases	\$ 221,576	134,031	\$ 60,104	\$ 295,503	\$ 79,963
Compensated absences	56,823	23,914	-	80,737	60,553
Total pension liability (LEO)	40,044	258,380	-	298,424	-
Other postemployment benefits	217,038	-	3,738	213,300	-
Net pension liability (LGERs)	<u>57,158</u>	<u>164,584</u>	<u>-</u>	<u>221,742</u>	<u>-</u>
Governmental activity long-term liabilities	<u>\$ 592,638</u>	<u>\$ 580,909</u>	<u>\$ 65,221</u>	<u>\$ 1,109,706</u>	<u>\$ 140,516</u>
Business-type activities:					
Revenue Bonds	\$ 750,000	\$ -	\$ 12,000	\$ 738,000	\$ 13,000
Installment purchases	-	445,265	-	445,265	22,263
Compensated absences	18,288	2,282	-	20,570	8,845
Other postemployment benefits	58,087	-	174	57,913	-
Net pension liability (LGERs)	<u>14,290</u>	<u>41,145</u>	<u>-</u>	<u>55,435</u>	<u>-</u>
Business-type activity long-term liabilities	<u>\$ 840,665</u>	<u>\$ 488,692</u>	<u>\$ 12,174</u>	<u>\$ 1,317,183</u>	<u>\$ 44,108</u>

**Town of Haw River, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2017**

At June 30, 2017, the Town of Haw River had bonds authorized but unissued of \$738,000 and a legal debt margin of \$10,654,661.

C. Net Investment in Capital Assets

	<u>Governmental</u>	<u>Business-type</u>
Capital assets	\$ 1,918,424	\$ 4,658,714
Less: Long-term debt	295,503	1,183,265
Add: Unexpended debt proceeds	<u>-</u>	<u>-</u>
Net investment in capital assets	<u>\$ 1,622,921</u>	<u>\$ 3,475,449</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:

<i>Total fund balance-General Fund</i>	<i>\$1,649,746</i>
Less:	
Stabilization by State Statute	313,744
Streets-Powell Bill	398,310
Public Safety	177,695
Cultural and Recreation	59,317
Appropriated Fund Balance in 2018 budget	188,836
Remaining Fund Balance	511,844

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, 2017.

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, 2017 and November 30, 2017 which is the date the financial statements were available to be issued, for possible recognitions or disclosure in the financial statements.

Town of Haw River, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2017

VII. Change in Accounting Principles/Restatement

The Town implemented Governmental Accounting Standards Board (GASB No. Statement 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, in the fiscal year ending June 30, 2017. The implementation of the statement required the Town to record beginning total pension liability and the effects on net position of benefit payments and administrative expenses paid by the Town to the Law Enforcement Officers' Special Separation Allowance during the measurement period (fiscal year ending December 31, 2016). As a result, net position for the governmental activities decreased 244,373.

Required Supplementary Financial Data

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

- Schedule of Changes in Total Pension Liability
- Schedule of Total Pension Liability as a Percentage of Covered Payroll
- 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.
- Schedule of Proportionate Share of Net Pension Asset for Local Government Employees' Retirement System
- Schedule of Contributions to Local Government Employees' Retirement System
- Schedule of Proportionate Share of Net Pension Liability for Firefighters' and Rescue Squad Workers' Pension Plan

Town of Haw River, North Carolina
Law Enforcement Officers' Special Separation Allowance
Schedule of Changes in Total Pension Liability
June 30, 2017

	2017
Beginning Balance	\$ 325,121
Service Cost	7,671
Interest on the total pension liability	10,880
Changes of benefit terms	-
Differences between expected and actual experience in the measurement of the total pension liability	-
Changes of assumptions or other inputs	(4,544)
Benefit payments	(40,704)
Other Changes	-
Ending balance of the total pension liability	\$298,424

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

Town of Haw River, North Carolina
Law Enforcement Officers' Special Separation Allowance
Schedule of Total Pension Liability as a Percentage of Covered Payroll
June 30, 2017

	2017
Total Pension Liability	\$ 298,424
Covered Payroll	353,791
Total Pension Liability as a percentage of covered payroll	84.35%

Notes to the schedules:

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

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 Liability (AAL) - Projected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b - a)/c)
6/30/2016	-	\$ 955,544	\$ 955,544	0%	\$ 751,096	127.2%
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
2017	\$71,247	106.1%
2016	\$86,519	103.5%
2015	\$96,627	44.9%

Notes to the Required Schedules:

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

Valuation date	6/30/2016
Actuarial cost method	Projected unit credit
Amortization method	Level percentage of Pay, Closed
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	2022
*Includes inflation at	3.00%

Town of Haw River, North Carolina
Town of Haw River's Proportionate Share of Net Pension Liability (Asset)
Required Supplementary Information
Last Four Fiscal Years*

Local Government Employees' Retirement System	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Haw River's proportion of the net pension liability (asset) (%)	0.0131%	0.0159%	-0.02%	0.02%
Haw River's proportion of the net pension liability (asset) (\$)	\$ 277,177	\$ 71,448	\$ (92,000)	\$ 186,835
Haw River's covered-employee payroll	823,716	900,346	867,546	829,947
Haw River's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	33.650%	7.936%	-10.60%	22.51%
Plan fiduciary net position as a percentage of the total pension liability **	91.47%	98.09%	102.64%	94.35%

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

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

Town of Haw River, North Carolina
Town of Haw River's Contributions
Required Supplementary Information
Last Four Fiscal Years

Local Government Employees' Retirement System

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 63,188	\$ 56,447	\$ 64,795	\$ 62,013
Contributions in relation to the contractually required contribution	<u>63,188</u>	<u>56,447</u>	<u>64,795</u>	<u>62,013</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Haw River's covered-employee payroll	838,049	823,716	900,346	867,546
Contributions as a percentage of covered-employee payroll	7.54%	6.85%	7.20%	7.15%

Town of Haw River, North Carolina
Town of Haw River's Proportionate Share of Net Pension Liability (Asset)
Required Supplementary Information
Last Fiscal Year*

Firefighters' and Rescue Squad Workers' Pension

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Haw River's proportion of the net pension liability (asset) (%)	0.00000%	0.00000%	0.00000%
Haw River's proportion of the net pension liability (asset) (\$)	\$ -	\$ -	\$ -
State's proportionate share of the net pension liability associated with the Town of Haw River	<u>9,738</u>	<u>9,668</u>	<u>8,052</u>
	<u>\$ 9,738</u>	<u>\$ 9,668</u>	<u>\$ 8,052</u>
Haw River's covered-employee payroll	\$ 128,712	\$ 129,704	\$ 154,476
Haw River's proportionate share of the net pension liability as percentage of its covered-employee payroll	7.57%	7.45%	5.21%
Plan fiduciary net position as a percentage of the total pension liability	84.94%	91.40%	93.42%

* The amounts presented are for the prior fiscal year.

Individual Fund Schedules

General Fund

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

Town of Haw River, North Carolina
General Fund
Schedule of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2017

	Original Budget	Budget	Actual	Variance Positive (Negative)
Revenues:				
Ad valorem taxes:				
Current year	\$ 664,000	\$ 664,000	\$ 717,090	
Prior years	25,000	25,000	12,128	
Penalties and interest	10,000	10,000	7,358	
Total	<u>\$ 699,000</u>	<u>\$ 699,000</u>	<u>736,576</u>	<u>\$ 37,576</u>
Other taxes and licenses:				
Motor vehicle licenses	100	100	78	
Privilege licenses	-	-	-	
Total	<u>100</u>	<u>100</u>	<u>78</u>	<u>(22)</u>
Unrestricted intergovernmental:				
Local option sales taxes	452,000	452,000	476,674	
Hold harmless distribution	78,000	78,000	85,451	
Utility franchise tax	162,000	162,000	155,386	
Beer and wine tax	11,000	11,000	10,673	
Total	<u>703,000</u>	<u>703,000</u>	<u>728,184</u>	<u>25,184</u>
Restricted intergovernmental:				
Powell Bill allocation	61,700	61,700	61,835	
Alamance County fire district tax	278,000	278,000	279,347	
Federal grants	208,391	316,195	141,374	
Equitable share of Federally forfeited property	3,500	3,500	-	
Unauthorized substance tax	1,250	1,250	158	
Solid waste disposal tax	1,450	1,450	1,581	
Total	<u>554,291</u>	<u>662,095</u>	<u>484,295</u>	<u>(177,800)</u>
Sales and services:				
Rentals	13,400	13,400	13,259	
Recreation department fees	8,500	8,500	5,563	
Refuse collection fees	99,600	99,600	102,739	
Total	<u>121,500</u>	<u>121,500</u>	<u>121,561</u>	<u>61</u>

Town of Haw River, North Carolina
General Fund
Schedule of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2017

	Original Budget	Budget	Actual	Variance Positive (Negative)
Investment earnings	4,060	4,060	5,707	1,647
Miscellaneous:				
Police Department	2,500	2,500	1,907	
Park donations	1,500	1,500	-	
Recreation Grant	-	3,765	-	
Fire department	500	500	16,315	
Other revenues	5,500	5,500	4,961	
Total	10,000	13,765	23,183	9,418
Total revenues	2,091,951	2,203,520	2,099,584	(103,936)
Expenditures:				
General government:				
Governing body:				
Salaries and employee benefits	10,852	10,852	10,851	
Other operating expenditures	5,800	5,800	4,397	
Total	16,652	16,652	15,248	1,404
Administration:				
Salaries and employee benefits	116,731	120,100	120,098	
Maintenance	3,000	2,826	244	
Other operating expenditures	103,350	111,673	89,043	
Capital outlay	22,000	20,991	20,991	
Total	245,081	255,590	230,376	25,214
Public buildings:				
Other operating expenditures	36,500	38,893	33,586	
Capital improvements	10,000	-	-	
Total	46,500	38,893	33,586	5,307
Non-departmental:				
Insurance and bonds	81,613	81,613	72,128	9,485

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, 2017

	Original Budget	Budget	Actual	Variance Positive (Negative)
Special appropriations:				
Elections	2,000	2,000	-	2,000
Cemetery association	1,000	1,000	1,000	-
Animal shelter	14,800	14,800	14,791	9
Total	17,800	17,800	15,791	2,009
Total general government	407,646	410,548	367,129	43,419
Public safety:				
Police:				
Salaries and employee benefits	549,362	553,879	535,497	
Vehicle maintenance	25,000	25,000	20,359	
Other operating expenditures	50,400	76,689	74,052	
Capital outlay	6,500	7,685	7,684	
Total	631,262	663,253	637,592	25,661
Fire:				
Salaries and employee benefits	242,645	238,792	238,771	
Vehicle maintenance	24,000	46,685	46,650	
Other operating expenditures	48,645	45,562	25,161	
Capital outlay	18,391	14,502	9,483	
Total	333,681	345,541	320,065	25,476
Total public safety	964,943	1,008,794	957,657	51,137
Transportation:				
Streets and highways:				
Salaries and employee benefits	94,926	97,576	96,739	
Vehicle maintenance	6,500	6,700	4,793	
Street Lights	22,000	22,500	22,204	
Contracted services	199,400	199,400	144,370	
Other operating expenditures	21,350	25,382	17,064	
Capital outlay	380,000	450,242	283,924	
Total transportation	724,176	801,800	569,094	232,706

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, 2017

	Original Budget	Budget	Actual	Variance Positive (Negative)
Environmental protection:				
Solid waste:				
Contracted services	108,500	111,700	110,316	
Total environmental protection	110,598	122,367	120,982	1,385
Culture and recreation:				
Parks and recreation:				
Salaries and employee benefits	122,328	123,282	118,238	
Vehicle maintenance	3,300	3,300	1,972	
Other operating expenditures	44,950	56,024	41,465	
Capital outlay	50,000	42,074	24,700	
Total culture and recreation	220,578	224,680	186,375	38,305
Debt Service:				
Principal			60,104	
Interest			6,403	
Total debt service	66,510	66,510	66,507	3
Total expenditures	2,494,451	2,634,699	2,267,744	366,955
Revenues over (under) expenditures	(402,500)	(431,179)	(168,160)	263,019
Other financing sources (uses):				
Transfers to/from other funds:				
Enterprise Fund	-	-	-	-
Proceeds from installment purchase	140,000	140,000	134,031	(5,969)
Sales of capital assets	2,500	2,500	1,850	(650)
Total	142,500	142,500	135,881	(6,619)
Fund balance appropriated	260,000	288,679	-	(288,679)
Net change in fund balance	\$ -	\$ -	(32,279)	\$ (32,279)
Fund balances, beginning			1,682,025	
Fund balances, ending			\$ 1,649,746	

Enterprise Funds

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

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

Water and Sewer Capital Project Fund- This fund is use to account for the Town’s water and sewer capital project 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, 2017

	Budget	Actual		Total	Variance Positive (Negative)
		Water	Sewer		
Operating Revenues:					
Charges for services:					
Water sales	\$ 935,240	\$ 954,247	\$ -	\$ 954,247	\$ 19,007
Sewer charges	573,710	-	593,277	593,277	19,567
Surcharges	1,200	-	1,200	1,200	-
Total	1,510,150	954,247	594,477	1,548,724	38,574
Taps and connection fees	7,000	2,350	-	2,350	(4,650)
Other operating revenues	27,500	19,181	7,834	27,015	(485)
Total operating revenues	1,544,650	975,778	602,311	1,578,089	33,439
Nonoperating revenues:					
Interest earnings	1,800	1,593	651	2,244	444
Total revenues	1,546,450	977,371	602,962	1,580,333	33,883
Expenditures:					
Water and sewer administration:					
Salaries and employee benefits	108,971	76,627	31,298	107,925	1,046
Supplies and materials	1,500	692	282	974	526
Contracted services	5,500	3,605	1,472	5,077	423
Other operating expenses	24,200	16,425	6,709	23,134	1,066
Capital outlay	3,000	-	-	-	3,000
Total water and sewer administration	143,171	97,348	39,762	137,110	6,061
Water distribution:					
Salaries and employee benefits	64,546	64,542	-	64,542	4
Supplies	5,572	5,354	-	5,354	218
Maintenance	1,686	1,685	-	1,685	1
Water purchased for resale	621,090	613,502	-	613,502	7,588
Other operating expenditures	18,309	14,733	-	14,733	3,576
Capital outlay	14,772	14,771	-	14,771	1
Total water distribution	725,975	714,587	-	714,587	11,388

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, 2017

	Budget	Actual		Total	Variance Positive (Negative)
		Water	Sewer		
Sewer collection system:					
Salaries and employee benefits	72,251	-	70,005	70,005	2,246
Supplies	8,000	-	4,950	4,950	3,050
Maintenance	12,020	-	10,653	10,653	1,367
Purchase of sewer service	466,766	-	400,908	400,908	65,858
Other operating expenditures	48,994	-	29,638	29,638	19,356
Capital outlay	15,000	-	-	-	15,000
Total sewer collection system	623,031	-	516,154	516,154	106,877
Debt Service:					
Principal and interest	58,500	-	32,625	32,625	25,875
Total expenditures	1,550,677	811,935	588,541	1,400,476	962,136
Revenues over (under) expenditures	(4,227)	165,436	14,421	179,857	184,084
Other financing sources (uses):					
Transfer to the waste water capital project fund	\$ -	\$ -	\$ (20,254)	(20,254)	\$ 20,254
Appropriated Fund Balance	4,227	-	-	-	4,227
Revenues and other sources over expenditures and other uses:	<u>\$ -</u>	<u>\$ 165,436</u>	<u>\$ (5,833)</u>	<u>\$ 159,603</u>	<u>\$ 159,603</u>
Reconciliation from budgetary basis (modified accrual) to full accrual:					
Revenues and other sources over expenditures and other uses				159,603	
Reconciling Items:					
Principal retirement				12,000	
Increase (Decrease) in deferred outflows of resources-pensions				1,348	
(Increase) Decrease in net pension liability				(41,145)	
(Increase) Decrease in accrued vacation pay				(2,282)	
(Increase) Decrease in deferred inflows of resources-pensions				38,054	
(Increase) Decrease in accrued postemployment benefits				174	
(Increase) Decrease in accrued interest				27	
Capital Contributions				361,417	
Transfer from water sewer fund				20,254	
Depreciation				(172,061)	
Total reconciling items				<u>217,786</u>	
Change in Net Position				<u>\$ 377,389</u>	

Town of Haw River, North Carolina
Water and Sewer Capital Projects Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non-GAAP)
From Inception and for the fiscal year ended June 30, 2017

	Project Authorization	Actual		Total to Date	Variance Positive (Negative)
		Prior Years	Current Year		
Revenues- Sewer					
Rehabilitation Project					
NC DENR grant	\$ 502,607	\$ 83,848	361,417	\$ 445,265	\$ 57,342
Total	502,607	83,848	361,417	445,265	57,342
Expenditures- Sewer					
Rehabilitation Project					
Engineering	39,400	37,891	29,683	67,574	(28,174)
Construction	788,815	-	734,424	734,424	54,391
Land Surveying	19,700	22,700	(22,700)	-	19,700
Closing Fees	20,110	-	20,104	20,104	6
Admin/Observation	39,400	-	45,891	45,891	(6,491)
Grant/Loan Admin	39,400	21,081	21,560	42,641	(3,241)
Contingency	78,500	2,176	(2,026)	150	78,350
Total	1,025,325	83,848	826,936	910,784	114,541
Revenues under expenditures	(522,718)	-	(465,519)	(465,519)	(57,199)
Other Financing Sources					
Transfer from Water/Sewer	20,110	-	20,254	20,254	144
Debt proceeds	502,608	-	445,265	445,265	57,343
	522,718	-	465,519	465,519	57,199
Revenues over expenditures and other financing sources	-	-	-	-	-

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, 2017

	Budget	Actual	Variance Positive (Negative)
Operating revenues			
Stormwater fees	\$ 22,500	\$ 22,918	\$ 418
Total operating revenues	22,500	22,918	418
Total revenues	22,500	22,918	418
Expenditures:			
Stormwater expenditures	22,500	11,887	10,613
Total expenditures	22,500	11,887	10,613
Revenues over (under) expenditures	-	11,031	11,031
Other financing sources:			
Transfers from other funds:			
General Fund	-	-	-
Revenues over expenditures and other financing sources	\$ -	11,031	\$ 11,031
Reconciliation from budgetary basis (modified accrual) to full accrual:			
Reconciling Items:		-	
Change in net position		\$ 11,031	

Other Schedules

This section includes additional information on property taxes.

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

Town of Haw River, North Carolina
General Fund
Schedule of Ad Valorem Taxes Receivable
June 30, 2017

Fiscal Year	Uncollected Balance June 30, 2016	Additions	Collections And Credits	Uncollected Balance June 30, 2017
2016-2017	\$ -	\$ 729,396	\$ 719,107	\$ 10,289
2015-2016	9,012		5,868	3,144
2014-2015	4,245		2,280	1,965
2013-2014	3,657		1,357	2,300
2012-2013	2,938		1,379	1,559
2011-2012	1,948		356	1,592
2010-2011	1,272		263	1,009
2009-2010	1,029		339	690
2008-2009	1,250		369	881
2007-2008	1,010		10	1,000
2006-2007	873		873	-
Total	\$ 27,234	\$ 729,396	\$ 732,201	24,429
Less allowance for uncollectible ad valorem taxes receivable				<u>10,504</u>
Ad valorem taxes receivable - net				<u><u>\$ 13,925</u></u>
Reconciliation with revenues:				
Ad valorem taxes - General Fund		\$ 736,576		
Reconciling items:				
Interest collected		(5,248)		
Taxes written off		873		
Subtotal		<u>(4,375)</u>		
Total collections and credits		<u><u>\$ 732,201</u></u>		

Town of Haw River, North Carolina
Analysis of Current Tax Levy
Town Wide Levy
For the Fiscal Year Ended June 30, 2017

	Town - Wide			Total Levy	
	Property Valuation	Rate	Total Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
	Original levy:				
Property taxed at current	\$ 151,989,108	0.48	\$ 729,548	\$ 654,890	\$ 74,658
Penalties	-		1,390	888	502
Total	<u>151,989,108</u>		<u>730,938</u>	<u>655,778</u>	<u>75,160</u>
Discoveries:					
Current year taxes	17,917	0.48	86	86	-
Penalties	-		-	-	-
Abatements	<u>(339,167)</u>		<u>(1,628)</u>	<u>(1,628)</u>	<u>-</u>
Total Property Valuation	<u>\$ 151,667,858</u>		<u>729,396</u>	<u>654,236</u>	<u>75,160</u>
Uncollected taxes at June 30, 2017			<u>10,289</u>	<u>10,216</u>	<u>73</u>
Current year's taxes collected			<u>\$ 719,107</u>	<u>\$ 644,020</u>	<u>\$ 75,087</u>
Current levy collection percentage			98.59%	98.44%	99.90%

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
Tara H. Roberson, CPA

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Independent Auditor's Report

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregated remaining fund information of the Town of Haw River, North Carolina as of and for the year ended June 30, 2017, 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 November 30, 2017.

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. [17-1]

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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
November 30, 2017

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

Certified Public Accountants



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Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; With OMB Uniform Guidance and the State Single Audit Implementation Act Independent Auditor's Report

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

Report on Compliance for Each Major Federal Program

We have audited the Town of Haw River, North Carolina, compliance with the types of compliance requirements described in the OMB Compliance Supplement and the Audit Manual for Governmental Auditors in North Carolina, issued by the Local Government Commission, that could have a direct and material effect on each of the Town of Haw River's major federal programs for the year ended June 30, 2017. The Town of Haw River's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Town of Haw River's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) and the State Single Audit Implementation Act.² Those standards, the Uniform Guidance, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town of Haw River's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Town of Haw River's compliance.

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Opinion on Each Major Federal Program

In our opinion, the Town of Haw River complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control Over Compliance

Management of the Town of Haw River is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Town of Haw River's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report 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
November 30, 2017

**TOWN OF HAW RIVER, NORTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017**

Section I. Summary of Auditor's Results

Financial Statements

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

Internal control over financial reporting:

Material weakness(es) identified? Yes No
 Significant deficiency(ies) Yes None reported
 Noncompliance material to financial statements noted Yes No

Federal Awards

Internal Control Over Major Federal Programs:

Material weakness(es) identified? Yes No
 Significant Deficiency(s) identified Yes No

Type of auditors' report issued on compliance for major federal program: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? Yes No

Identification of major federal programs:

CFDA No. 66.458 Capitalization of grant for Quality Clean Water State Revolving Fund

Dollar threshold used to distinguish between Type A and Type B Programs: \$750,000

Auditee qualified as low-risk auditee? Yes No

State Awards

The only major State program for the Town of Haw River is the Capitalization of grant for Quality Clean Water State Revolving Fund (66.458), which is a State match on a federal program. Therefore, this program has been included in the list of major federal programs above.

Section II. Financial Statement Findings

Material Weakness

17-1 Segregation of Duties

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.

Identification of a repeat finding: This is a repeat finding from the immediate previous audit, 16-1.

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 and adhere to the corrective action plan.

Section III. Federal Award Findings and Questioned Costs

None reported.

Section IV. State Award Findings and Questioned Costs

None reported.

**TOWN OF HAW RIVER, NORTH CAROLINA
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2017**

Section II - Financial Statement Findings

Finding: 17-1

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.

Section III - Federal Award Findings and Questioned Costs

None reported.

Section IV - State Award Findings and Questioned Costs

None reported.

**TOWN OF HAW RIVER, NORTH CAROLINA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

Finding: 16-1

Name of contact person: Jeff Earp, Town Manager

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

Proposed Completion Date: Immediately.

**TOWN OF HAW RIVER
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2017**

<u>Grantor/Pass-through</u>	<u>Federal CFDA Number</u>	<u>State/ Pass through Number</u>	<u>Federal (Direct & Pass-through) Expenditures</u>	<u>State Expenditures</u>	<u>Local Expenditures</u>
Federal Grants:					
<u>U.S Environmental Protection Agency</u>					
Passed through N.C. Department of Environmental Quality					
Capitalization of Grants for Quality Clean Water State Revolving Fund	66.458	CS370573-02	\$ 806,682	\$ -	20,254
<u>U.S. Department of Justice</u>					
Edward Byrne Memorial Justice Assistance Grant					
Criminal Justice System Governor's Crime Commission	16.738		24,413	-	-
<u>U.S. Department of Transportation</u>					
Passed through N.C. Department of Transportation					
Total Assistance -federal programs	20.205-1CL	20.205-1CL	<u>106,063</u>	<u>-</u>	<u>-</u>
			<u>937,158</u>	<u>-</u>	<u>20,254</u>
State Awards:					
<u>NC Department of Agriculture</u>					
NC Forest Service					
				1,080	1,080
<u>N.C. Department of Environmental Quality</u>					
Recycling Expansion grant					
				8,391	
<u>N C Department of Transportation</u>					
Powell Bill					
				150,061	
Total assistance - state programs					
			<u>-</u>	<u>159,532</u>	<u>1,080</u>
Total Assistance					
			<u>\$ 937,158</u>	<u>\$ 159,532</u>	<u>\$ 20,254</u>

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

Note 1: Basis of Presentation

The accompanying schedule of expenditures of federal and State awards (SEFSA) includes the federal and State grant activity of the Town of Haw River under the programs of the federal government and the State of North Carolina for the year ended June 30, 2017. The information in this SEFSA is presented in accordance with the requirements of Title 2 US Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and the State Single Audit Implementation Act. Because the Schedule presents only a selected portion of the operations of the Town of Haw River, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Town of Haw River.

Note 2: Summary of Significant Accounting Policies

Expenditures reported in the SEFSA are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3: Loans Outstanding

The Town of Haw River had the following loan balances outstanding at June 30, 2017 for loans that the grantor/pass-through grantor has still imposed continuing compliance requirements. Loans outstanding at the beginning of the year and loans made during the year are included in the SEFSA. The balance of loans outstanding at June 30, 2017 consist of:

<u>Program Name</u>	<u>CFDA Number</u>	<u>Pass-through Grantor's Number</u>	<u>Amount Outstanding</u>
Capitalization Grants for Quality Clean Water project	66.458	CS370573-02	\$ 445,265