

**TOWN OF ERWIN
ERWIN, NORTH CAROLINA
FINANCIAL STATEMENTS
June 30, 2015**

TOWN OF ERWIN, NORTH CAROLINA
FINANCIAL STATEMENTS
June 30, 2015

Patsy M. Carson, Mayor

BOARD OF COMMISSIONERS

Randy L. Baker
Ricky Blackmon
Alvestor L. McKoy

Billy Turnage
Frankie Ballard
Thurman E. Whitman

TOWN OFFICERS

Debbie Chestnut
Finance Director

Richard Douglas, Town Manager

Cynthia Patterson
Town Clerk

C. Mac Hunter
Attorney

TOWN OF ERWIN, NORTH CAROLINA
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FINANCIAL SECTION



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Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Erwin, North Carolina, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

Opinions

In our opinion, based on our audit the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Erwin, North Carolina as of June 30, 2015, and the respective changes in financial position and the respective budgetary comparison for the General Fund and Community Enhancement Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (pages 3-9), the Law Enforcement Special Separation Allowance's (pages 39-40), the Other Post Employment Benefits' Schedule of Funding Progress (page 41) and Schedules of Employer Contributions Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Asset and Contributions (pages 42-43), be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

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

The combining and individual fund statements, budgetary schedules and other schedules are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us. In our opinion, based on our audit, the procedures performed as described above, the combining and individual fund financial statements, budgetary schedules and other schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2015 on our consideration of Town of Erwin's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, and other matters. The purpose of the 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 Town of Erwin's internal control over financial reporting and compliance.

Thompson, Price, Scott, Adams & Co., PA

Elizabethtown, North Carolina

December 31, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of Erwin, we offer readers of the Town of Erwin's financial statements this narrative overview and analysis of the financial activities of the Town of Erwin for the fiscal year ended June 30, 2015. 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

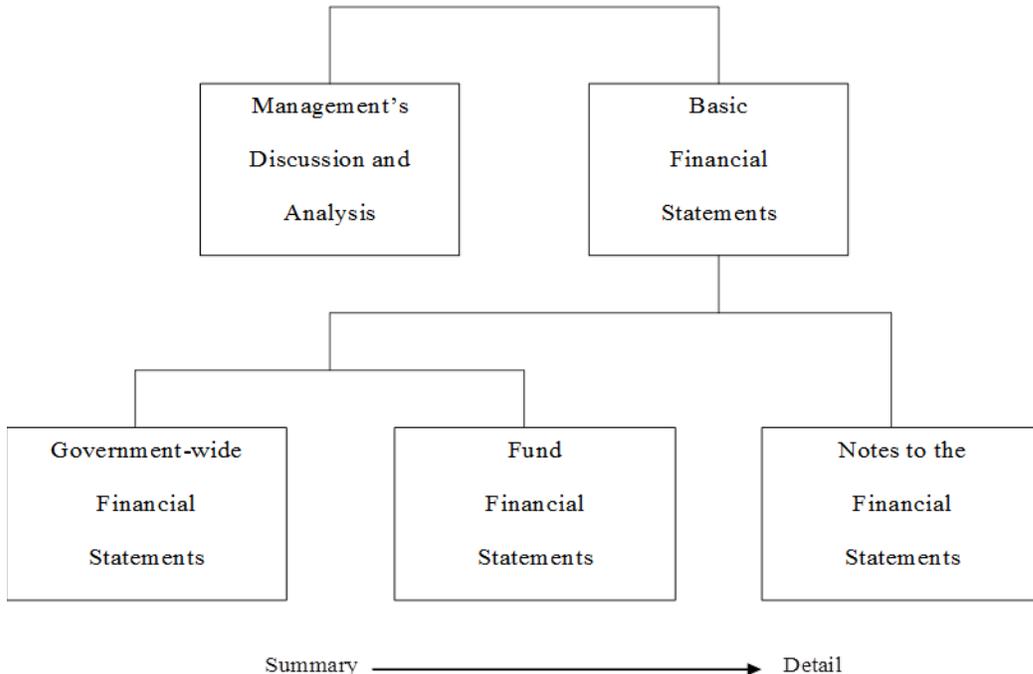
- The assets and deferred outflows of resources of the Town of Erwin exceeded its liabilities and deferred inflows or resources at the close of the fiscal year by \$8,194,619(*net position*).
- The government's total net position decreased by \$1,079,750 primarily due to decreases in the governmental activities net position.
- As of the close of the current fiscal year, the Town's governmental funds reported ending fund balances of \$5,278,430 a decrease of \$1,396,477. Approximately 12 percent of this total amount, or \$640,675 is nonspendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$1,271,696 or 38 percent of total general fund expenditures for the fiscal year.
- The Town of Erwin's long term debt consists of compensated absences, other post-employment obligation and net pension obligation.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the Town of Erwin'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 Erwin.

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 5) 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 two parts to the Fund Financial Statements: 1) the governmental funds statements; and 2) the budgetary comparison 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 North Carolina General Statutes also can be found in this part of the statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are designed to provide the reader with a broad overview of the Town of Erwin'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 it has changed. Net position is the difference between the Town's total assets and deferred outflows of resources and total liabilities and deferred inflows or resources. Measuring net position is one way to gauge the Town's financial condition.

The government-wide statements have only one category: 1) governmental activities. The governmental activities include all of the Town's basic services such as public safety, environmental protection, transportation, parks and recreation, and general administration. Property taxes, sales taxes and State and federal grant funds finance most of these activities.

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 of Erwin's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Erwin, 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 Town of Erwin can be divided into one category: governmental funds.

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

Management Discussion and Analysis
Town of Erwin

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

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 20 of this audit report.

Other Information – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the Town of Erwin’s progress in funding its obligation to provide various benefits to its employees. Required supplementary information can be found beginning on page 38 of this report.

Interdependence with Other Entities: The Town depends on financial resources flowing from, or associated with, both the Federal Government and the State of North Carolina. Because of this dependency, the Town is subject to changes in specific flows of intergovernmental revenues based on modifications to Federal and State laws and Federal and State appropriations.

Government-Wide Financial Analysis

**Town of Erwin’s Net Position
 Figure 2**

	Governmental Activities	
	2015	2014
Assets		
Current and other assets:	\$ 5,543,569	\$ 6,845,522
Capital Assets	3,168,802	2,900,877
Deferred Outflows of Resources	94,531	-
Total assets	<u>8,806,902</u>	<u>9,746,399</u>
Liabilities		
Long-term liabilities outstanding	144,248	202,713
Other liabilities	221,622	150,688
Deferred inflows of resources	246,413	-
Total liabilities and deferred inflows of resources	<u>612,283</u>	<u>353,401</u>
Net Position		
Net Investment in Capital Assets	3,168,802	2,900,885
Restricted	640,675	1,461,024
Unrestricted(Deficit)	4,385,142	5,031,089
Total Net Position	<u>\$ 8,194,619</u>	<u>\$ 9,392,998</u>

Management Discussion and Analysis
Town of Erwin

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 Erwin exceeded liabilities and deferred inflows of resources by 8,194,619 as of June 30, 2015. The Town's net position decreased by \$1,079,750 for the fiscal year ended June 30, 2015. However, a portion, \$3,168,802 (39%), reflects the Town's net investment in capital assets (e.g. land, buildings, machinery, and equipment). The Town of Erwin uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Erwin'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 of Erwin's net position of \$640,675 (8%), represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$4,385,142 (53%) is unrestricted. Also, the Town of Erwin implemented GASB Statement 68 this year. With the new reporting change, the Town is allocated its proportionate share of the Local Government Employees' Retirement System's net pension asset, deferred outflows of resources, deferred inflows of resources, and pension expense. A restatement to record the effects of the new reporting guidance decreased beginning net position by \$118,629. Decisions regarding the allocations are made by the administrators of the pension plan, not by the Town of Erwin's management.

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

- Increased expenditures in transportation activities.
- Disbursed restricted funds in the Textile Museum Fund.

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

	Governmental Activities	
	2015	2014
Revenues		
Program Revenues		
Charges for Services	\$ 423,756	\$ 412,166
Grants and Entitlements	345,928	241,693
General Revenue		
Property Taxes	1,241,183	1,267,169
Grants and contributions not restricted to specific programs	713,137	658,042
Other Taxes	177,460	192,765
Investment Earnings	10,995	12,830
Other	16,787	35,672
Total Revenues	2,929,246	2,820,337
Expenses		
General Government	738,444	972,487
Public Safety	1,119,110	1,119,986
Transportation	667,082	272,772
Environmental Protection	342,026	322,172
Cultural and Recreation	1,142,334	444,320
Total Expenses	4,008,996	3,131,737
Increase(Decrease) in Net Position	(1,079,750)	(311,400)
Net Position, beginning(restated)	9,274,369	9,704,398
Net Position, ending	\$ 8,194,619	\$ 9,392,998

Governmental Activities - Governmental activities decreased the Town of Erwin's net position by \$1,079,750, thereby accounting for all of the reduction in the net position of the Town of Erwin. Key elements of the decrease were mentioned above.

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

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

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

The general fund is the chief operating fund of the Town of Erwin. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$1,271,696, while total fund balance reached \$1,917,311.

At June 30, 2015, the governmental funds of Town of Erwin reported a combined fund balance of \$5,278,430 with a net decrease in fund balance of \$1,396,477. Included in this change in fund balance is a decrease in fund balance of the General Fund due to an increase in transportation expenses and the disbursement out of the Textile Museum Capital Project Fund.

Management Discussion and Analysis
Town of Erwin

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.

The more notable budget amendments made by the Town of Erwin during fiscal year ending June 30, 2015 are as follows:

- Additional improvements to Town infrastructure and purchase of fixed assets.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. The Town of Erwin’s investment in capital assets for its governmental activities as of June 30, 2015, totals \$3,168,802 (net of accumulated depreciation). These assets include buildings, machinery and equipment, and vehicles.

Major capital asset transactions during the fiscal year include the following:

- The addition of three police cars.
- Parking lot.
- Capital project in the Town’s parks.
- The purchase of a equipment in street department.
- Equipment in the Parks and Recreation department.

**Town of Erwin’s Capital Assets
(net of depreciation)
Figure 4**

	Governmental Activities	
	2015	2014
Land	\$ 191,207	\$ 191,207
Construction in Progress	60,288	143,244
Buildings and Improvements	1,886,881	1,953,309
Equipment	140,416	173,139
Vehicles and Motor Equipment	411,405	387,850
Infrastructure	470,410	37,643
Land Improvements	8,195	13,186
Furniture	-	1,299
	<u>\$ 3,168,802</u>	<u>\$ 2,900,877</u>

Additional information on the Town’s capital assets can be found beginning on page 26. of the Basic Financial Statements.

Long-term Debt. As of June 30, 2015, the Town of Erwin has no outstanding debt.

North Carolina general statues 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 that government’s boundaries. The legal debt margin for the Town of Erwin is \$20,228,785. The Town did not issue any bonds during the fiscal year 2014-2015. Additional information regarding the Town’s long-term debt can be found beginning on page 35.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

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

- The Town of Erwin's capability to grow its tax base while implementing a fiscally conservative policy has allowed the tax rate to remain consistent, although the County Revaluation has increased the overall tax base with increases to property values within the Town, and serves as an indicator of the progressing economy in Erwin.
- The Town of Erwin must seek to diversify its economy and move from its roots of manufacturing reliance. Efforts are underway to expand and enhance the commercial growth corridor of 421 as well as a downtown revitalization initiative.

The Town will continually need to closely examine all areas of revenues and expenditures as part of standard operations of procedure to increase unrestricted revenue. The Town of Erwin continues to experience economic challenges as a result of the closure of the Town of Erwin's and Harnett County's former largest manufacturing employer, Swift Denim, Inc.

BUDGET HIGHLIGHTS FOR THE FISCAL YEAR ENDING JUNE 30, 2016

Governmental Activities – General Fund

Due to external economic factors, the Town of Erwin does not expect increases in the collection of property taxes and revenues from state shared sales taxes. The lack of expected increases is anticipated to lead to the sustaining of budgeted revenue for the fiscal year ending June 30, 2016. The Town will use these revenues to finance programs currently in place.

Budgeted expenditures in the General Fund are expected to remain relatively consistent with previous levels due to continued and focused efforts by management to contain expenses and continue to deliver necessary services.

REQUESTS FOR INFORMATION

This report is designed to provide an overview of the Town of Erwin'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 Richard N. Hicks, Interim Town Manager, Town of Erwin, P.O. Box 459, Erwin NC 28339. Mr. Hicks can be reached by e-mail at townmanager@erwin-nc.org or by telephone at (910) 897-5140. Additional information about the unit may be obtained from the Town of Erwin website at www.erwin-nc.org.

TOWN OF ERWIN

ERWIN, NORTH CAROLINA

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Basic Financial Statements

Town of Erwin, North Carolina
Statement of Net Position
June 30, 2015

Exhibit 1

	Governmental Activities
Assets	
Current assets:	
Cash & cash equivalents	\$ 4,827,572
Restricted cash	266,308
Taxes receivable (net)	47,586
Accrued interest receivable on taxes	10,973
Accounts receivable (net)	28,455
Due from other governments	261,712
Total current assets	5,442,606
Non-current Assets:	
Net pension asset	100,963
Capital Assets:	
Land and nondepreciable improvements	251,495
Other capital assets, net of depreciation	2,917,307
Total capital assets	3,168,802
Total Assets	8,712,371
Deferred Outflows of Resources	
	94,531
Liabilities	
Current liabilities:	
Accounts payable and accrued liabilities	\$ 105,279
Current portion of long-term debt	116,343
Long-term Liabilities:	
Due in more than one year	144,248
Total liabilities	365,870
Deferred Inflows of Resources	
	246,413
Net Position	
Net Investment in capital assets	3,168,802
Restricted for:	
Stabilization by state statute	374,367
Transportation	231,263
Public safety	2,896
Cultural and recreation	32,149
Unrestricted	4,385,142
Total Net Position	\$ 8,194,619

TOWN OF ERWIN

ERWIN, NORTH CAROLINA

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Town of Erwin, North Carolina
Statement of Activities
For the Year Ended June 30, 2015

Exhibit 2

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
Primary Government: Governmental Activities:	Charges for Service	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
General Government	\$ 738,444	\$ 36,503	\$ -	\$ -	\$ (701,941)
Public Safety	1,119,110	591	28,347	-	(1,090,172)
Transportation	667,082	7,759	142,545	75,000	(441,778)
Environmental Protection	342,026	339,685	-	-	(2,341)
Cultural and Recreation	1,142,334	39,218	-	100,036	(1,003,080)
Total Governmental Activities	\$ 4,008,996	\$ 423,756	\$ 170,892	\$ 175,036	(3,239,312)
General Revenues:					
Taxes:					
Property taxes, levied for general purpose					1,241,183
Other taxes					177,460
Grants and contributions not restricted to specific programs					
Investment earnings, unrestricted					10,995
Miscellaneous, unrestricted					16,787
Total general revenues					
Change in net position					
Net position - beginning, previously reported					
Restatement					
Net position, beginning, restated					
Net position - Ending					
					\$ 8,194,619

Town of Erwin, North Carolina
Balance Sheet
Governmental Funds
June 30, 2015

Exhibit 3

	Major Funds				Total Non-Major Funds	Total Governmental Funds
	General Fund	Rail Trail Capital Project	Textile Museum Fund	Community Enhancement Fund		
Assets						
Cash and cash equivalents	\$ 1,553,192	\$ 55,343	\$ -	\$ 3,214,559	\$ 4,478	\$ 4,827,572
Restricted cash	234,159	-	32,149	-	-	266,308
Receivables (net):						
Taxes	47,586	-	-	-	-	47,586
Accounts	28,455	-	-	-	-	28,455
Due from other funds	-	-	-	84,200	-	84,200
Due from other governments	207,122	28,857	-	4,839	20,894	261,712
Total assets	<u>\$ 2,070,514</u>	<u>\$ 84,200</u>	<u>\$ 32,149</u>	<u>\$ 3,303,598</u>	<u>\$ 25,372</u>	<u>\$ 5,515,833</u>
Liabilities						
Accounts payable and accrued liabilities	\$ 105,279	\$ -	\$ -	\$ -	\$ -	\$ 105,279
Due to other funds	-	84,200	-	-	-	84,200
Total liabilities	<u>105,279</u>	<u>84,200</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>189,479</u>
Deferred inflows of resources						
Property tax receivable	47,586	-	-	-	-	47,586
Prepaid taxes	338	-	-	-	-	338
Total deferred inflows of resources	<u>47,924</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>47,924</u>

Town of Erwin, North Carolina
Balance Sheet
Governmental Funds
June 30, 2015

Exhibit 3

	Major Funds				Total Non-Major Funds	Total Governmental Funds
	General Fund	Rail Trail Capital Project	Textile Museum Fund	Community Enhancement Fund		
Fund Balances:						
Restricted						
Stabilization by State Statute	235,577	28,857	-	89,039	20,894	374,367
Streets	231,263	-	-	-	-	231,263
Public Safety	2,896	-	-	-	-	2,896
Cultural and Recreation	-	-	32,149	-	-	32,149
Committed						
Cultural and Recreation	-	(28,857)	-	-	4,478	(24,379)
Capital Projects	-	-	-	3,214,559	-	3,214,559
Employee Health Reserve	10,515	-	-	-	-	10,515
Assigned						
Subsequent Year						
Expenditures	165,364	-	-	-	-	165,364
Unassigned	1,271,696	-	-	-	-	1,271,696
Total fund balances	<u>1,917,311</u>	<u>-</u>	<u>32,149</u>	<u>3,303,598</u>	<u>25,372</u>	<u>5,278,430</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 2,070,514</u>	<u>\$ 84,200</u>	<u>\$ 32,149</u>	<u>\$ 3,303,598</u>	<u>\$ 25,372</u>	<u>\$ 5,515,833</u>

TOWN OF ERWIN

ERWIN, NORTH CAROLINA

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Town of Erwin, North Carolina
Balance Sheet
Governmental Funds
June 30, 2015

Exhibit 3, continued

Amounts reported for governmental activities in the Statement of Net Position (Exhibit 1) are different because:

Total Fund Balance, Governmental Funds		5,278,430
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Gross capital assets at historical cost	\$ 5,449,224	
Accumulated depreciation	<u>(2,280,422)</u>	\$ 3,168,802
Net pension asset		100,963
Contributions to the pension plan in the current fiscal year are deferred outflows of resources on the Statement of Net Position		78,416
Other long-term assets (accrued interest receivable from taxes) are not available to pay for current-period expenditures and therefore are inflows or resources.		10,973
Liabilities for earned revenues considered deferred inflows of resources in fund statements.		47,586
Some liabilities, including bonds payable, accrued interest, post employment benefits and compensated absences are not due and payable in the current period and therefore are not reported in the funds.		(260,591)
Pension related defferals		<u>(229,960)</u>
Net position of governmental activities		<u><u>\$ 8,194,619</u></u>

Town of Erwin, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2015

Exhibit 4

	Major Funds				Total Non-Major Funds	Total Governmental Funds
	General Fund	Rail Trail Capital Project	Textile Museum Fund	Community Enhancement Fund		
Revenues						
Ad valorem taxes	\$ 1,246,231	\$ -	\$ -	\$ -	\$ -	\$ 1,246,231
Other taxes and licenses	177,460	-	-	-	-	177,460
Unrestricted intergovernmental	713,137	-	-	-	-	713,137
Restricted intergovernmental	170,892	28,857	-	-	146,179	345,928
Permits and fees	14,868	-	-	-	-	14,868
Sales and services	386,662	-	-	22,226	-	408,888
Other revenues	8,341	5,000	336	8,144	5,960	27,781
Total revenues	<u>2,717,591</u>	<u>33,857</u>	<u>336</u>	<u>30,370</u>	<u>152,139</u>	<u>2,934,293</u>
Expenditures						
Current:						
General government	575,543	-	-	-	142,087	717,630
Public safety	1,172,216	-	-	-	-	1,172,216
Transportation	634,774	-	-	-	-	634,774
Public works	98,660	-	-	-	-	98,660
Environmental protection	341,753	-	-	-	-	341,753
Cultural and recreation	460,572	33,857	663,961	-	207,347	1,365,737
Total expenditures	<u>3,283,518</u>	<u>33,857</u>	<u>663,961</u>	<u>-</u>	<u>349,434</u>	<u>4,330,770</u>
Revenues over (under) expenditures	<u>(565,927)</u>	<u>-</u>	<u>(663,625)</u>	<u>30,370</u>	<u>(197,295)</u>	<u>(1,396,477)</u>

Town of Erwin, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2015

Exhibit 4

	Major Funds				Total Non-Major Funds	Total Governmental Funds
	General Fund	Rail Trail Capital Project	Textile Museum Fund	Community Enhancement Fund		
Other financing sources (uses):						
Transfers from other funds	150,493	-	-	19,312	81,342	251,147
Transfers to other funds	-	-	-	(231,835)	(19,312)	(251,147)
Total other financing sources (uses)	<u>150,493</u>	<u>-</u>	<u>-</u>	<u>(212,523)</u>	<u>62,030</u>	<u>-</u>
Net change in fund balance	(415,434)	-	(663,625)	(182,153)	(135,265)	(1,396,477)
Fund balances, beginning	<u>2,332,745</u>	<u>-</u>	<u>695,774</u>	<u>3,485,751</u>	<u>160,637</u>	<u>6,674,907</u>
Fund balances, ending	<u>\$ 1,917,311</u>	<u>\$ -</u>	<u>\$ 32,149</u>	<u>\$ 3,303,598</u>	<u>\$ 25,372</u>	<u>\$ 5,278,430</u>

Town of Erwin, North Carolina
**Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balance to the Statement of Net Position**
Governmental Funds
For the Year Ended June 30, 2015

Exhibit 4,
Continued

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

Net changes in fund balances - total governmental funds	\$ (1,396,477)
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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 that were capitalized	520,284
Depreciation expense for Governmental assets	(252,359)

Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities	78,416
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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	(5,056)

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	(2,477)
Pension expenses	(10,368)
Other postemployment benefits	(3,033)
Net pension obligation	<u>(8,680)</u>

Total changes in net position of governmental activities.	\$ <u><u>(1,079,750)</u></u>
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Town of Erwin, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balance -
General Fund Budget and Actual
For the Year Ended June 30, 2015

Exhibit 5

	General Fund			Variance With Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
Revenues:				
Ad valorem taxes	\$ 1,201,000	\$ 1,213,000	\$ 1,246,231	\$ 33,231
Other taxes and licenses	171,000	183,000	177,460	(5,540)
Unrestricted intergovernmental	754,899	754,899	713,137	(41,762)
Restricted intergovernmental	160,000	160,000	170,892	10,892
Permits and fees	16,000	16,000	14,868	(1,132)
Sales and services	367,500	367,500	386,662	19,162
Other revenues	49,000	49,000	8,341	(40,659)
Total revenues	<u>2,719,399</u>	<u>2,743,399</u>	<u>2,717,591</u>	<u>(25,808)</u>
Expenditures:				
Current:				
General government	545,549	567,549	575,543	(7,994)
Public safety	1,133,003	1,196,788	1,172,216	24,572
Transportation	572,493	630,493	634,774	(4,281)
Public works	92,697	101,697	98,660	3,037
Environmental protection	336,068	344,068	341,753	2,315
Cultural and recreation	455,370	461,370	460,572	798
Total expenditures	<u>3,135,180</u>	<u>3,301,965</u>	<u>3,283,518</u>	<u>18,447</u>
Revenues over (under) expenditures	<u>(415,781)</u>	<u>(558,566)</u>	<u>(565,927)</u>	<u>(7,361)</u>
Other financing sources (uses):				
Transfers to other funds	-	-	-	-
Transfers from other funds	127,500	127,500	150,493	22,993
Fund balance appropriated	288,281	431,066	-	(431,066)
Total other financing sources (uses)	<u>415,781</u>	<u>558,566</u>	<u>150,493</u>	<u>(408,073)</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	(415,434)	<u>\$ (415,434)</u>
Fund balances, beginning			<u>2,332,745</u>	
Fund balances, ending			<u>\$ 1,917,311</u>	

**Statement of Revenues, Expenditures, and Changes in Fund Balance -
Community Enhancement Fund Budget and Actual**
For the Year Ended June 30, 2015

	Community Enhancement Fund			Variance With Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
Revenues:				
Ad valorem taxes	\$ -	\$ -	\$ -	\$ -
Other taxes and licenses	-	-	-	-
Unrestricted intergovernmental	-	-	-	-
Restricted intergovernmental	-	-	-	-
Permits and fees	-	-	-	-
Sales and services	-	-	22,226	22,226
Other revenues	-	-	8,144	8,144
Total revenues	<u>-</u>	<u>-</u>	<u>30,370</u>	<u>30,370</u>
Expenditures:				
Current:				
General government	-	-	-	-
Public safety	-	-	-	-
Transportation	-	-	-	-
Public works	-	-	-	-
Environmental protection	-	-	-	-
Cultural and recreation	-	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>30,370</u>	<u>30,370</u>
Other financing sources (uses):				
Transfers to other funds	(213,000)	(155,285)	(231,835)	(76,550)
Transfers from other funds	-	-	19,312	19,312
Fund balance appropriated	213,000	155,285	-	(155,285)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(212,523)</u>	<u>(212,523)</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	(182,153)	<u>\$ (182,153)</u>
Fund balances, beginning			<u>3,485,751</u>	
Fund balances, ending			<u>\$ 3,303,598</u>	

TOWN OF ERWIN, NORTH CAROLINA
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Town of Erwin 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 of Erwin is a municipal corporation that is governed by an elected mayor and a six-member council.

B. Basis of Presentation

Government-wide Statements: The statement of net position and the statement of activities display information about the primary government. 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 Town does not have any business-type activities.

The statement of activities presents a comparison between direct expenses and program revenues 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. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds. The Town does not have any proprietary funds.

The Town reports the following major governmental funds:

General Fund – The General Fund is the general operating fund of the Town. The General Fund accounts for all financial resources of the general government except those 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, sanitation services and cultural and recreation.

Rail Trail Capital Project - This fund is used to account for the capital project to create a walking trail as part of a Town park.

Textile Museum Capital Project Fund – This fund is used to account for the construction of a new textile museum.

Community Enhancement Fund - This fund was created from the sale proceeds of the Town's water and sewer system. Earnings and cell tower lease will be accumulated and expended for community enhancement projects within the Town.

The Town reports the following non-major governmental funds:

Downtown Parking Lot Capital Project - This fund is used to account for repaving of parking lot in the downtown area.

Porter Park Capital Project Fund - This fund is used to account for the improvements done to the Town recreation park.

Priebe Field Capital Project - This fund is used to account for grant funds and local donations for the improvement of a Town recreation park.

TOWN OF ERWIN, NORTH CAROLINA
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2015

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 Financial Statements. The government-wide financial statements are reported using the economic resources measurement focus. The government-wide financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non exchange transactions, in which the Town gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants 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.

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 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 and are offset by deferred inflows of resources.

Sales taxes and certain intergovernmental revenues, such as the beer and wine 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 Erwin because the tax is levied by Harnett County and then remitted to and distributed by the State. Most intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. All taxes, including those dedicated for specific purposes are reported as general revenues rather than program revenues. Under the terms of grant agreements, the Town funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there 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 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 Community Enhancement Fund. All annual appropriations lapse at fiscal year-end. Project ordinances are adopted for the Capital Project Funds. 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 project level for the multi year funds. The Town manager is authorized by the budget ordinance to transfer appropriations between functional areas within a fund up to 5 percent of the appropriated monies for the department where the allocation is reduced; however, any revisions that alter the total expenditures of any fund or exceed the 5 percent limitation must be approved the governing board. During the year, several amendments to the original budget were necessary.

TOWN OF ERWIN, NORTH CAROLINA
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2015

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

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

State law [G.S. 159-30(c)] authorizes the Town to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances and the North Carolina Capital Management Trust (NCCMT). The Town's investments are reported at fair value as determined by quoted market prices. The securities of the NCCMT-Cash Portfolio a SEC-registered (2a-7) money market mutual fund, are valued at fair value, which is the NCCMT's share price. The NCCMT-Term Portfolio's securities are valued at fair value.

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

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

Restricted Cash - Powell Bill funds are classified as restricted cash because they can be expended only for the purposes of maintaining, repairing, constructing, reconstructing or widening of local streets per G.S. 136-41.1 through 136-41.4. Grant and local donations raised for the purpose of a textile museum are held as restricted until expended for that purpose. Controlled substance tax and other forfeiture funds are held as restricted until expended for that purpose.

Town of Erwin Restricted Cash

Governmental Activities	
General Fund	
Streets	\$ 231,263
Public Safety	2,896
Cultural and Recreation	32,149
Total Governmental Activities	<u>\$ 266,308</u>

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, 2014. 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.

Allowance for Doubtful Accounts - All receivables that historically experience uncollectable 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.

Inventory - The Town does not maintain any inventories.

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, \$5,000; buildings, improvements, and other plant and distribution systems, \$5,000; infrastructure, \$5,000; furniture and equipment, \$5,000; and vehicles, \$5,000. Purchased or constructed capital assets are reported at cost or estimated

TOWN OF ERWIN, NORTH CAROLINA
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2015

historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	30
Buildings	40
Other Improvements	20
Motor Vehicles	5
Equipment & Furniture	10
Plant Assets	50

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 has one item that meets this criterion, contributions made to the pension plan in the 2015 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 several items that meet the criterion for this category - prepaid taxes, property taxes receivable, and deferrals of pension expense that result from the implementation of GASB Statement 68.

Long-Term Obligations - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities fund type statement of net position.

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

Compensated Absences - The vacation policy of the Town provide for the accumulation of up to thirty (30) days earned vacation leave with such leave being fully vested when earned. For the Town's governments-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 current portion of the accumulated vacation pay is not considered to be material; therefore, no expenditure or liability has been reported in the governmental-wide or proprietary funds.

The Town's sick leave policy provide 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.

Net Position/Fund Balances

Net Position - Net position in government-wide fund financial statements is classified as net investment in capital assets; restricted; and unrestricted. Restricted net position represent 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.

TOWN OF ERWIN, NORTH CAROLINA
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2015

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

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

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

Restricted for Public Safety – portion of fund balance that is restricted by the funding source, which provides the Town with a portion of drug seizure money and property and restricted unused E911 funds.

Restricted for Cultural and Recreation – portion of fund balance restricted by the funding sources, which provided the Town funds for the purpose of the textile museum.

Committed Fund Balance –portion of fund balance that can only be used for specific purposes imposed by majority vote by quorum of Town of Erwin’s governing body (highest level of decision-making authority). The governing body can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Committed for Cultural and Recreation – portion of fund balance committed by the Board for parks and recreation expenditures.

Capital Projects – portion of fund balance committed by the Board for capital improvements.

Employee Health Reserve – portion of fund balance committed by the Board for assistance with employees’ increased health insurance deductible.

Assigned fund balance – portion of fund balance that Town of Erwin 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 and any modifications to the original budget.

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 Erwin adheres to the North Carolina Local Government Commission’s recommendation of a minimum fund balance for the general fund which instructs management to conduct the business of the Town in such a manner that available fund balance does not go below eight percent of budgeted expenditures. Any portion of the general fund balance in excess of 8% of budgeted expenditures may be appropriated for one-time expenditures and may not be used for any purpose that would obligate the Town in a future budget.

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 Erwin’s employer contributions are recognized when due and the Town of Erwin 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.

TOWN OF ERWIN, NORTH CAROLINA
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2015

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Significant Violations of Finance-Related Legal and Contractual Provisions

1. Noncompliance with N.C. General Statutes

None.

2. Contractual Violations

None.

B. Deficit in Fund Balance or Net Position of Individual Funds

None.

C. Excess of Expenditures over Appropriations

For the fiscal year ended June 30, 2015, the expenditures made in the Town's General Fund exceeded the authorized appropriations made by the governing board for general government activities by \$7,994, for transportation activities by \$4,281 and the capital project ordinance for the Porter Park Capital Project was overspent by \$60,383. This over-expenditure occurred because of unplanned year end expenditures for the general government and transportation activities. The capital project ordinance was exceeded due to the addition of drainage issues during the project. Management and the Board will more closely review the budget reports to ensure compliance in future years.

NOTE 3: DETAIL NOTES ON ALL FUNDS

A. Assets

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 these units' names. 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 their 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 undercollateralization. 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 formal 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, 2015, the Town's deposits had a carrying amount of \$5,093,680 and a bank balance of \$5,139,263. Of the bank balance, \$750,000 was covered by federal depository insurance and the remainder was covered under the pooling method or pledged assets by the financial institution. At June 30, 2015, the Town's petty cash fund totaled \$200.

TOWN OF ERWIN, NORTH CAROLINA
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2015

Receivables – Allowance for Doubtful Accounts

The amounts presented in the Balance Sheet and the Statement of Net Position is net of the following allowance for doubtful accounts:

Fund	June 30, 2015
General Fund	
Taxes Receivable	\$ 30,250
Total	\$ 30,250

Capital Assets

Capital asset activity for the year ended June 30, 2015, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental Activities:				
Capital Assets not Being Depreciated:				
Land	\$ 191,207	\$ -	\$ -	\$ 191,207
Construction in Progress	143,244	378,750	(461,706)	60,288
Total Capital Assets not Being Depreciated:	334,451	378,750	(461,706)	251,495
Capital Assets Being Depreciated:				
Buildings	2,607,919	-	-	2,607,919
Equipment	894,077	33,749	-	927,826
Vehicles and Motor Equipment	945,111	107,785	-	1,052,896
Infrastructure	73,000	461,706	-	534,706
Land Improvements	49,924	-	-	49,924
Furniture	24,458	-	-	24,458
Total Capital Assets Being Depreciated:	4,594,489	603,240	-	5,197,729
Less Accumulated Depreciation				
Buildings	654,610	66,428	-	721,038
Equipment	720,938	66,472	-	787,410
Vehicles and Motor Equipment	557,261	84,230	-	641,491
Infrastructure	35,357	28,939	-	64,296
Land Improvements	36,738	4,991	-	41,729
Furniture	23,159	1,299	-	24,458
Total Accumulated Depreciation	2,028,063	\$ 252,359	\$ -	2,280,422
Total Capital Assets Being Depreciated, net	2,566,426			2,917,307
Governmental Activity Capital Assets, net	\$ 2,900,877			\$ 3,168,802

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Primary Government

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

General Government	\$ 36,624
Public Safety	57,578
Transportation	85,941
Cultural & Recreational	<u>72,216</u>
Total Depreciation Expense	<u>\$ 252,359</u>

B. Liabilities

1. Pension Plan and Postemployment Obligations

a. Local Governmental Employees' Retirement System

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

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 Erwin 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 Erwin's contractually required contribution rate for the year ended June 30, 2015, was 7.41% of compensation for law enforcement officers and 7.07% for general employees and firefighters, actuarially determined as an amount that,

TOWN OF ERWIN, NORTH CAROLINA
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For the Fiscal Year Ended June 30, 2015

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 Erwin were \$78,416 for the year ended June 30, 2015.

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, 2015, the Town reported an asset of \$100,963 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2014. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2013. The total pension liability was then rolled forward to the measurement date of June 30, 2014 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 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, 2014, the Town’s proportion was 0.01590%, which was an increase of 0.02428% from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the Town recognized pension expense of \$10,368. At June 30, 2015, 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	\$ -	\$ 11,032
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	235,043
Changes in proportion and differences between Town contributions and proportionate share of contributions	16,115	-
Town contributions subsequent to the measurement date	78,416	-
Total	\$ 94,531	\$ 246,075

\$78,416 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, 2016. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2016	\$ (57,487)
2017	(57,487)
2018	(57,487)
2019	(57,499)
2020	-
Thereafter	-
	\$ (229,960)

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Actuarial Assumptions. The total pension liability in the December 31, 2013 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	4.25 to 8.55 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, 2013 valuation were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

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

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2014 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	36.0%	2.5%
Global Equity	40.5%	6.1%
Real Estate	8.0%	5.7%
Alternatives	6.5%	10.5%
Credit	4.5%	6.8%
Inflation Protection	4.5%	3.7%
Total	<u>100%</u>	

The information above is based on 30 year expectations developed with the consulting actuary for the 2013 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 3.19%. All rates of return and inflation are annualized.

A new asset allocation policy was finalized during the fiscal year ended June 30, 2014 to be effective July 1, 2014. The new asset allocation policy utilizes different asset classes, changes in the structure of certain asset classes, and adopts new benchmarks. Using the asset class categories in the preceding table, the new long-term expected arithmetic real rates of return are: Fixed Income 2.2%, Global Equity 5.8%, Real Estate 5.2%, Alternatives 9.8%, Credit 6.8% and Inflation Protection 3.4%.

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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)	\$ 342,717	\$ (100,963)	\$ (474,530)

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.

b. Law Enforcement Officers Special Separation Allowance

Plan Description. The Town of Erwin 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, 2014, the Separation Allowance's membership consisted of:

Retirees receiving benefits	1
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	11
Total	12

A separate report was not issued for the plan.

Summary of Significant Accounting Policies:

Basis of Accounting. The Town has chosen to fund the Separation Allowance on a pay as you go basis. Pension expenditures are 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 67 and 68:

- contributions to the pension plan and earnings on those contributions are irrevocable.
- pension plan assets are dedicated to providing benefits to plan members.
- pension plan assets are legally protected from the creditors or employers, nonemployer contributing entities, the plan administrator, and plan members.

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

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 made in appropriations through the General Fund operating budget. During the year ended June 30, 2015, \$18,480 in benefits were paid. 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. Administration costs of the Separation Allowance are paid by the General Fund. Although the Town has chosen the pay as you go basis, it does maintain actuarial valuations that state what should be contributed now to cover benefits.

The annual required contribution for the current year was determined as part of the December 31, 2014 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 5.00% investment rate of return (net of administrative expenses) and (b) projected salary increases of 4.25 to 7.85% per year. Both (a) and (b) included an inflation component of 3.0%. The assumptions did not include post-employment benefit increases.

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

Employer annual required contribution	\$	30,655
Interest on net pension obligation		5,068
Adjustment to annual required contribution		(8,563)
Annual pension cost		27,160
Employer contributions made		18,480
Increase (decrease) in net pension obligation		8,680
Net pension obligation beginning of year		101,366
Net pension obligation end of year	\$	110,046

3 Year Trend Information:

Fiscal Year		Annual Pension Cost (APC)	Percentage of APC Contributed		Net Pension Obligation
Ending		Cost (APC)	Contributed		Obligation
2013	\$	22,349	98.94%	\$	97,961
2014		23,491	85.51%		101,366
2015		27,160	68.04%		110,046

Funded Status and Funding Progress. As of December 31, 2014, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and the unfunded actuarial accrued liability (UAAL) was \$264,814. The covered payroll (annual payroll of active employees covered by the plan) was \$438,813, and the ratio of the UAAL to the covered payroll was 60.35 percent.

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

c. Supplemental Retirement Income Plan

Plan Description. The Town contributes to the Supplemental Retirement Income Plan (Plan), a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Plan provides retirement benefits to all qualifying employees 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 Town also contributes on behalf of all other employees. 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 Supplemental

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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 law enforcement officer's salary, and all amounts contributed are vested immediately. For all other plan members, the Town contributes two percent. Also, plan members may make voluntary contributions to the plan. Contributions for the year ended June 30, 2015 were \$67,803, which consisted of \$52,245 from the Town and \$15,558 from employees.

d. Other Post Employment Benefits

Healthcare Benefits

Plan Description. Under the terms of a Town resolution, the Town administers a single-employer defined benefit healthcare plan (“the Retiree Health Plan”). The Plan provides postemployment healthcare benefits to retirees of the Town, provided they participate in the North Carolina Local Governmental Employees’ Retirement System (System) and who retire with 20 years of service and are over sixty years of age, the Town pays 50% of the cost of coverage. For employees who retire with 25 years of service, regardless of their age, the Town pays 75% of the cost of coverage. For employees who retire with 30 years of service, the Town pays the full cost of coverage for those benefits. The Town pays the full cost of coverage for employees’ benefits through private insurers and employees have the option of purchasing dependent coverage at the Town’s group rates. Retirees who qualify for coverage receive the same benefits as active employees. Coverage for all retirees who are eligible for Medicare will be transferred to a Medicare Supplemental plan after qualifying for Medicare. The Town Council may amend the benefit provision. A separate report was not issued for the plan.

Membership of the HCB Plan consisted of the following at December 31, 2014, the date of the latest actuarial valuation:

	General Employees	Law Enforcement Employees
Retirees receiving benefits	2	1
Terminated plan members entitled to but not yet receiving benefits	-	-
Active plan members	14	11
Total	16	12

Funding Policy. By Town resolution, the Town pays a percentage of the cost of the coverage based upon the number of creditable service years the qualified retirees have under the Town resolution. The Town has chosen to fund the healthcare benefits on a pay as you go basis. 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. In fiscal year ended, June 30, 2015, the Town’s total contributions were \$9,125.

Annual OPEB Cost and Net OPEB Obligation. The Town’s annual other postemployment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer* (ARC).

The Town has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement 45 for employers in plans with fewer than one hundred total plan members. 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.

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The following table shows the components of the Town's annual OPEB cost for the current year, the amount actually contributed to the plan, and changes in the Town's net OPEB obligation for the postemployment healthcare benefits:

Annual required contribution	\$	12,079
Interest on net OPEB obligation		79
Adjustment to annual required contribution		-
Annual OPEB cost (expense)		12,158
Contributions made		(9,125)
Increase (decrease) in net OPEB obligation		3,033
Net OPEB obligation, beginning of year		31,169
Net OPEB obligation, end of year	\$	34,202

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended June 30, 2015 were as follows:

		Percentage of Annual	
For Year Ended June 30,	Annual OPEB Cost	OPEB Cost Contributed	Net OPEB Obligation
2013	26,389	69%	25,205
2014	13,911	57%	31,169
2015	12,158	75%	34,202

Funded Status and Funding Progress. As of June 30, 2015, the actuarial accrued liability for benefits was \$55,715, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$1,086,966, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 5.13 percent.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future.

Examples include assumptions about future employment, mortality, and healthcare trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents information about the actuarial value of plan assets and 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.

The following simplifying assumptions were made:

Retirement age for active employees – Based on the historical average retirement age for the covered group, active plan members were assumed to retire at age 62, or at the first subsequent year in which the member would qualify for benefits.

Marital status – Marital status of members at the calculation date was assumed to continue throughout retirement.

Mortality – Life expectancies were based on mortality tables from the National Center for Health Statistics. The 2005 United States Life Tables for Males and for Females were used.

Turnover – Non-group-specific age-based turnover data from GASB Statement 45 were used as the basis for assigning

TOWN OF ERWIN, NORTH CAROLINA
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active members a probability of remaining employed until the assumed retirement age and for development of an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid.

Healthcare cost trend rate – The expected rate of increase in healthcare insurance premiums was based on projections of the Office of the Actuary at the Centers for Medicare & Medicaid Services. A rate of 8.00 percent initially, reduced to an ultimate rate of 5.60 percent after six years, was used.

Health insurance premiums – 2015 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid.

Inflation rate – The expected long-term inflation assumption of 3.8 percent was based on projected changes in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) in *The 2013 Annual Report of the Board of Trustees of Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds* for an intermediate growth scenario.

Payroll growth rate – The expected long-term payroll growth rate was assumed to equal the rate of inflation.

Based on the historical and expected returns of the Town’s short-term investment portfolio, a discount rate of 4.00 percent was used. In addition, a simplified version of the entry age actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2014, was twenty eight years.

2. Other Employment Benefit

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

For the fiscal year ended June 30, 2015, the Town made contributions to the State for death benefits of \$0. The Town’s required contributions for employees not engaged in law enforcement and for law enforcement officers represented 0.00% and 0.00% of covered payroll, respectively.

Due to a surplus in the death benefit, a decision was made by the State to temporarily stop employer contributions to the LGERS Death Benefit Plan beginning July 1, 2012. A temporary relief period based on the number of years the employer has contributed as of December 31, 2010 was established as follows:

<u>No. Years Contributing</u>	<u>Years Relief</u>	<u>FY Contributions Resume</u>
10 - 20	2	2015
20 or more	3	2016

The period of reprieve is determined separately for law enforcement officers. The Town of Erwin will have a three year reprieve because it has been contributing for more than 20 years. Contributions will resume in the fiscal year beginning July 1, 2015.

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For the Fiscal Year Ended June 30, 2015

3. Deferred Outflows and Inflows of Resources

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

Source	Amount
Contributions to pension plan in current fiscal year	\$ 78,416
Pension deferrals	16,115
	\$ 94,531

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

Prepaid taxes (General Fund)	\$ 338
Taxes Receivable (General Fund)	47,586
Pension deferrals	246,075

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 insured 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 the 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 obtained flood insurance for areas subject to flooding.

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 and tax collector are each individually bonded for \$80,000 and \$10,000, respectively. Two remaining clerks are bonded for \$10,000 each.

5. Claims, Judgments and Contingent Liabilities

At June 30, 2015, the Town was a defendant to various lawsuits. In the opinion of 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

Changes in Long Term Liabilities

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion of Balance
Governmental Activities:					
Net Pension Liability(LGERS)	\$ 191,656	\$ -	\$ (191,656)	\$ -	\$ -
Net Pension Obligation(LEO)	101,366	8,680	-	110,046	-
OPEB Obligation	31,169	-	-	31,169	-
Compensated Absences	113,866	130,704	(128,227)	116,343	116,343
Total Governmental Activities	\$ 438,057	\$ 139,384	\$ (319,883)	\$ 257,558	\$ 116,343

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The LGERS plan had a net pension asset as of June 30, 2015; however, the plan had a net pension liability at the beginning of the fiscal year. The legal debt margin of the Town at June 30, 2015 was \$20,228,785.

D. Interfund Balances and Activity

Balances due to/from other funds at June 30, 2015, consist of the following:

Receivable Fund	Payable Fund	Amount
Community Enhancement Fund	Rail Trail Capital Project	\$ <u>84,200</u>
		\$ <u><u>84,200</u></u>

The above due to/from transaction was the result of common usage of the central depository account when the Community Enhancement Fund upfronts funding for capital projects until grant reimbursements are received.

Transfers to/from other funds at June 30, 2015, consist of the following:

From Community Enhancement Fund		
To the General Fund	\$	150,493
To the Porter Park Capital Project		81,342
From the Downtown Parking Lot		
To Community Enhancement Fund		<u>19,312</u>
	\$	<u><u>251,147</u></u>

The above transfers were made for the local match of capital outlay and capital projects.

D. Fund Balance

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

Total fund balance-General Fund	\$1,917,311
Less:	
Stabilization by State Statute	235,577
Streets - Powell Bill	231,263
Public Safety	2,896
Assigned to Employee Health Reserve	10,515
Appropriated Fund Balance in 2016 Budget	165,364
Remaining Fund Balance	1,271,696

NOTE 4: 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 agreements. Such audits could result in the refund of grant moneys 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 moneys.

TOWN OF ERWIN, NORTH CAROLINA
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2015

NOTE 5: MANAGEMENT'S REVIEW OF SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 31, 2015, the date which the financial statements were available for issue.

NOTE 6. CHANGE IN ACCOUNTING PRINCIPLES/RESTATEMENT

The Town implemented Governmental Accounting Standards Board (GASB) statement 68, Accounting and Financial Reporting for Pensions (an amendment of GASB Statement No. 27), in the fiscal year ending June 30, 2015. The implementation of the statement required the Town to record beginning net pension liability and the effects on net position of contributions made by the Town during the measurement period (fiscal year ending June 30, 2014). As a result, net position for the governmental decreased by \$118,629.

Required Supplementary Financial Data

The section contains additional statements required by Governmental Accounting Standards Board.

Law Enforcement Officers' Special Separation Allowance
Schedule of Funding Progress

Law Enforcement Officers' Special Separation Allowance
Schedule of Employer Contributions

Other Postemployment Benefits
Schedule of Funding Progress

Other Postemployment Benefits
Schedule of Employer Contributions

Schedule of Proportionate Share of Net Pension Liability (Asset) Local Government
Employees' Retirement System

Schedule of Contributions to Local Government Employees' Retirement System

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued 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)
12/31/2009	-	182,615	182,615	0.0%	327,383	55.78%
12/31/2010	-	203,815	203,815	0.0%	388,886	52.41%
12/31/2011	-	222,542	222,542	0.0%	375,848	59.21%
12/31/2012	-	237,215	237,215	0.0%	411,573	57.64%
12/31/2013	-	229,635	229,635	0.0%	430,351	53.36%
12/31/2014	-	264,814	264,814	0.0%	438,813	60.35%

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

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Annual Required</u> <u>Contribution</u>	<u>Percentage</u> <u>Contributed</u>
2013	22,349	98.94%
2014	23,491	85.51%
2015	27,160	68.04%

Town of Erwin, 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)
6/30/2010	-	47,066	47,066	0.0%	823,148	5.72%
6/30/2011	-	22,005	22,005	0.0%	881,924	2.50%
6/30/2012	-	28,095	28,095	0.0%	933,404	3.01%
6/30/2013	-	92,105	92,105	0.0%	913,800	10.08%
6/30/2014	-	72,915	72,915	0.0%	1,032,372	7.06%
6/30/2015	-	55,715	55,715	0.0%	1,086,966	5.13%

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

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Annual Required</u> <u>Contribution(ARC)</u>	<u>Percentage of ARC</u> <u>Contributed</u>
2011	11,575	67.00%
2012	12,821	63.00%
2013	26,389	69.00%
2014	13,769	57.00%
2015	12,158	75.00%

Town of Erwin, North Carolina
Schedule of Proportionate Share of Net Pension Liability (Asset)
Required Supplementary Information
Last Two Fiscal Years *

Local Government Employees' Retirement System

	2015	2014
Town's proportion of the net pension liability (asset) (%)	0.01712%	0.01590%
Town's proportion of the net pension liability (asset) (\$)	\$ (100,963)	\$ 191,656
Town's covered-employee payroll	\$ 1,086,966	\$ 1,032,372
Town's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	(9.29%)	18.56%
Plan fiduciary net position as a percentage of the total pension liability**	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 Erwin, North Carolina
Schedule of Contributions
Required Supplementary Information
Last Two Fiscal Years

Local Government Employees' Retirement System

	2015	2014
Contractually required contribution	\$ 78,416	\$ 73,027
Contributions in relation to the contractually required contribution	78,416	73,027
Contribution deficiency (excess)	\$ -	\$ -
Town's covered-employee payroll	\$ 1,086,966	\$ 1,032,372
Contributions as a percentage of covered-employee payroll	7.21%	7.07%

TOWN OF ERWIN

ERWIN, NORTH CAROLINA

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Supplementary Statements

The section contains additional statements required by the Local Government Commission
in North Carolina.

Town of Erwin, North Carolina
General Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2015

	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Revenues:			
Ad valorem taxes:			
Ad valorem taxes	\$	\$ 1,234,013	\$
Penalties and interest		12,218	
Total	<u>1,213,000</u>	<u>1,246,231</u>	<u>33,231</u>
Other taxes and licenses:			
Fire protection charges		177,460	
Total	<u>183,000</u>	<u>177,460</u>	<u>(5,540)</u>
Unrestricted intergovernmental:			
Local option sales taxes		481,931	
Gasoline tax refund		9,974	
Telecommunications tax		37,027	
Utility franchise tax		140,327	
Piped natural gas		3,620	
Video franchise fee		15,163	
Solid Waste Disposal Tax		2,930	
Beer and wine tax		22,165	
Total	<u>754,899</u>	<u>713,137</u>	<u>(41,762)</u>
Restricted intergovernmental:			
Powell Bill Allocation		142,545	
Controlled Substance Tax		1,012	
Grants		27,335	
Total	<u>160,000</u>	<u>170,892</u>	<u>10,892</u>
Permits and fees:			
Business registration fees		4,395	
Zoning permits		9,275	
Auto licenses		607	
Court fees		591	
Total	<u>16,000</u>	<u>14,868</u>	<u>(1,132)</u>
Sales and services:			
Recreation department			
Concessions, sponsorships & donations		10,450	
Sponsors donations/entry fees		27,730	
Mowing Contract		7,759	
Library fees		1,038	
Assessments-garbage fees		339,685	
Total	<u>367,500</u>	<u>386,662</u>	<u>19,162</u>

Town of Erwin, North Carolina
General Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2015

	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Other Revenues:			
Investment earnings		2,850	
Sale of capital assets		-	
Miscellaneous		5,491	
Total Other Revenues	<u>49,000</u>	<u>8,341</u>	<u>(40,659)</u>
Total Revenues	<u>2,743,399</u>	<u>2,717,591</u>	<u>(25,808)</u>
General Government:			
Governing Body:			
Salaries		19,800	
Benefits		1,514	
Other Operating Expenses		3,999	
Capital Outlay		-	
Total Governing Body	<u>25,600</u>	<u>25,313</u>	<u>287</u>
Administration:			
Salaries		207,962	
Benefits		74,180	
Professional Expenses		42,300	
General Insurance		84,603	
Other Operating Expenses		141,185	
Capital Outlay		-	
Total Administration	<u>541,949</u>	<u>550,230</u>	<u>(8,281)</u>
Total General Government	<u>567,549</u>	<u>575,543</u>	<u>(7,994)</u>
Public safety:			
Police:			
Salaries		534,448	
Benefits		164,899	
Other Operating Expenses		79,045	
Capital Outlay		88,209	
Total	<u>879,969</u>	<u>866,601</u>	<u>13,368</u>
Fire:			
Contract Services		183,733	
Total	<u>183,000</u>	<u>183,733</u>	<u>(733)</u>
Inspection:			
Salaries		56,118	
Benefits		15,727	
Other Operating Expenses		3,301	
Contract Services		46,736	
Capital Outlay		-	
Total	<u>133,819</u>	<u>121,882</u>	<u>11,937</u>
Total Public Safety	<u>1,196,788</u>	<u>1,172,216</u>	<u>24,572</u>

Town of Erwin, North Carolina
General Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2015

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Streets			
Salaries		137,247	
Benefits		47,834	
Other Operating Expenses		198,485	
Capital Outlay		6,799	
Contracted Services		244,409	
Total Transportation	<u>630,493</u>	<u>634,774</u>	<u>(4,281)</u>
Public works:			
Administration			
Salaries		54,980	
Benefits		16,346	
Other Operating Expenses		27,334	
Capital Outlay		-	
Contracted Services		-	
Total Public Works	<u>101,697</u>	<u>98,660</u>	<u>3,037</u>
Environmental protection:			
Sanitation:			
Salaries		31,296	
Benefits		11,331	
Other Operating Expenses		31,223	
Contracted Services		267,903	
Total Environmental Protection	<u>344,068</u>	<u>341,753</u>	<u>2,315</u>
Culture and recreation:			
Parks and recreation:			
Salaries		146,340	
Benefits		36,698	
Contracted Services		40,878	
Other Operating Expenses		99,239	
Capital Outlay		46,526	
Total parks and recreation	<u>366,710</u>	<u>369,681</u>	<u>(2,971)</u>
Community and library building:			
Salaries		34,273	
Benefits		11,398	
Contracted Services		-	
Other Operating Expenses		45,220	
Capital Outlay		-	
Total community and library building	<u>94,660</u>	<u>90,891</u>	<u>3,769</u>
Total Culture and Recreation	<u>461,370</u>	<u>460,572</u>	<u>798</u>

Town of Erwin, North Carolina
General Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2015

	Budget	Actual	Variance Positive (Negative)
Total Expenditures	<u>3,301,965</u>	<u>3,283,518</u>	<u>18,447</u>
Revenues over (under) expenditures	<u>(558,566)</u>	<u>(565,927)</u>	<u>(7,361)</u>
Other Financing Sources (Uses):			
Transfers To/From Other Funds:			
To Other Funds	-	-	-
From Community Enhancement	<u>127,500</u>	<u>150,493</u>	<u>22,993</u>
Total Other Financing Sources(Uses)	<u>127,500</u>	<u>150,493</u>	<u>22,993</u>
Fund Balance Appropriated	<u>431,066</u>	-	<u>(431,066)</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>(415,434)</u>	<u>\$ (415,434)</u>
Fund Balances, beginning		<u>2,332,745</u>	
Fund Balances, ending		<u>\$ 1,917,311</u>	

Town of Erwin, North Carolina
Rail Trail Capital Project
Schedule of Revenues, Expenditures and
Changes in Fund Balance-Budget and Actual
From Inception and for the Fiscal Year Ended June 30, 2015

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Actual Current Year</u>	<u>Total to Date</u>	<u>Positive (Negative)</u>
Revenues:					
Restricted Intergovernmental					
Grant	\$ 84,200	\$ 21,431	\$ 28,857	\$ 50,288	\$ (33,912)
Donations	5,000	-	5,000	5,000	-
Interest	-	-	-	-	-
Total Revenue	<u>89,200</u>	<u>21,431</u>	<u>33,857</u>	<u>55,288</u>	<u>(33,912)</u>
Expenditures:					
Capital Outlay		26,431	33,857		
Total Expenditures	<u>89,200</u>	<u>26,431</u>	<u>33,857</u>	<u>60,288</u>	<u>28,912</u>
Revenues Over(Under)					
Expenditures	<u>-</u>	<u>(5,000)</u>	<u>-</u>	<u>(5,000)</u>	<u>(5,000)</u>
Other Financing Sources(Uses)					
Transfers - In (Out)					
From/(To) Enhancement	<u>-</u>	<u>5,000</u>	<u>-</u>	<u>5,000</u>	<u>5,000</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>5,000</u>	<u>-</u>	<u>5,000</u>	<u>5,000</u>
Revenues and Other Sources					
Over Other Uses	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>	<u>\$ -</u>
Fund Balance					
Fund Balances, beginning			<u>-</u>		
Fund Balances, ending			<u>\$ -</u>		

Town of Erwin, North Carolina
Capital Projects Fund - Textile Museum
Schedule of Revenues, Expenditures and
Changes in Fund Balance-Budget and Actual
From Inception and for the Fiscal Year Ended June 30, 2015

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Actual Current Year</u>	<u>Total to Date</u>	<u>Variance Positive (Negative)</u>
Revenues:					
Restricted Intergovernmental					
State Grant	\$ 420,000	\$ 520,000	\$ -	\$ 520,000	\$ 100,000
Interest	30,000	166,885	336	167,221	137,221
Other Revenues	30,000	-	-	-	(30,000)
Total Revenue	<u>480,000</u>	<u>686,885</u>	<u>336</u>	<u>687,221</u>	<u>207,221</u>
Expenditures:					
Recreational and Cultural					
Travel	2,000	185	-	185	1,815
Miscellaneous	3,000	4,008	663,961	667,969	(664,969)
Preliminary Plans and Studies	50,000	23,893	-	23,893	26,107
Capital Outlay	<u>700,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>700,000</u>
Total Expenditures	<u>755,000</u>	<u>28,086</u>	<u>663,961</u>	<u>692,047</u>	<u>62,953</u>
Revenues Over(Under)					
Expenditures	<u>(275,000)</u>	<u>658,799</u>	<u>(663,625)</u>	<u>(4,826)</u>	<u>270,174</u>
Other Financing Sources(Uses)					
Transfer in	-	25,000	-	25,000	25,000
Donations	<u>275,000</u>	<u>11,975</u>	<u>-</u>	<u>11,975</u>	<u>(263,025)</u>
Total Other Financing Sources (Uses)	<u>275,000</u>	<u>36,975</u>	<u>-</u>	<u>36,975</u>	<u>(238,025)</u>
Revenues and Other Sources Over Other Uses	<u>\$ -</u>	<u>\$ 695,774</u>	<u>(663,625)</u>	<u>\$ 32,149</u>	<u>\$ 32,149</u>
Fund Balance					
Fund Balances, beginning			<u>695,774</u>		
Fund Balances, ending			<u>\$ 32,149</u>		

Town of Erwin, North Carolina
Community Enhancement Fund
Schedule of Revenues, Expenditures and
Changes in Fund Balance-Budget and Actual
For the Fiscal Year Ended June 30, 2015

	<u>Budget</u>	<u>Current Year</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Sales and services:			
Land Lease	\$	\$ 22,226	\$ 22,226
Interest		8,144	8,144
Total Revenue	<u>-</u>	<u>30,370</u>	<u>30,370</u>
Revenues Over(Under)			
Expenditures	<u>-</u>	<u>30,370</u>	<u>30,370</u>
Other Financing Sources(Uses)			
Transfers - In (Out)			
To General Fund	(155,285)	(150,493)	4,792
To Porter Park	-	(81,342)	(81,342)
From Downtown Parking Lot	<u>-</u>	<u>19,312</u>	<u>19,312</u>
Total Other Financing Sources (Uses)	<u>(155,285)</u>	<u>(212,523)</u>	<u>(57,238)</u>
Fund Balance Appropriated	<u>155,285</u>	<u>-</u>	<u>(155,285)</u>
Revenues and Other Sources Over Other Uses	<u>\$ -</u>	(182,153)	<u>\$ (182,153)</u>
Fund Balance			
Fund Balances, beginning		<u>3,485,751</u>	
Fund Balances, ending		<u>\$ 3,303,598</u>	

Town of Erwin, North Carolina
Combining Balance Sheet
Nonmajor Governmental Fund
For the Fiscal Year Ended June 30, 2015

	Downtown Parking Lot Project	Porter Park Capital Project	Priebe Field Capital Project	Total Nonmajor Governmental Funds
Assets				
Cash and Cash Equivalents	\$ -	\$ -	\$ 4,478	\$ 4,478
Restricted Cash	-	-	-	-
Due From Other Governments	-	20,894	-	20,894
Due From Other Funds	-	-	-	-
Total Assets	\$ -	\$ 20,894	\$ 4,478	\$ 25,372
Liabilities and Fund Balances				
Liabilities:				
Accounts Payable	\$ -	\$ -	\$ -	\$ -
Due to Other Funds	-	-	-	-
Total Liabilities	-	-	-	-
Fund Balance:				
Restricted				
Stabilization by State Statute	-	20,894	-	20,894
Streets	-	-	-	-
Public Safety	-	-	-	-
Cultural and Recreation	-	-	-	-
Committed				
Economic Development	-	-	-	-
Cultural and Recreation	-	-	4,478	4,478
Assigned				
Subsequent Year Expenditures	-	-	-	-
Unassigned				
Total Fund Balances	-	20,894	4,478	25,372
Total Liabilities and Fund Balances	\$ -	\$ 20,894	\$ 4,478	\$ 25,372

Town of Erwin, North Carolina
**Combining Statement of Revenues, Expenditures and
Changes in Fund Balance**
Nonmajor Governmental Fund
For the Fiscal Year Ended June 30, 2015

	<u>Downtown Parking Lot Project</u>	<u>Porter Park Capital Project</u>	<u>Priebe Field Capital Project</u>	<u>Total Nonmajor Governmental Funds</u>
Revenues:				
Restricted Intergovernmental				
State Grants	\$ 75,000	\$ 71,179	\$ -	\$ 146,179
Sales and services:				
Fees	-	-	-	-
Miscellaneous Income	-	-	5,960	5,960
Interest on Investments	-	-	-	-
Total Revenue	<u>75,000</u>	<u>71,179</u>	<u>5,960</u>	<u>152,139</u>
Expenditures:				
General Government	142,087	-	-	142,087
Public Safety	-	-	-	-
Economic Development	-	-	-	-
Cultural and Recreational	-	202,806	4,541	207,347
Total Expenditures	<u>142,087</u>	<u>202,806</u>	<u>4,541</u>	<u>349,434</u>
Revenues Over(Under)				
Expenditures	<u>(67,087)</u>	<u>(131,627)</u>	<u>1,419</u>	<u>(197,295)</u>
Other Financing Sources(Uses)				
Transfers - In (Out)				
Transfers Out	(19,312)	-	-	(19,312)
Transfers In	-	81,342	-	81,342
Total Other Financing Sources (Uses)	<u>(19,312)</u>	<u>81,342</u>	<u>-</u>	<u>62,030</u>
Revenues and Other Sources				
Over Other Uses	(86,399)	(50,285)	1,419	(135,265)
Fund Balances, beginning	86,399	71,179	3,059	160,637
Fund Balances, ending	<u>\$ -</u>	<u>\$ 20,894</u>	<u>\$ 4,478</u>	<u>\$ 25,372</u>

Town of Erwin, North Carolina
Capital Projects Fund - Downtown Parking Lot Project
Schedule of Revenues, Expenditures and
Changes in Fund Balance-Budget and Actual
From Inception and for the Fiscal Year Ended June 30, 2015

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Actual Current Year</u>	<u>Total to Date</u>	<u>Variance Positive (Negative)</u>
Revenues:					
Restricted Intergovernmental					
RBEG	\$ 75,000	\$ -	\$ 75,000	\$ 75,000	\$ -
Interest	-	-	-	-	-
Total Revenue	<u>75,000</u>	<u>-</u>	<u>75,000</u>	<u>75,000</u>	<u>-</u>
Expenditures:					
Capital Outlay	182,836	11,901	142,087	153,988	28,848
Total Expenditures	<u>182,836</u>	<u>11,901</u>	<u>142,087</u>	<u>153,988</u>	<u>28,848</u>
Revenues Over(Under)					
Expenditures	<u>(107,836)</u>	<u>(11,901)</u>	<u>(67,087)</u>	<u>(78,988)</u>	<u>28,848</u>
Other Financing Sources(Uses)					
Transfer in - Enhancement Fd	107,836	98,300	(19,312)	78,988	(28,848)
Transfer in - General Fund	-	-	-	-	-
Transfer out	-	-	-	-	-
Total Other Financing Sources (Uses)	<u>107,836</u>	<u>98,300</u>	<u>(19,312)</u>	<u>78,988</u>	<u>(28,848)</u>
Revenues and Other Sources Over Other Uses	<u>\$ -</u>	<u>\$ 86,399</u>	(86,399)	<u>\$ -</u>	<u>\$ -</u>
Fund Balance					
Fund Balances, beginning			<u>86,399</u>		
Fund Balances, ending			<u>\$ -</u>		

Town of Erwin, North Carolina
Special Revenue Fund - Porter Park Capital Project
Schedule of Revenues, Expenditures and
Changes in Fund Balance-Budget and Actual
From Inception and for the Fiscal Year Ended June 30, 2015

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Actual Current Year</u>	<u>Total to Date</u>	<u>Positive (Negative)</u>
Revenues:					
Restricted Intergovernmental					
PARTF	\$ 123,635	\$ 52,456	\$ 71,179	\$ 123,635	\$ -
Total Revenue	<u>123,635</u>	<u>52,456</u>	<u>71,179</u>	<u>123,635</u>	<u>-</u>
Expenditures:					
Cultural and Recreational					
Capital Outlay	247,335	104,912	202,806	307,718	(60,383)
Total Expenditures	<u>247,335</u>	<u>104,912</u>	<u>202,806</u>	<u>307,718</u>	<u>(60,383)</u>
Revenues Over(Under)					
Expenditures	<u>(123,700)</u>	<u>(52,456)</u>	<u>(131,627)</u>	<u>(184,083)</u>	<u>(60,383)</u>
Other Financing Sources(Uses)					
Transfers - In (Out)					
From Enhancement	123,700	123,635	81,342	204,977	81,277
To General Fund	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>123,700</u>	<u>123,635</u>	<u>81,342</u>	<u>204,977</u>	<u>81,277</u>
Revenues and Other Sources Over Other Uses	<u>\$ -</u>	<u>\$ 71,179</u>	(50,285)	<u>\$ 20,894</u>	<u>\$ 20,894</u>
Fund Balance					
Fund Balances, beginning			<u>71,179</u>		
Fund Balances, ending			<u>\$ 20,894</u>		

Town of Erwin, North Carolina
Priebe Field Capital Project Fund
Schedule of Revenues, Expenditures and
Changes in Fund Balance-Budget and Actual
From Inception and for the Fiscal Year Ended June 30, 2015

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Actual Current Year</u>	<u>Total to Date</u>	<u>Positive (Negative)</u>
Revenues:					
Donation	\$	\$ 2,846	\$ 5,960	\$ 8,806	\$ 8,806
Sponsors		300	-	300	300
Interest		1	-	1	1
Total Revenue	<u>5,000</u>	<u>3,147</u>	<u>5,960</u>	<u>9,107</u>	<u>4,107</u>
Expenditures:					
Cultural and Recreation					
Operating Expenses		88	4,541	4,629	
Total Expenditures	<u>5,000</u>	<u>88</u>	<u>4,541</u>	<u>4,629</u>	<u>371</u>
Revenues Over(Under)					
Expenditures	<u>-</u>	<u>3,059</u>	<u>1,419</u>	<u>4,478</u>	<u>4,478</u>
Other Financing Sources(Uses)					
Transfers - In (Out)					
From/(To) General Fund			-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Revenues and Other Sources Over Other Uses	<u>\$ -</u>	<u>\$ 3,059</u>	1,419	<u>\$ 4,478</u>	<u>\$ 4,478</u>
Fund Balance					
Fund Balances, beginning			<u>3,059</u>		
Fund Balances, ending			<u>\$ 4,478</u>		

OTHER SCHEDULES

This section includes additional information on property taxes.

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

Town of Erwin, North Carolina
General Fund
Schedule of Ad Valorem Taxes Receivable
June 30, 2015

<u>Fiscal Year</u>	<u>Uncollected Balance July 1, 2014</u>	<u>Additions</u>	<u>Collections And Credits</u>	<u>Uncollected Balance June 30, 2015</u>
2014 - 2015	\$ -	\$ 1,392,027	\$ 1,375,435	\$ 16,592
2013 - 2014	28,279	507	16,769	12,017
2012 - 2013	18,717	1,174	16,042	3,849
2011 - 2012	19,719	1,215	1,560	19,374
2010 - 2011	7,824	-	769	7,055
2009 - 2010	5,153	-	782	4,371
2008 - 2009	3,551	-	125	3,426
2007 - 2008	3,579	-	277	3,302
2006 - 2007	3,595	-	118	3,477
2005 - 2006	2,951	-	154	2,797
2004 - 2005	4,439	-	4,439	-
	<u>\$ 97,807</u>	<u>\$ 1,394,923</u>	<u>\$ 1,416,470</u>	<u>\$ 76,260</u>
Less: Allowance for uncollectable accounts:				
				(30,250)
				1,576
				<u>\$ 47,586</u>
<u>Reconcilement with revenues:</u>				
				\$ 1,246,231
				177,460
				(12,218)
				4,997
				<u>(7,221)</u>
				<u>\$ 1,416,470</u>

Town of Erwin, North Carolina
Analysis of Current Tax Levy
Town - Wide Levy
For the Fiscal Year Ended June 30, 2015

	Town - Wide			Total Levy	
	Property Valuation	Rate	Total Levy	Property excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Property taxed at current year's rate	\$ 255,354,909	\$ 0.55	\$ 1,404,452	\$ 1,257,249	\$ 147,203
Penalties			1,298	1,298	-
Total	255,354,909		1,405,750	1,258,547	147,203
Abatements	2,495,091	0.55	13,723	13,723	-
Total property valuation	\$ 252,859,818				
Net levy			1,392,027	1,244,824	147,203
Uncollected taxes at June 30, 2015			16,592	16,592	-
Current year's taxes collected			\$ 1,375,435	\$ 1,228,232	\$ 147,203
Current levy collection percentage			98.79%	98.67%	100.00%

TOWN OF ERWIN

ERWIN, NORTH CAROLINA

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COMPLIANCE SECTION



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R. Bryon Scott, CPA
Gregory S. Adams, CPA
Alan W. Thompson, 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 Auditors' Report

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

We have audited, in accordance with the 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, each major fund and the aggregate remaining fund information of the Town of Erwin, North Carolina, as of and for the year ended June 30, 2015, and related notes to the financial statements, which collectively comprises the Town of Erwin's basic financial statements, and have issued our report thereon dated December 31, 2015.

Internal Control Over Financial Reporting

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

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

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies, 2015-001.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Erwin'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 did disclose instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 2015-002.

Town of Erwin's Responses to Findings

The Town's response to the findings identified in our audit is 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.

Thompson, Price, Scott, Adams & Co., PA

Elizabethtown, North Carolina

December 31, 2015

Town of Erwin, North Carolina
Schedule of Findings and Responses
For the Fiscal Year Ended June 30, 2015

Section I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant Deficiency(s) identified
that are not considered to be
material weaknesses? yes none reported

Noncompliance material to financial
statements noted. yes no

Town of Erwin, North Carolina
Schedule of Findings and Responses
For the Fiscal Year Ended June 30, 2015

Section II – Financial Statement Findings

SIGNIFICANT DEFICIENCIES

2015 – 001 Segregation of Duties

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

Condition: Due to the number of employees within the finance office there is a lack of segregation of duties among Town personnel through the financial system.

Effect: Transactions could be mishandled.

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

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

Views of responsible officials and planned corrective actions: Management is aware of the deficiency, but the cost-benefit analysis indicates that hiring more personnel to mitigate the issue is not feasible. Management will request board members' continued involvement by providing additional oversight.

MATERIAL NONCOMPLIANCE

2015 – 002 Budget Violation G.S. 159-8(a).

Criteria: G.S. 159-8(a) states that all moneys received and expended by a local government or public authority should be included in the budget ordinance.

Condition: For the fiscal year ended June 30, 2015, expenditures made in the Town's General Fund exceeded the authorized appropriations made by the governing board for general government by \$7,994, streets by \$4,281 and the Porter Park Capital Project ordinance by \$60,383.

Effect: Moneys were expended that had not been appropriated.

Cause: The over-expenditures in all areas are to budget amendments not being made timely. Management is aware of the need to monitor each department's performance to the budget and timely amend the budget.

Recommendation: Budget amendments should be adopted when revenues are received that exceed estimated revenues in the budget ordinance prior to expending the funds.

Views of responsible officials and planned corrective actions: The Town agrees with this finding. Budget amendments will be adopted prior to making expenditures that exceed budgeted amounts.

Town of Erwin, North Carolina
Corrective Action Plan
For the Fiscal Year Ended June 30, 2015

Section II – Financial Statement Findings

SIGNIFICANT DEFICIENCIES

2015 – 001 Segregation of Duties

Name of contact person: Patsy M. Carson, Mayor

Corrective Action: The duties will be separated as much as possible and alternative controls will be used to compensate for lack of separation. The governing board will become more involved in providing some of these controls.

Proposed Completion Date: The Board will implement the above procedure immediately.

MATERIAL NONCOMPLIANCE

2015 – 002 Budget Violation G.S. 159-8(a).

Name of contact person: Patsy M. Carson, Mayor

Corrective Action: The finance officer will create the budget amendments for any changes needed during the year and will present for approval at each monthly board meeting. Budget amendments will be made as will be necessary.

Proposed Completion Date: The Board will implement the above procedure immediately.

TOWN OF ERWIN

ERWIN, NORTH CAROLINA

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