

Town of Biscoe, North Carolina

Financial Statements

Year Ended June 30, 2016

Town of Biscoe, North Carolina

List of Principal Officials

June 30, 2016

Elected Officials

James E. Blake, Mayor
Jerry Smith, Mayor Pro-Tem
John Beard, Commissioner
Eugene Anderson, Commissioner
Jimmy Cagle, Commissioner
W. Eddie Reynolds, Commissioner

Appointed Officials

Brandon Holland, Town Manager
Laura Morton, Town Clerk
Laura Jordan, Deputy Clerk
Sam Stewart, Public Works Director
Brent Tedder, Police Chief
Tripp Myrick, Fire Chief

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Town of Biscoe, North Carolina

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Independent Auditors' Report

To the Honorable Mayor and
Town Commissioners
Biscoe, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Biscoe, North Carolina ("Town") as of and for the year ended June 30, 2016, 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 the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town as of June 30, 2016, and the respective changes in financial position and cash flows, where appropriate, thereof and the respective budgetary



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

Emphasis-of-Matter

Change in Accounting Principle

As discussed in Note 7 to the financial statements, beginning balances as of June 30, 2015 were restated due to the implementation of Governmental Accounting Standards Board (GASB) Statement 73, "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68," related to the financial reporting for assets accumulated for purposes of providing Law Enforcement Officers' Special Separation Allowance benefits. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 13, the Law Enforcement Officers' Special Separation Allowance Schedule of Funding Progress, on page 42, respectively, and the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Liability and Contributions on pages 43 and 44, respectively, be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to 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. The individual fund schedules and supplementary financial data as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2016 on our consideration of the Town's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters.



The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

Dixon Hughes Goodman LLP

**High Point, North Carolina
November 21, 2016**



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Management's Discussion and Analysis

As management of the Town of Biscoe (the "Town") we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2016. 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.

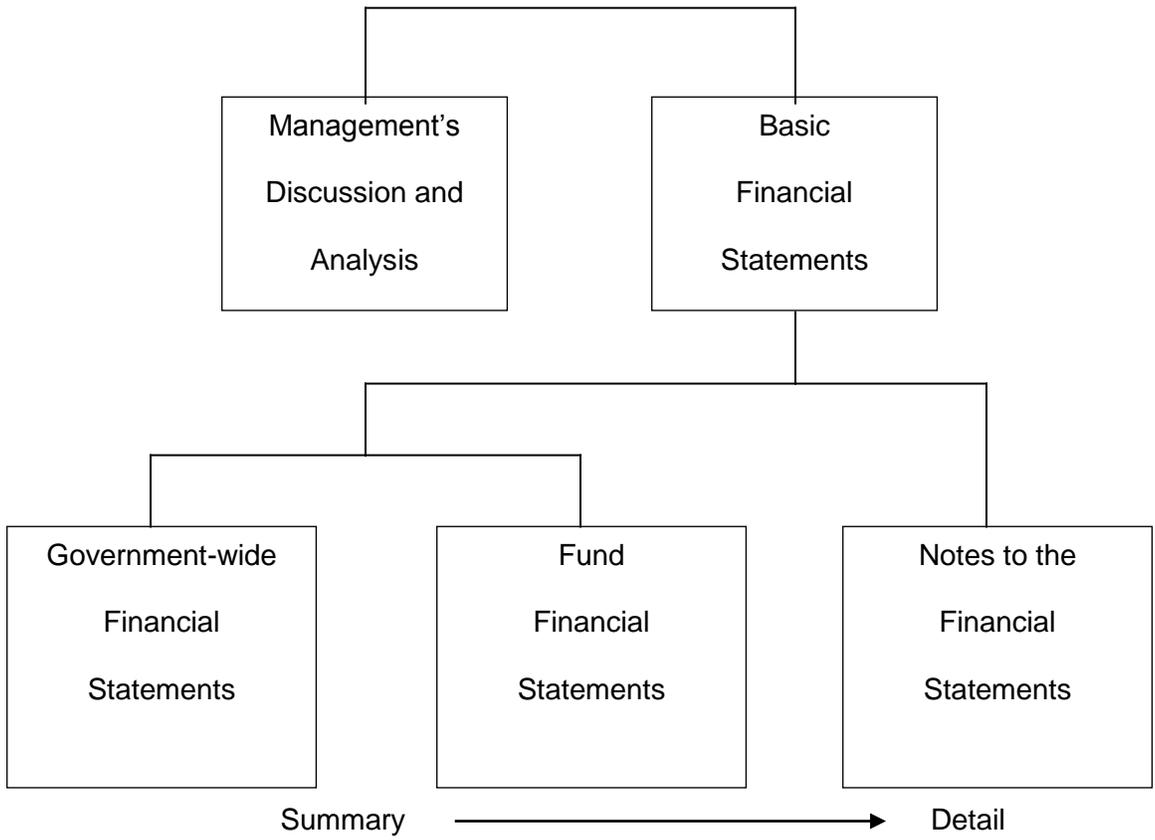
Financial Highlights

- The assets and deferred outflows of resources of the Town exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$9,400,792. Net position for governmental activities was \$3,715,947 and net position of business-type activities was \$5,684,845.
- Governmental activities reported a decrease in total net position of \$27,881. Not included in this decrease was a restatement of beginning net position in the amount of \$40,602 for the implementation of GASB Statement. No. 73. Business-type activities incurred a loss in the current year of \$32,711.
- As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$2,275,388 an increase of \$138,647 in comparison with the prior year. Approximately 45 percent of this total amount, or \$1,029,977 is available for spending at the government's discretion (*unassigned fund balance*). The Town maintains more than a minimum of 20% of budgeted expenditures in available fund balance for cash flow and emergencies. In addition the town maintains a capital reserve fund with money dedicated to large capital expenditures.

Overview of the Financial Statements

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

**Required Components of Annual Financial Report
Figure 1**



Town of Biscoe, North Carolina Management's Discussion and Analysis

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

The next section of the basic financial statements is the **notes**. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes and required supplemental financial data, **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'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 are the statement of net position and the statement of activities. Net position is the difference between the total of the Town's assets and deferred outflows of resources and the total of liabilities and deferred inflows of resources. Measuring net position is one way to gauge the Town's financial condition. Over time, increases or decreases in net position help determine whether the Town's financial position is improving or deteriorating. The statement of activities presents information which show how the Town's net position changed during the most recent fiscal year.

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

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

Fund Financial Statements

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

Town of Biscoe, North Carolina Management's Discussion and Analysis

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

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

Proprietary Funds – The Town has one enterprise fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town uses an enterprise fund to account for its water and sewer activity. This fund is the same as the function shown in the business-type activities in the Statement of Net Position and the Statement of Activities.

Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The Town does not maintain a fiduciary fund.

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 24 of this report.

Other Information – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the Town's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 42 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. It is also subject to changes in investment earnings.

**Town of Biscoe, North Carolina
Management's Discussion and Analysis**

Net Position

The following (Figure 2) reflects condensed information on the Town's net position.

**Statement of Net Position
Figure 2**

	Governmental Activities		Business-Type Activities		Total	
	2016	2015 (Restated)	2016	2015 (Restated)	2016	2015 (Restated)
Current and other assets	\$ 2,457,966	\$ 2,370,594	\$ 1,174,055	\$ 1,329,046	\$ 3,632,021	\$ 3,699,640
Capital assets	1,369,111	1,554,588	6,219,354	5,352,085	7,588,465	6,906,673
Deferred outflows of resources	25,133	34,926	14,986	12,449	40,119	47,375
Total assets and deferred outflows of resources	<u>3,852,210</u>	<u>3,960,108</u>	<u>7,408,395</u>	<u>6,693,580</u>	<u>11,260,605</u>	<u>10,653,688</u>
Current liabilities	72,400	70,488	187,971	268,801	260,371	339,289
Long-term liabilities	34,920	-	1,518,321	655,257	1,553,241	655,257
Deferred inflows of resources	28,943	145,792	17,258	51,966	46,201	197,758
Total liabilities and deferred inflows of resources	<u>136,263</u>	<u>216,280</u>	<u>1,723,550</u>	<u>976,024</u>	<u>1,859,813</u>	<u>1,192,304</u>
Net Position:						
Net investment in capital assets	1,369,111	1,554,588	4,598,166	4,696,828	5,967,277	6,251,416
Restricted	242,355	246,636	-	-	242,355	246,636
Unrestricted	2,104,481	1,942,604	1,086,679	1,020,728	3,191,160	2,963,332
Total net position	<u>\$ 3,715,947</u>	<u>\$ 3,743,828</u>	<u>\$ 5,684,845</u>	<u>\$ 5,717,556</u>	<u>\$ 9,400,792</u>	<u>\$ 9,461,384</u>

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets and deferred outflows of resources of the Town exceeded liabilities and deferred inflows of resources by \$9,400,792 as of June 30, 2016. The Town's net position decreased by \$60,592 for the fiscal year ended June 30, 2016. The largest portion (63%) reflects the Town's net investment in capital assets (e.g. land, buildings, machinery, and equipment). The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be liquidated to satisfy these liabilities. An additional portion of the Town's net position, \$242,355, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$3,191,160 (34%) is unrestricted.

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

- Governmental activities saw a decrease in revenues; we can attribute this change to a significant reduction in providing general government services and the receipt of capital grants for ongoing projects.
- Our business-type activities reflected a slight decrease overall for the first time in several years. While overall revenues were down, our charges for services increased. We anticipate growth in charges for services will occur next year due to the expansion of industrial users in Town intending to increase production.
- As of July 1, 2015 the Town was well underway with a large investment at our Wastewater Treatment Plant. This project was financed with \$582,800 in capital grants and contributions and a loan from the State totaling \$1,518,321 at year end. This project was completed during the 2015-2016 fiscal year.

**Town of Biscoe, North Carolina
Management's Discussion and Analysis**

Changes in Net Position

The Town's total revenues and expenses for governmental and business-type activities are reflected in Figure 3.

**Changes in Net Position
Figure 3**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2016</u>	<u>2015 (Restated)</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015 (Restated)</u>
Revenues:						
Program revenues:						
Charges for services	\$ 55,333	\$ 50,649	\$ 1,114,438	\$ 980,802	\$ 1,169,771	\$ 1,031,451
Operating grants and contributions	77,687	81,790	-	-	77,687	81,790
Capital grants and contributions	25,251	778,278	50,000	532,800	75,251	1,311,078
General revenues:						
Property taxes	726,949	635,532	-	-	726,949	635,532
Local option sales tax	337,136	318,977	-	-	337,136	318,977
Unrestricted						
Intergovernmental	268,590	273,682	-	-	268,590	273,682
Other	59,843	316,044	37,041	16,279	96,884	332,323
Total revenues	<u>1,550,789</u>	<u>2,454,952</u>	<u>1,201,479</u>	<u>1,529,881</u>	<u>2,752,268</u>	<u>3,984,833</u>
Expenses:						
General government	483,615	411,756	-	-	483,615	411,756
Public safety	743,150	799,983	-	-	743,150	799,983
Cultural and recreation	121,230	122,864	-	-	121,230	122,864
Transportation	230,675	243,926	-	-	230,675	243,926
Economic and physical development	-	750,000	-	-	-	750,000
Water and sewer	-	-	1,234,190	1,096,228	1,234,190	1,096,228
Total expenses	<u>1,578,670</u>	<u>2,328,529</u>	<u>1,234,190</u>	<u>1,096,228</u>	<u>2,812,860</u>	<u>3,424,757</u>
Increase (decrease) in net position	<u>(27,881)</u>	<u>126,423</u>	<u>(32,711)</u>	<u>433,653</u>	<u>(60,592)</u>	<u>560,076</u>
Net position, beginning, as previously reported	3,743,828	3,578,974	5,717,556	5,283,903	9,461,384	8,862,877
Restatement	-	38,431	-	-	-	38,431
Net position, beginning, as restated	<u>3,743,828</u>	<u>3,617,405</u>	<u>5,717,556</u>	<u>5,283,903</u>	<u>9,461,384</u>	<u>8,901,308</u>
Net position, ending	<u>\$ 3,715,947</u>	<u>\$ 3,743,828</u>	<u>\$ 5,684,845</u>	<u>\$ 5,717,556</u>	<u>\$ 9,400,792</u>	<u>\$ 9,461,384</u>

Governmental activities – Governmental activities decreased the Town's net position by \$27,881. Key elements of this decrease are as follows:

- As previously noted the cost of governmental activities was slightly more than revenues. We have seen growth in intergovernmental revenues (primarily sales tax), indicating a healthier state economy.
- The most significant changes were in capital grant and contributions – receiving \$778,278 in 2015 and \$25,251 in 2016. While property tax revenues saw an increase of \$91,417 from the previous year.
- In comparison to the previous year, operating expenses declined \$749,859, mainly due to a one-time expense in 2015 for pass through CDBG funds for a building reuse project in the amount of \$750,000.

Town of Biscoe, North Carolina Management's Discussion and Analysis

Business-type activities: Business-type activities decreased the Town's net position by \$32,711. Key elements of this decrease are as follows:

- Our business-type activities reflected a slight increase in water and sewer charges due to additional commercial users in the Town. However, capital grants and contributions decreased \$482,800 from the prior year as the bulk of the Wastewater Treatment Plant project was completed in 2015.
- The industrial pump station project and associated costs made and impact. However future revenues are expected to cover debt cost in future years.
- Further growth in business-type activities has been centered on investment in infrastructure.
- This fiscal year saw another round of tightening our billing practices for our water and sewer department. Implementation of formal fee schedule that includes tampering and reconnect fees.

Financial Analysis of the Town's Funds

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

Governmental Funds: The focus of the Town'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's financing requirements. Specifically, unrestricted fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the Town. At the end of the current fiscal year, the Town's fund balance available in the General Fund was \$1,088,536, while total fund balance reached \$2,333,947.

At June 30, 2016, the Town's governmental funds reported combined ending fund balances of \$2,275,388 with a net increase of \$138,647.

General Fund Budgetary Highlights: During the fiscal year, the Town Commissioners 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.

After the municipal election the Board of Commissioners stayed the same. The Town began hosting a one stop voting location in May 2016. Engineering services were switched from WK Dickson Engineering to LKC Engineering. K-9 officer Bruno retired. Another major amendment was in response to Wright Foods Company being sold and satisfying their debts to the Town. The transaction resulted in Wrights Food fully paying all past due utility bills and the repayment of a loan from the Town that was related to a prior agreement that the Town would install a pump and be reimbursed.

Fortunately the Town has experienced growth within the Town Property Taxes and Motor Fuels Taxes and Interest. Tax Revenues has increased in Sales Tax, and Sales Tax Refunds. Court Fees and Cemetery Revenues are also higher than the prior year along with Park Fees and Concessions. Additional increases have been seen in Investment Income, and Investment Earnings. These areas of growth are expected to remain constant

The Town Administration began operating a newly designed website. The Board of Commissioners adopted a Records Retention and Disposal Schedule/Policy with standards and regulations set by the North Carolina Division of Cultural Resources. Unfortunately, long-time business Miller's Hardware closed. Anytime Car Wash

Town of Biscoe, North Carolina Management's Discussion and Analysis

was annexed into Town Limits. The Board of Commissioners also approved a new SCADA System for the Waste Water Treatment Plant in May of 2016.

Proprietary Funds: The Town's proprietary fund provides the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the Water and Sewer Fund at the end of the fiscal year amounted to \$1,086,679 reflecting a \$65,951 increase from the prior year. Net investment in capital assets was \$4,598,166, a decrease of \$98,662.

Capital Asset and Debt Administration

Capital assets: The Town's investment in capital assets for its governmental and business-type activities as of June 30, 2016, totals \$7,709,250 reflecting a \$802,577 increase (*net of accumulated depreciation*). These assets include buildings, land, machinery and equipment, water distribution system, and vehicles.

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

Governmental Funds:

Additions

- Hydro waterway seal for \$3,531
- Improvements to buildings and roads for \$35,778

Retirements and Dispositions

- Vehicles totaling \$29,936

Proprietary Funds:

Additions

- Industrial park pump lift station for \$277,009
- Completion of the wastewater treatment plant for \$718,974
- Various pumps and equipment for \$82,645

Retirements

- Disposed of several old water pumps and meters as a result of the upgrades and repairs

**Town of Biscoe, North Carolina
Management's Discussion and Analysis**

**Capital Assets (net)
Figure 4**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Land	\$ 358,715	\$ 358,715	\$ 14,900	\$ 14,900	\$ 373,615	\$ 373,615
Construction in progress	-	-	277,009	1,140,355	277,009	1,140,355
Buildings and improvements	389,361	401,903	-	-	389,361	401,903
Equipment, vehicles & infrastructure	621,035	793,970	282,313	254,867	903,348	1,048,837
Water distribution Systems	-	-	<u>5,645,132</u>	<u>3,941,963</u>	<u>5,645,132</u>	<u>3,941,963</u>
Total Capital Assets (net of accumulated depreciation)	<u>\$ 1,369,111</u>	<u>\$ 1,554,588</u>	<u>\$ 6,219,354</u>	<u>\$ 5,352,085</u>	<u>\$ 7,588,465</u>	<u>\$ 6,906,673</u>

Additional information on the Town's capital assets can be found in Note 3 of the Basic Financial Statements.

Long-term Debt. As shown in Note 3, the Town has notes payable related to two enterprise capital projects totaling \$1,621,188. These notes are backed by the full faith and credit of the Town. The principal and interest on these notes are being serviced by the Water and Sewer Fund.

Economic Factors and Next Year's Budget and Rates

The following key indicators reflect the economic environment of the Town.

- The Montgomery County unemployment rate reported by the Division of Employment Security was 12.5% in June 2011, 10.2% in June 2012, 10.2% in June 2013, 6.8% in June 2014, 6.2% in June 2015 and 5.3% in October 2016. This improvement has been noted locally as employers have created new jobs. Montgomery County is barely above the State average (5.2%) unemployment rate. The Town of Biscoe believes these statistics indicate a continued local recovery of the recent recession.
- The solar farm is nearly completed with construction.
- 48 unit apartment complex located in the Town limits, maintains approximately 80% occupied.
- Montgomery County Economic Development hired a new Head of Marketing to oversee Chamber and promotional activities.
- The *Heart of NC Megapark* has seen interest from a few industries but has not seen any announcements of investment by the end of the fiscal year. In addition to being a priority of the County Commissioners for economic development.

Next Year's Budget Highlights for the Fiscal Year Ending June 30, 2017

Governmental Activities: The Town is providing its workers with Cost of Living Adjustment of 2%. The most significant impact to the Town is the loss of taxable value due to Grede Foundry having their industry code reclassified to recycling. Expenditures have been adjusted and capital purchases have been limited to reflect anticipated revenues. New light poles have been approved for the Park and a Gator has been approved for recreation/public works use.

Town of Biscoe, North Carolina Management's Discussion and Analysis

In an effort to decrease fund balance spending there are minor changes in governmental activities proposed for Fiscal Year 2016-2017. The Police Department will replace 4 radars at \$9,400 due to (4) current radars no longer on the State approved list as of June 2017. The Police Department Budget will not include the Transfer to the LEO Separation Fund of \$25,000 as it has in previous years. The funds will be transferred from the CD that has a current balance of \$139,247. This transfer is normally slightly less than \$20,000. The Fire Department will purchase a generator at \$10,000 for emergency usage. The Streets Department budget continues to fund Christmas Light replacement at \$16,000. Resurfacing and paving has been budgeted for \$40,000 in effort to make necessary road repairs and patching. The most critical need at the Park will be addressed in the FY 16-17 budget by replacing the lights poles. The poles have outlived their expected usefulness and are starting to get holes in them from birds. \$25,000 has been budgeted to complete this project, the fencing replaced at the backstop.

Business-Type Activities: The Town will experience new debt payments totaling \$140,560, for the SRF Loan payments and the First Bank loan for the Industrial Park Lift Station, therefore capital spending has been limited. \$40,000 is set aside for slip lining portions of the sewer system to help decrease infiltration in high priority areas. Staff plans to continue working with engineering to create an improvement plan and schedule for future spending, in addition to pursuing grant opportunities to help with funding.

Requests for Information

This report is designed to provide an overview of the Town's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Town Clerk or Town Manager.

Town of Biscoe, North Carolina
Statement of Net Position
June 30, 2016

Exhibit 1

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Assets			
Current assets:			
Cash and investments	\$ 2,136,097	\$ 999,445	\$ 3,135,542
Restricted cash	22,578	2,319	24,897
Receivables, net			
Property taxes	17,746	-	17,746
Due from other governments	160,452	-	160,452
Accounts receivable	160	142,333	142,493
Accrued interest receivable	148	-	148
Inventories	-	29,958	29,958
Total current assets	<u>2,337,181</u>	<u>1,174,055</u>	<u>3,511,236</u>
Noncurrent assets:			
LEO separation allowance	120,785	-	120,785
Capital assets:			
Land and other non-depreciable assets	358,715	291,909	650,624
Other capital assets, net of depreciation	1,010,396	5,927,445	6,937,841
Total capital assets	<u>1,369,111</u>	<u>6,219,354</u>	<u>7,588,465</u>
Total noncurrent assets	<u>1,489,896</u>	<u>6,219,354</u>	<u>7,709,250</u>
Total assets	<u>3,827,077</u>	<u>7,393,409</u>	<u>11,220,486</u>
Deferred outflows of resources			
Contributions to pension plan in current fiscal year	<u>25,133</u>	<u>14,986</u>	<u>40,119</u>
Liabilities			
Current liabilities:			
Accounts payable and accrued expenses	44,047	32,649	76,696
Compensated absences	28,353	29,315	57,668
Payable from restricted assets - customer deposits	-	2,319	2,319
Current portion of notes payable	-	123,688	123,688
Total current liabilities	<u>72,400</u>	<u>187,971</u>	<u>260,371</u>
Noncurrent liabilities			
Net pension liability	34,920	20,821	55,741
Notes payable, noncurrent portion	-	1,497,500	1,497,500
Total noncurrent liabilities	<u>34,920</u>	<u>1,518,321</u>	<u>1,553,241</u>
Total liabilities	<u>107,320</u>	<u>1,706,292</u>	<u>1,813,612</u>
Deferred inflows of resources			
Pension deferrals	<u>28,943</u>	<u>17,258</u>	<u>46,201</u>
Net position			
Net investment in capital assets	1,369,111	4,598,166	5,967,277
Restricted for:			
Equitable sharing	458	-	458
Stabilization by State Statute	219,319	-	219,319
Streets	22,578	-	22,578
Unrestricted	<u>2,104,481</u>	<u>1,086,679</u>	<u>3,191,160</u>
Total net position	<u>\$ 3,715,947</u>	<u>\$ 5,684,845</u>	<u>\$ 9,400,792</u>

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

Town of Biscoe, North Carolina
Statement of Activities
For the Year Ended June 30, 2016

Exhibit 2

Function/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
Primary government:							
Government activities:							
General government	\$ 483,615	\$ 5,607	\$ -	\$ -	\$ (478,008)	\$ -	\$ (478,008)
Public safety	743,150	-	23,984	25,251	(693,915)	-	(693,915)
Transportation	230,675	-	53,703	-	(176,972)	-	(176,972)
Cultural and recreational	121,230	49,726	-	-	(71,504)	-	(71,504)
Total governmental activities	<u>1,578,670</u>	<u>55,333</u>	<u>77,687</u>	<u>25,251</u>	<u>(1,420,399)</u>	<u>-</u>	<u>(1,420,399)</u>
Business-type activities:							
Water and Sewer	1,234,190	1,114,438	-	50,000	-	(69,752)	(69,752)
Total business-type activities	<u>1,234,190</u>	<u>1,114,438</u>	<u>-</u>	<u>50,000</u>	<u>-</u>	<u>(69,752)</u>	<u>(69,752)</u>
Total primary government	<u>\$ 2,812,860</u>	<u>\$ 1,169,771</u>	<u>\$ 77,687</u>	<u>\$ 75,251</u>	<u>(1,420,399)</u>	<u>(69,752)</u>	<u>(1,490,151)</u>
General revenues:							
Ad valorem taxes					726,949	-	726,949
Local option taxes					337,136	-	337,136
Unrestricted intergovernmental					268,590	-	268,590
Investment earnings					2,376	-	2,376
Miscellaneous					57,467	37,041	94,508
Total general revenues					<u>1,392,518</u>	<u>37,041</u>	<u>1,429,559</u>
Change in net position					<u>(27,881)</u>	<u>(32,711)</u>	<u>(60,592)</u>
Net position, beginning, as previously reported					3,703,226	5,717,556	9,420,782
Restatement					40,602	-	40,602
Net position, beginning, as restated					<u>3,743,828</u>	<u>5,717,556</u>	<u>9,461,384</u>
Net position, end of year					<u>\$ 3,715,947</u>	<u>\$ 5,684,845</u>	<u>\$ 9,400,792</u>

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

	<u>Major Funds</u>		<u>Total Governmental Funds</u>
	<u>General Fund</u>	<u>OSFM Grants Fund</u>	
Assets			
Cash and investments	\$ 2,136,097	\$ -	\$ 2,136,097
Restricted cash	22,578	-	22,578
Receivables, net			
Property taxes	17,746	-	17,746
Due from other governments	160,452	-	160,452
Accounts receivable	160	-	160
Accrued interest receivable	148	-	148
Due from other funds	58,559	-	58,559
	<u>58,559</u>	<u>-</u>	<u>58,559</u>
Total assets	<u>\$ 2,395,740</u>	<u>\$ -</u>	<u>\$ 2,395,740</u>
Liabilities			
Accounts payable and accrued liabilities	\$ 44,047	\$ -	\$ 44,047
Due to other funds	-	58,559	58,559
	<u>44,047</u>	<u>58,559</u>	<u>102,606</u>
Total liabilities	<u>44,047</u>	<u>58,559</u>	<u>102,606</u>
Deferred inflows of resources			
Property tax receivable	17,746	-	17,746
	<u>17,746</u>	<u>-</u>	<u>17,746</u>
Fund balances (deficit)			
Restricted			
Equitable sharing	458	-	458
Stabilization by State Statute	219,319	-	219,319
Streets	22,578	-	22,578
Committed			
LEO Special Separation Allowance	141,060	-	141,060
Assigned			
Subsequent year's expenditures	67,868	-	67,868
Capital reserve fund	794,128	-	794,128
Unassigned	1,088,536	(58,559)	1,029,977
	<u>1,088,536</u>	<u>(58,559)</u>	<u>1,029,977</u>
Total fund balances (deficit)	<u>2,333,947</u>	<u>(58,559)</u>	<u>2,275,388</u>
Total liabilities, deferred inflows of resources and fund balances (deficit)	<u>\$ 2,395,740</u>	<u>\$ -</u>	<u>\$ 2,395,740</u>

Town of Biscoe, North Carolina
Balance Sheet - Governmental Funds
June 30, 2016

Exhibit 3
Page 2 of 2

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

Total fund balances, governmental funds		\$	2,275,388
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds			
Gross capital assets at historical cost	\$	4,650,626	
Accumulated depreciation		<u>(3,281,515)</u>	1,369,111
Contributions to the pension plan in the current fiscal year are deferred outflows of resources on the Statement of Net Position			25,133
Liabilities for earned revenues considered deferred inflows of resources in fund statements			17,746
Liabilities that, because they are not due and payable in the current period, do not require current resources to pay and are therefore not recorded in the fund financial statements:			
Compensated absences			(28,353)
Net pension liability			(34,920)
LEO Separation Allowance (net pension asset)			120,785
Pension related deferrals			<u>(28,943)</u>
Net position of governmental activities		\$	<u><u>3,715,947</u></u>

Town of Biscoe, North Carolina
Statement of Revenues, Expenditures, and Changes in
Fund Balance (Deficit) - Governmental Funds
For the Year Ended June 30, 2016

Exhibit 4
Page 1 of 2

	Major Funds		Total Governmental Funds
	General Fund	OSFM Grants Fund	
Revenues			
Ad valorem taxes	\$ 731,362	\$ -	\$ 731,362
Unrestricted intergovernmental	605,726	-	605,726
Restricted intergovernmental	77,687	25,251	102,938
Permits and fees	5,607	-	5,607
Sales and services	49,726	-	49,726
Investment earnings	2,376	-	2,376
Miscellaneous	57,040	-	57,040
Total revenues	1,529,524	25,251	1,554,775
Expenditures			
General government	474,414	-	474,414
Public safety	591,617	28,072	619,689
Transportation	198,964	-	198,964
Cultural and recreational	125,363	-	125,363
Total expenditures	1,390,358	28,072	1,418,430
Revenues over (under) expenditures	139,166	(2,821)	136,345
Other financing sources			
Sale of capital assets	2,302	-	2,302
Net change in fund balance	141,468	(2,821)	138,647
Fund balance (deficit), beginning of year, as previously reported	2,151,877	(55,738)	2,096,139
Restatement	40,602	-	40,602
Fund balance (deficit), beginning of year, as restated	2,192,479	(55,738)	2,136,741
Fund balance (deficit), end of year	\$ 2,333,947	\$ (58,559)	\$ 2,275,388

Town of Biscoe, North Carolina
Statement of Revenues, Expenditures, and Changes in
Fund Balance (Deficit) - Governmental Funds
For the Year Ended June 30, 2016

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

Net changes in fund balance - total governmental funds		\$ 138,647
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the costs of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period</p>		
Capital outlay	\$ 64,347	
Depreciation	<u>(247,949)</u>	(183,602)
Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities		25,133
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds</p>		
Change in unavailable revenue for tax revenues		(4,413)
Proceeds from sale of capital assets		(2,302)
Gain on disposal of capital assets		427
<p>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</p>		
LEO Separation Allowance (net pension asset)		10,841
Pension expense		(9,996)
Compensated absences		<u>(2,616)</u>
Total changes in net position of governmental activities		<u>\$ (27,881)</u>

Town of Biscoe, North Carolina
Statement of Revenues, Expenditures and Changes in
Fund Balance - Budget and Actual
General Fund and Annually Budgeted Capital Reserve Fund
For the Year Ended June 30, 2016

Exhibit 5

	Budget		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
Ad valorem taxes	\$ 669,820	\$ 669,820	\$ 731,362	\$ 61,542
Unrestricted intergovernmental	552,681	552,031	605,726	53,695
Restricted intergovernmental	55,292	55,292	77,687	22,395
Permits and fees	3,500	3,500	5,607	2,107
Sales and services	33,500	32,650	49,726	17,076
Investment earnings	1,250	1,300	2,236	936
Miscellaneous	1,000	2,500	57,040	54,540
Total revenues	<u>1,317,043</u>	<u>1,317,093</u>	<u>1,529,384</u>	<u>212,291</u>
Expenditures				
General government	436,179	511,537	474,414	37,123
Public safety	606,590	642,040	591,617	50,423
Transportation	290,542	305,942	198,964	106,978
Cultural and recreational	151,043	158,693	125,363	33,330
Total expenditures	<u>1,484,354</u>	<u>1,618,212</u>	<u>1,390,358</u>	<u>227,854</u>
Revenues over (under) expenditures	<u>(167,311)</u>	<u>(301,119)</u>	<u>139,026</u>	<u>440,145</u>
Other financing sources				
Transfer from other funds	50,000	50,000	-	(50,000)
Sale of capital assets	-	-	2,302	2,302
Total other financing sources	<u>50,000</u>	<u>50,000</u>	<u>2,302</u>	<u>(47,698)</u>
Revenues over (under) expenditures other financing sources	<u>(117,311)</u>	<u>(251,119)</u>	<u>141,328</u>	<u>392,447</u>
Fund balance appropriated	<u>117,311</u>	<u>251,119</u>	<u>-</u>	<u>(251,119)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>141,328</u>	<u>\$ 141,328</u>
Fund balance, beginning of year, as previously reported			1,357,889	
Restatement			<u>40,602</u>	
Fund balance, beginning of year, as restated			<u>1,398,491</u>	
Fund balance, end of year			1,539,819	
A legally budgeted Capital Reserve Fund is consolidated into the General Fund for reporting purposes:				
Investment earnings			140	
Fund balance, beginning of year			<u>793,988</u>	
Fund balances, ending (Exhibit 4)			<u>\$ 2,333,947</u>	

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

Town of Biscoe, North Carolina
Statement of Net Position - Proprietary Fund
June 30, 2016

Exhibit 6

ASSETS

Current assets:

Cash and investments	\$ 999,445
Restricted cash	2,319
Accounts receivable, net	142,333
Inventories	29,958
Total current assets	<u>1,174,055</u>

Noncurrent assets:

Capital assets:

Land and other non-depreciable assets	291,909
Other capital assets, net of depreciation	<u>5,927,445</u>
Total capital assets, net	<u>6,219,354</u>

Total assets	<u>7,393,409</u>
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Deferred outflows of resources:

Contributions to pension plan	<u>14,986</u>
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LIABILITIES

Current liabilities:

Accounts payable and accrued liabilities	32,649
Compensated absences	29,315
Payable from restricted assets - customer deposits	2,319
Current portion of notes payable	<u>123,688</u>
Total current liabilities	<u>187,971</u>

Noncurrent liabilities:

Net pension liability	20,821
Notes payable, noncurrent portion	<u>1,497,500</u>
Total noncurrent liabilities	<u>1,518,321</u>

Total liabilities	<u>1,706,292</u>
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Deferred inflows of resources:

Pension deferrals	<u>17,258</u>
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Net position

Net investment in capital assets	4,598,166
Unrestricted	<u>1,086,679</u>

Total net position	<u>\$ 5,684,845</u>
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Town of Biscoe, North Carolina
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Fund
For the Year Ended June 30, 2016

Exhibit 7

Operating revenues:	
Charges for services	\$ 1,093,929
Water and sewer taps and connection fees	8,019
Other	<u>12,490</u>
Total operating revenues	<u>1,114,438</u>
Operating expenses:	
Salaries and employee benefits	329,623
Other operating expenditures	323,516
Water purchases for resale	324,057
Depreciation	<u>225,072</u>
Total operating expenses	<u>1,202,268</u>
Loss from operations	<u>(87,830)</u>
Nonoperating revenues (expenses):	
Other nonoperating revenues	37,041
Interest and other charges	<u>(31,922)</u>
Nonoperating revenues (expenses):	<u>5,119</u>
Loss before capital contributions	(82,711)
Capital contributions	<u>50,000</u>
Change in net position	(32,711)
Net position, beginning of year	<u>5,717,556</u>
Net position, end of year	<u><u>\$ 5,684,845</u></u>

Town of Biscoe, North Carolina
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2016

Exhibit 8

Cash flows from operating activities:	
Cash received from customers	\$ 1,141,215
Cash paid for goods and services	(861,226)
Cash paid to employees for services	(309,668)
Customer deposits received, net	718
	<hr/>
Net cash used by operating activities	(28,961)
Cash flows from noncapital financing activities:	
Repayments under note receivable	26,850
Other revenues	37,041
	<hr/>
Net cash provided by noncapital financing activities	63,891
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(1,102,570)
Proceeds from disposal of capital assets	1,150
Capital contributions	283,229
Proceeds from issuance of notes payable	1,017,849
Payments on notes payable	(51,918)
Interest paid on notes payable	(3,872)
	<hr/>
Net cash provided by capital and related financing activities	143,868
Net increase in cash and investments	178,798
Cash and investments, beginning of year	<hr/>
	822,966
Cash and investments, end of year	<u>\$ 1,001,764</u>
Reconciliation of operating loss to net cash provided by operating activities:	
Loss from operations	\$ (87,830)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	225,072
Loss on disposal of capital assets	9,079
Change in assets and liabilities:	
Decrease in accounts receivable	26,777
Increase in inventories	(1,434)
Decrease in net pension asset	20,317
Increase in deferred outflows of resources - pensions	(2,537)
Increase in net pension liability	20,821
Decrease in deferred inflows of resources - pensions	(34,708)
Decrease in accounts payable and accrued liabilities	(212,014)
Increase in compensated absences	6,778
Decrease in customer deposits	718
	<hr/>
Net cash used by operating activities	<u>\$ (28,961)</u>

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

Notes to Financial Statements

1. Summary of Significant Accounting Policies

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

A. Reporting entity

The Town is a municipal corporation which is governed by an elected mayor and a five-member council. As required by generally accepted accounting principles, these financial statements present the Town as well as any separate entity for which the Town is financially accountable. For the year ended June 30, 2016, no other entity is included in the Town's financial statements.

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

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

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

The Town reports the following major governmental funds:

General Fund - The General Fund is the general operating fund of the Town. It is used to account for all financial resources 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, streets, sanitation, parks and recreation, and general government services. Additionally, the Town has legally adopted a Capital Reserve Fund. Under GASB 54 guidance, the Capital Reserve Fund is consolidated in the General Fund. The budgetary comparison for the Capital Reserve Fund has been included in the supplemental information.

Town of Biscoe, North Carolina
Notes to Financial Statements

Office of State Fire Marshall (OSFM) Grant Funds - These grant funds are provided by the State of North Carolina to be used for equipment upgrade and replacement within the Town's Fire Department.

The Town reports the following major enterprise fund:

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

C. Measurement focus and basis of accounting

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

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Town enterprise fund are charges to customers for sales and services. The Town also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the water and sewer system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

The Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as 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 operation 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.

Town of Biscoe, North Carolina
Notes to Financial Statements

Sales taxes and certain intergovernmental revenues, such as utilities franchise tax, collected and held by the State at year-end on behalf of the Town are recognized as revenue. Sales taxes are considered a shared revenue for the Town because the tax is levied by Montgomery County and then remitted to and distributed by the State. Intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. Grant revenues which are unearned at year-end are recorded as deferred revenues. Under the terms of grant agreements, the Town funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there is both restricted and unrestricted net position available to finance the program. It is the Town's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

D. Budgetary data

The Town's budgets are adopted as required by North Carolina General Statutes. An annual budget is adopted for the general and enterprise funds. All annual appropriations lapse at fiscal year-end. Project ordinances are adopted for the Governmental Special Revenue Funds and the Enterprise Capital Project Funds. The enterprise fund projects are consolidated with the operating fund for reporting purposes. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the departmental level for all annually budgeted funds 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 \$1,000; however, any revisions that alter total expenditures of any fund or that change functional appropriations by more than \$1,000 must be approved by the governing board. Amendments were made during the year to the original budget.

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

(1) Deposits and Investments

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

State law [G.S. 159-30(c)] authorizes the Town to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and banker's acceptances; and the North Carolina Capital Management Trust. The Town's investments are reported at fair value. Non-participating interest earning contracts are accounted for at cost. The NCCMT-Cash Portfolio, a SEC-registered (2a-7) external investment pool, is measured at amortized cost, which is the NCCMT's share price. The NCCMT-Term Portfolio's securities are valued at fair value.

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

Town of Biscoe, North Carolina
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(2) Cash and cash equivalents

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

(3) Restricted assets

Customer deposits held by the Town before any services are supplied are restricted to the service for which the deposit was collected. Powell Bill funds are also classified as restricted cash because they can be expended only for the purposes outlined in G.S. 136-41.1 through 136-41.4.

Restricted cash:	
Governmental activities	
Streets - Powell Bill	\$ 22,578
Business-type activities	
Water and Sewer fund	
Customer deposits	<u>2,319</u>
Total restricted cash	<u>\$ 24,897</u>

(4) Ad valorem taxes receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1; however, interest does not accrue until the following January 6. The taxes are based on the assessed values as of January 1, 2015. As allowed by State law, the Town has established a schedule of discounts that apply to taxes that are paid prior to the due date. In the Town's General Fund, ad valorem tax revenues are reported net of such discounts.

(5) Allowances for doubtful accounts

All receivables that historically experience uncollectible accounts are shown net of an allowance for doubtful accounts. The amount is estimated by analyzing the percentage of receivables that were written off in prior years.

(6) Inventory

Inventories are maintained for all enterprise fund supplies. They are valued at cost (first-in, first out), which approximates market. The inventory of the enterprise fund consists of expendable supplies that are recorded as an expenditure when consumed rather than when purchased.

(7) Capital assets

Capital assets are defined by the government as assets with an initial, individual cost of more than \$3,000, and estimated useful life of two years. Minimum capitalization costs for land, buildings, furniture and equipment, computer software, and vehicles have been set at \$3,000. Purchased or constructed assets are reported at cost or estimated historical cost. Donated capital assets received prior to June 15, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 15, 2015 are recorded at acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical cost. General infrastructure assets acquired prior to July 1, 2003, consist of road network and water and sewer system assets that were acquired or that received substantial improvements subsequent to July 1, 1980, and are reported at estimated historical cost using deflated replacement cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Capital assets are depreciated using the straight-line method over the assets' estimated useful lives.

Town of Biscoe, North Carolina
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Buildings	29 years
Furniture and office equipment	7-10 years
Maintenance and construction equipment	5-7 years
Medium and heavy motor vehicles	5-7 years
Computer Software	5 years
Automobiles and light trucks	3-5 years

(8) Deferred outflows/inflows of resources

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

(9) Long-term obligations

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

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

(10) Compensated absences

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

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

(11) Net position/fund balance

Net position

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

Town of Biscoe, North Carolina
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Fund balance

In the governmental fund financial statements, fund balance is composed of four 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:

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 Equitable Sharing – portion of fund balance that is restricted through an agreement entered into between the Federal government, the Town’s police department, and the governing body.

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.

Committed fund balance – portion of fund balance that can only be used for specific purposes imposed by majority vote by quorum of Town’s governing body (highest level of decision-making authority). Any changes or removal of specific purpose requires majority action by the governing body. 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 LEO Special Separation Allowance – portion of fund balance that will be used for the Law Enforcement Officers’ Special Separation Allowance obligations.

Assigned fund balance – portion of fund balance that the Town intends to use for specific purposes.

Assigned for capital reserve fund – portion of fund balance that is held in the capital reserve fund for future purposes.

Subsequent year’s expenditures – portion of fund balance that is appropriated in the next year’s budget that is not already classified in restricted or committed. The governing body approves the appropriation; however, the budget ordinance authorizes the Town manager to modify the appropriations within funds up to \$1,000.

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

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

The Town has an informal fund balance policy for the general fund which instructs management to conduct the business of the Town in such a manner that available fund balance is at least equal to or greater than 20% of budgeted expenditures. Any portion of the general fund balance in excess of 20% of budgeted expenditures may be appropriated.

(12) Pensions

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

2. Stewardship, Compliance, and Accountability

A. *Deficit in Fund Balance of Individual Funds*

At June 30, 2016, the Town had a fund deficit of \$58,559 in the OSFM Grants Fund. This deficit is the result of timing related to certificate of deposit maturities that will be used to fund the expenditures. Upon maturity and close out of the project, the Town will transfer the funds as approved in the project ordinance.

B. *Excess of Expenditures over Appropriations*

For the fiscal year ended June 30, 2016, certain expenditures, as noted in the Schedule of Findings and Responses, made in the Town's enterprise fund and its two enterprise capital project funds exceeded authorized appropriations made by the governing board. These over-expenditures occurred because of unplanned construction costs and principal repayments. Management and the Board will more closely review the budget reports to ensure compliance in future years.

3. Detail Notes on All Funds

A. *Assets*

(1) Deposits

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

However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Town has no policy regarding custodial credit risk for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The Town complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

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At June 30, 2016, the Town's deposits had a carrying amount of \$3,147,674 and a bank balance of \$3,288,459. Of the bank balance, \$750,000 was covered by federal depository insurance, and \$2,538,459 was secured through the pooling method. At June 30, 2016, the Town's point of sale cash drawer totaled \$180.

(2) Investments

At June 30, 2016, the Town had \$12,585 invested with the North Carolina Capital Management Trust's Cash Portfolio which carried a credit rating of AAAM by Standard and Poor's. The Town has no policy regarding credit risk.

(3) Receivables - allowances for doubtful accounts

The receivables presented in the Balance Sheet and the Statement of Net Position are presented net of the following allowances for doubtful accounts:

General Fund	
Ad valorem taxes	\$ <u>33,000</u>
Water and Sewer Fund	
Customers	\$ <u>24,500</u>

(4) Capital assets

Capital asset activity for the year ended June 30, 2016, is summarized below:

Governmental Activities:

	<u>July 1, 2015</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers/ Reclassifications</u>	<u>June 30, 2016</u>
Non depreciable assets:					
Land	\$ 358,715	\$ -	\$ -	\$ -	\$ 358,715
Depreciable assets:					
Buildings and improvements	2,167,146	35,778	-	-	2,202,924
Equipment and vehicles	1,884,202	28,569	(37,436)	-	1,875,335
Infrastructure	<u>213,652</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>213,652</u>
	<u>4,265,000</u>	<u>64,347</u>	<u>(37,436)</u>	<u>-</u>	<u>4,291,911</u>
Less: Accumulated depreciation and amortization for:					
Buildings and Improvements to land and buildings	1,765,243	48,320	-	-	1,813,563
Equipment and vehicles	1,222,453	188,946	(35,561)	-	1,375,838
Infrastructure	<u>81,431</u>	<u>10,683</u>	<u>-</u>	<u>-</u>	<u>92,114</u>
	<u>3,069,127</u>	<u>247,949</u>	<u>(35,561)</u>	<u>-</u>	<u>3,281,515</u>
Depreciable assets – net	<u>1,195,873</u>				<u>1,010,396</u>
Governmental activity capital assets – net	<u>\$ 1,554,588</u>				<u>\$ 1,369,111</u>

Town of Biscoe, North Carolina
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Depreciation expense was charged to functions/programs of the primary government as follows:

General government	\$ 45,940
Public safety	149,393
Cultural and recreation	20,905
Transportation	<u>31,711</u>
Total depreciation expense	<u>\$ 247,949</u>

Business Type Activities:

	<u>July 1, 2015</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers/ Reclassifications</u>	<u>June 30, 2016</u>
Non depreciable assets:					
Land	\$ 14,900	\$ -	-	\$ -	\$ 14,900
Construction in progress	<u>1,140,355</u>	<u>995,983</u>	-	<u>(1,859,329)</u>	<u>277,009</u>
	<u>1,155,255</u>	<u>995,983</u>	-	<u>(1,859,329)</u>	<u>291,909</u>
Depreciable assets:					
Plant, substations, lines, and related equipment	6,423,556	-	-	1,859,329	8,282,885
Equipment and vehicles	<u>764,808</u>	<u>106,587</u>	<u>(90,230)</u>	-	<u>781,165</u>
	<u>7,188,364</u>	<u>106,587</u>	<u>(90,230)</u>	<u>1,859,329</u>	<u>9,064,050</u>
Less: Accumulated depreciation:					
Plant, substations, lines, and related equipment	2,481,593	156,160	-	-	2,637,753
Equipment and vehicles	<u>509,941</u>	<u>68,912</u>	<u>(80,001)</u>	-	<u>498,852</u>
	<u>2,991,534</u>	<u>225,072</u>	<u>(80,001)</u>	-	<u>3,136,605</u>
Depreciable assets – net	<u>4,196,830</u>				<u>5,927,445</u>
Business type activities capital assets – net	<u>\$ 5,352,085</u>				<u>\$ 6,219,354</u>

The Town has active construction projects related to the industrial park pump lift station as of June 30, 2016. At year-end, the Town has spent \$277,009 under construction and engineering contracts and has a remaining commitment of \$20,266.

(5) Payables

Payables at the government-wide level at June 30, 2016, were as follows:

	<u>Vendors</u>	<u>Salaries and benefits</u>	<u>Total</u>
Governmental Activities:			
General	<u>\$ 24,691</u>	<u>\$ 19,356</u>	<u>\$ 44,047</u>
Business-Type Activities:			
Water and Sewer	<u>\$ 17,234</u>	<u>\$ 15,415</u>	<u>\$ 32,649</u>

B. Liabilities

(1) Pension plan and postemployment obligations

(a) Local Governmental Employees' Retirement System

Plan Description - The Town 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. LGERS provides retirement and disability benefits to plan members and beneficiaries. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the State Senate, one appointed by the State House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. The Local Governmental Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

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 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's contractually required contribution rate for the year ended June 30, 2016, was 7.15% of compensation for law enforcement officers and 6.67% for general employees and firefighters, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Town was \$40,119 for the year ended June 30, 2016.

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

Town of Biscoe, North Carolina
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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, 2016, the Town reported a liability of \$55,741 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014. The total pension liability was then rolled forward to the measurement date of June 30, 2015 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, 2015, the Town's proportion was 0.0124%, which was a decrease of 0.0007% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the Town recognized pension expense of \$28,875. At June 30, 2016, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 13,102
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	15,869
Changes in proportion and differences between Town contributions and proportionate share of contributions	-	17,230
Town contributions subsequent to the measurement date	<u>40,119</u>	<u>-</u>
Total	<u>\$ 40,119</u>	<u>\$ 46,201</u>

The Town reported \$40,119 as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30

2017	\$ (23,508)
2018	(23,508)
2019	(23,465)
2020	<u>24,280</u>
Total	<u>\$ (46,201)</u>

Actuarial Assumptions - The total pension liability in the December 31, 2014 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

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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, 2014 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, 2015 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed income	29.0%	2.2%
Global equity	42.0%	5.8%
Real estate	8.0%	5.2%
Alternatives	8.0%	9.8%
Credit	7.0%	6.8%
Inflation protection	<u>6.0%</u>	3.4%
Total	<u><u>100%</u></u>	

The information above is based on 30 year expectations developed with the consulting actuary for the 2014 asset, liability, and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.00%. All rates of return and inflation are annualized.

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

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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 liability 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:

	<u>1% Decrease (6.25%)</u>	<u>Discount Rate (7.25%)</u>	<u>1% Increase (8.25%)</u>
Town's proportionate share of the net pension liability (asset)	\$ 388,683	\$ 55,741	\$ (224,757)

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 administers a public employee retirement system (the "Separation Allowance"), a single-employer retirement 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, 2015, the Separation Allowance's membership consisted of:

Retirees receiving benefits	2
Active plan members	<u>9</u>
Total	<u><u>11</u></u>

A separate report was not issued for the plan.

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 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.

Method used to value investments – No funds are set aside to pay benefits and administration costs. These expenditures are paid as they come due.

Town of Biscoe, North Carolina
Notes to Financial Statements

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

The annual required contribution for the current year was determined as part of the December 31, 2015, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 3.57% investment rate of return (net of administrative expenses) and (b) projected salary increases of 3.50 – 7.35% per year. Both (a) and (b) included an inflation component of 3.00%. The assumptions did not include post-employment benefit increases.

Annual pension cost and net pension asset - The Town's annual pension cost and net pension asset to the Separation Allowance for the current year were as follows:

Annual required contribution	\$ 6,050
Interest on net pension obligation	(5,497)
Adjustment to annual required contribution	<u>9,661</u>
Annual pension cost	10,214
Contributions made	<u>(21,055)</u>
Decrease in net pension asset	(10,841)
Net pension asset beginning of year	<u>(109,944)</u>
 Net pension asset end of year	 <u>\$ (120,785)</u>

Three-Year Trend Information

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Asset</u>
6-30-14	\$ 12,946	371.28%	\$ (78,409)
6-30-15	14,520	317.18%	(109,944)
6-30-16	10,214	206.14%	(120,785)

Funded status and funding progress - As of December 31, 2015, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and the unfunded actuarial accrued liability (UAAL) of \$34,375. The covered payroll (annual payroll of active employees covered by the plan) was \$281,857 and the ratio of the UAAL to the covered payroll was 12.20 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 the plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

(c) Supplemental Retirement Income Plan for Law Enforcement Officers

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

Town of Biscoe, North Carolina
Notes to Financial Statements

Funding Policy - Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2016, were \$24,507, which consisted of \$16,753 from the Town and \$7,754 from the law enforcement officers.

(d) Other Employment Benefits

The Town has elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, State-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest months' salary in a row during the 24 months prior to the employee's death, but the benefit may not exceed \$50,000 or be less than \$25,000. 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.

(3) Deferred outflows and inflows of resources

Deferred outflows of resources consists of \$40,119 for contributions made to the pension plan in fiscal year 2016. Deferred inflows of resources at year-end is comprised of the following elements:

<u>Source</u>	<u>Amount</u>
Taxes receivable (General Fund), less penalties	\$ 17,746
Pension deferrals	<u>46,201</u>
Total	<u>\$ 63,947</u>

(4) Long-term debt

In March 2015, the Town entered into a promissory note with the Department of Environment and Natural Resources for improvement for the Town's wastewater treatment plant. The note provided for funding for the project up to \$1,402,500, and as of June 30, 2016, the total draws on the note were \$1,323,106. The note carries no interest and is payable in annual installments of \$66,155 beginning May 2017 for a period of 20 years.

In November 2015, the Town entered into a \$350,000 promissory note with a financial institution for funding the Industrial Park Pump Station capital project. The financing agreement requires monthly payments of principal, plus accrued interest at 1.75%, of \$6,199 beginning December 2015 for a period of 5 years. At June 30, 2016, the balance on this note was \$298,082.

Town of Biscoe, North Carolina
Notes to Financial Statements

Annual debt service requirements to maturity for long-term obligations are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 123,688	\$ 4,487
2018	136,845	3,697
2019	138,110	2,432
2020	139,396	1,145
2021	90,819	92
2022-2026	330,775	-
2027-2031	330,775	-
2032-2036	<u>330,780</u>	<u>-</u>
Total	<u>\$ 1,621,188</u>	<u>\$ 11,853</u>

(e) Changes in Long-Term Liabilities

The following is a summary of changes in the Town's long-term obligations for the fiscal year ended June 30, 2016:

	<u>July 1, 2015</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2016</u>	<u>Current Portion</u>
Governmental activities:					
Compensated absences	\$ 25,737	\$ 28,353	\$ 25,737	\$ 28,353	\$ 28,353
Net pension liability	<u>-</u>	<u>34,920</u>	<u>-</u>	<u>34,920</u>	<u>-</u>
Governmental activity long-term liabilities	<u>\$ 25,737</u>	<u>\$ 63,273</u>	<u>\$ 25,737</u>	<u>\$ 63,273</u>	<u>\$ 28,353</u>
	<u>July 1, 2015</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2016</u>	<u>Current Portion</u>
Business-type activities:					
Compensated absences	\$ 22,537	\$ 29,315	\$ 22,537	\$ 29,315	\$ 29,315
Notes payable	655,257	1,017,849	51,918	1,621,188	123,688
Net pension liability	<u>-</u>	<u>20,821</u>	<u>-</u>	<u>20,821</u>	<u>-</u>
	<u>\$ 677,794</u>	<u>\$ 1,067,985</u>	<u>\$ 74,455</u>	<u>\$ 1,671,324</u>	<u>\$ 153,003</u>

The LGERS plan had a net pension liability as of June 30, 2016; however, the plan had a net pension asset at the beginning of the fiscal year.

Compensated absences for governmental activities are typically liquidated by the general and other governmental funds.

At June 30, 2016, the Town had a legal debt margin of \$8,715,396.

Town of Biscoe, North Carolina
Notes to Financial Statements

C. 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	\$ 2,333,947
Less:	
Stabilization by State Statute	219,319
Streets – Powell Bill	22,578
Equitable Sharing Agreement	458
Appropriated fund balance in 2016-17 budget	67,868
LEO Special Separation Allowance	141,060
Capital Reserve Fund	<u>794,128</u>
Remaining fund balance	<u>\$ 1,008,536</u>

D. Interfund Balances and Activity

Balances due to/from other funds at June 30, 2016 consist of the following:

Due to the General Fund from the OSFM Grants Fund for project expenditures paid by the General Fund	<u>\$ 58,559</u>
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Transfers to/from funds at June 30, 2016, consist of the following:

From the Industrial Park Pump Lift Station Fund to the Water and Sewer Fund for reimbursement of expenditures	<u>\$ 12,398</u>
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4. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town participates in three self-funded risk financing pools administered by the North Carolina League of Municipalities. Through these pools, the Town has property, general liability, and auto liability coverage of \$1 million per occurrence, worker's compensation coverage of up to statutory limits, and employee health coverage up to \$2 million lifetime limit. The liability and property exposures are reinsured through commercial companies for claims against property, general liability, and auto liability in excess of \$500,000 and \$300,000 statutory limits for worker's compensation. The pools are reinsured for annual employee health claims in excess of \$150,000. The property liability pool has an aggregate limit for the total property losses in a single year, with the reinsurance limit based upon a percentage of the total insurance values.

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

The Town is not required to carry flood insurance because the Town is not in an area of the State that has been mapped and designated an "A" area (an area close to a river, lake or stream) by the Federal Emergency Management Agency.

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 is individually bonded for \$100,000. All other employees are covered under a \$100,000 blanket bond.

5. Jointly Governed Organization

The Town, in conjunction with 7 counties and 42 other municipalities, established the Piedmont Triad Regional Council of Governments (Council). The participating governments established the Council to coordinate various funding received from federal and state agencies. Each participating government appoints one member to the Council's governing board. The Town paid membership fees of \$550 to the Council during the fiscal year ended June 30, 2016.

6. 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.

7. Change in Accounting Principles/Restatement

The Town implemented a portion of Governmental Accounting Standards Board (GASB) Statement 73, "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68," in the fiscal year ended June 30, 2016 related to the financial reporting for assets accumulated for purposes of providing Law Enforcement Officers' Special Separation Allowance benefits. The implementation of GASB Statement 73 required the Town to record accumulated assets from its previously reported Pension Trust Fund as a component of its General Fund. As a result, net position as of June 30, 2015 for governmental activities and fund balance for the General Fund increased by \$40,602.

Required Supplementary Financial Data

This Section contains additional information required by
generally accepted accounting principles

- Schedule of Funding Progress for the Law Enforcement Officers' Special Separation Allowance.
- Schedule of the Proportionate Share of the Net Pension Liability for the Local Government Employees' Retirement System
- Schedule of Contributions for the Local Government Employees' Retirement System

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

Schedule 1

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) Projected Unit Credit (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12-31-07	\$ 72,054	\$ 190,660	\$ 18,600	79.48%	\$ 287,022	6.48%
12-31-08	80,487	135,601	55,114	59.36%	249,856	22.06%
12-31-09	89,169	155,066	65,897	57.50%	254,781	25.86%
12-31-10	89,169	165,402	76,233	53.91%	253,003	30.13%
12-31-11	55,109	163,971	108,862	33.61%	246,738	44.12%
12-31-12	80,706	162,305	81,599	49.72%	290,438	28.08%
12-31-13	80,805	168,508	87,703	47.95%	274,761	31.92%
12-31-14	136,546	158,954	22,408	85.90%	237,807	9.42%
12-31-15	139,144	173,519	34,375	80.19%	281,857	12.20%

Town of Biscoe, North Carolina
Local Government Employees' Retirement System –
Last Two Fiscal Years
Required Supplementary Information
Schedule of Proportionate Share of Net Pension Liability

Schedule 2

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 40,119	\$ 47,375	\$ 42,384
Contributions in relation to the contractually required contribution	<u>40,119</u>	<u>47,375</u>	<u>42,384</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Town's covered-employee payroll	\$ 581,921	\$ 653,042	\$ 591,129
Contributions as a percentage of covered-employee payroll	6.90%	7.25%	7.17%

Town of Biscoe, North Carolina
Local Government Employees' Retirement System –
Last Two Fiscal Years
Required Supplementary Information
Schedule of Employer Contributions

Schedule 3

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Town's proportion of the net pension liability (asset) (%)	.0124%	0.0131%	.0133%
Town's proportion of the net pension liability (asset) (\$)	\$ 55,741	\$ (77,316)	\$ 160,316
Town's covered-employee payroll	\$ 653,042	\$ 591,129	\$ 577,872
Town's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	8.54%	(13.08)%	27.74%
Plan fiduciary net position as a percentage of the total pension liability**	98.09%	102.64%	94.35%

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

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

Town of Biscoe, North Carolina
General Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2016

	<u>Budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
Revenues			
Ad valorem taxes:			
Taxes		\$ 723,434	
Penalties and interest		7,928	
Total ad valorem taxes	<u>\$ 669,820</u>	<u>731,362</u>	<u>\$ 61,542</u>
Unrestricted intergovernmental:			
Local option sales tax		337,136	
Telecommunications sales tax		9,945	
Utilities sales tax		228,809	
Video franchise fee		6,003	
Beer and wine taxes		7,496	
Solid waste disposal tax		1,084	
Tax refunds		15,253	
Total unrestricted intergovernmental	<u>552,031</u>	<u>605,726</u>	<u>53,695</u>
Restricted intergovernmental:			
Powell Bill allocation		53,703	
DSM revenues		3,906	
Grant funds		20,078	
Total restricted intergovernmental	<u>55,292</u>	<u>77,687</u>	<u>22,395</u>
Permits and fees	<u>3,500</u>	<u>5,607</u>	<u>2,107</u>
Sales and services			
ABC Revenue		2,674	
Cemetery lots sales		7,400	
Recreation department fees		39,652	
Total sales and services	<u>32,650</u>	<u>49,726</u>	<u>17,076</u>
Investment earnings	<u>1,300</u>	<u>2,236</u>	<u>936</u>
Miscellaneous			
Fire department donations		22,915	
Timber receipts		894	
Other		33,231	
Total miscellaneous	<u>2,500</u>	<u>57,040</u>	<u>54,540</u>
Total revenues	<u>1,317,093</u>	<u>1,529,384</u>	<u>212,291</u>

Town of Biscoe, North Carolina
General Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2016

	<u>Budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
Expenditures			
General government:			
Administration:			
Salaries and employee benefits		\$ 164,052	
Other operating expenditures		179,267	
Total administration	<u>\$ 369,737</u>	<u>343,319</u>	<u>\$ 26,418</u>
Legal and professional services:			
Other operating expenditures	<u>50,500</u>	<u>36,257</u>	<u>14,243</u>
Public buildings and grounds:			
Other operating expenditures		59,060	
Capital outlay		35,778	
Total public buildings and grounds	<u>91,300</u>	<u>94,838</u>	<u>(3,538)</u>
Total general government	<u>511,537</u>	<u>474,414</u>	<u>37,123</u>
Public Safety:			
Police:			
Salaries and employee benefits		419,279	
Other operating expenditures		81,437	
Total police	<u>544,930</u>	<u>500,716</u>	<u>44,214</u>
Fire:			
Salaries and employee benefits		3,771	
Other operating expenditures		83,599	
Capital outlay		3,531	
Total fire	<u>97,110</u>	<u>90,901</u>	<u>6,209</u>
Total public safety	<u>642,040</u>	<u>591,617</u>	<u>50,423</u>
Transportation:			
Streets:			
Other operating expenditures	<u>252,150</u>	<u>198,964</u>	<u>53,186</u>

Town of Biscoe, North Carolina
General Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2016

	<u>Budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
Streets - Powell Bill:			
Other operating expenditures	\$ 53,792	\$ -	\$ 53,792
Total transportation	<u>305,942</u>	<u>198,964</u>	<u>106,978</u>
Cultural and Recreational:			
Recreation:			
Salaries and employee benefits		42,147	
Other operating expenditures		58,178	
Capital outlay		25,038	
Total recreation	<u>158,693</u>	<u>125,363</u>	<u>33,330</u>
Total cultural and recreational	<u>158,693</u>	<u>125,363</u>	<u>33,330</u>
Total expenditures	<u>1,618,212</u>	<u>1,390,358</u>	<u>227,854</u>
Revenues over (under) expenditures	(301,119)	139,026	440,145
Other financing sources:			
Transfer from capital reserve fund	50,000	-	(50,000)
Sale of capital assets	<u>-</u>	<u>2,302</u>	<u>2,302</u>
Total other financial sources	<u>50,000</u>	<u>2,302</u>	<u>(47,698)</u>
Revenues over (under) expenditures and other financing sources	(251,119)	141,328	392,447
Fund balance appropriated	<u>251,119</u>	<u>-</u>	<u>(251,119)</u>
Net change in fund balance	<u>\$ -</u>	<u>141,328</u>	<u>\$ 141,328</u>
Fund balance, beginning of year, as previously reported		1,357,889	
Restatement		<u>40,602</u>	
Fund balance, beginning of year, as restated		<u>1,398,491</u>	
Fund balance, end of year		<u>\$ 1,539,819</u>	

Town of Biscoe, North Carolina
General Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2016

Fund balance, end of year
(General Fund) \$ 1,539,819

Amounts reported for Revenues, Expenditures,
and Changes in Fund Balance (deficit) are
different from the Budget and Actual Statement
due to consolidation of the Capital Reserve Fund:

Investment earnings 140

Fund balance, beginning of year
(Capital Reserve Fund) 793,988

Fund balance, end of year
(Consolidated General Fund) \$ 2,333,947

Town of Biscoe, North Carolina
Capital Reserve Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2016

	<u>Budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
Revenues			
Investment earnings	\$ 500	\$ 140	\$ (360)
Other financing uses			
Transfer to general fund	(135,000)	-	135,000
Revenues under other financing uses	(134,500)	140	134,640
Fund balance appropriated	134,500	-	(134,500)
Net change in fund balance	<u>\$ -</u>	140	<u>\$ 140</u>
Fund balance, beginning of year		<u>793,988</u>	
Fund balance, end of year		<u>\$ 794,128</u>	

Town of Biscoe, North Carolina
Special Revenue Fund (OSFM Grants)
Schedule of Revenues, Expenditures and Changes in Fund Deficit -
Budget and Actual
From Inception and for the Year Ended June 30, 2016

	<u>Project Authorization</u>	<u>Actual</u>		<u>Total to date</u>	<u>Variance favorable (unfavorable)</u>
		<u>Prior years</u>	<u>Current year</u>		
Revenues					
Restricted intergovernmental:					
OSFM grant proceeds - 2013-2014	\$ 30,000	\$ 29,979	\$ -	\$ 29,979	\$ (21)
OSFM grant proceeds - 2014-2015	28,975	28,278	-	28,278	(697)
OSFM grant proceeds - 2015-2016	25,251	-	25,251	25,251	-
Total revenues	<u>84,226</u>	<u>58,257</u>	<u>25,251</u>	<u>83,508</u>	<u>(718)</u>
Expenditures					
Current:					
Public safety:					
OSFM expenditures 2013-2014	60,004	60,260	-	60,260	(256)
OSFM expenditures 2014-2015	57,950	56,556	-	56,556	1,394
OSFM expenditures 2015-2016	<u>50,502</u>	<u>22,430</u>	<u>28,072</u>	<u>50,502</u>	<u>-</u>
Total expenditures	<u>168,456</u>	<u>139,246</u>	<u>28,072</u>	<u>167,318</u>	<u>1,138</u>
Revenues under expenditures	<u>(84,230)</u>	<u>(80,989)</u>	<u>(2,821)</u>	<u>(83,810)</u>	<u>420</u>
Other financing sources					
Transfer from capital reserve fund	<u>84,230</u>	<u>25,251</u>	<u>-</u>	<u>25,251</u>	<u>(58,979)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ (55,738)</u>	<u>(2,821)</u>	<u>\$ (58,559)</u>	<u>\$ (58,559)</u>
Fund deficit, beginning of year			<u>(55,738)</u>		
Fund deficit, end of year			<u>\$ (58,559)</u>		

Town of Biscoe, North Carolina
Water and Sewer Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non-GAAP)
For the Year Ended June 30, 2016

	<u>Budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
Revenues			
Operating revenues:			
Charges for services		\$ 1,093,929	
Water and sewer taps and connection fees		8,019	
Other		12,490	
Total operating revenues	<u>\$ 926,473</u>	<u>1,114,438</u>	<u>\$ 187,965</u>
Nonoperating revenues:			
Tax refunds		27,959	
Miscellaneous		10,232	
Total nonoperating revenues	<u>8,850</u>	<u>38,191</u>	<u>29,341</u>
Total revenues	<u>935,323</u>	<u>1,152,629</u>	<u>217,306</u>
Expenditures			
Operating expenditures:			
Salaries and employee benefits		318,952	
Other operating expenditures		312,380	
Water purchases for resale		324,057	
Total operating expenditures	<u>981,622</u>	<u>955,389</u>	<u>26,233</u>
Capital outlay	<u>135,221</u>	<u>133,281</u>	<u>1,940</u>
Debt service:			
Principal retirement		51,918	
Interest and other charges		3,872	
Total debt service	<u>31,000</u>	<u>55,790</u>	<u>(24,790)</u>
Total expenditures	<u>1,147,843</u>	<u>1,144,460</u>	<u>3,383</u>
Revenues over (under) expenditures	<u>(212,520)</u>	<u>8,169</u>	<u>220,689</u>
Other financing sources			
Transfers from enterprise capital projects fund	<u>-</u>	<u>12,398</u>	<u>12,398</u>
Revenues over (under) expenditures and other financing sources	<u>(212,520)</u>	<u>20,567</u>	<u>233,087</u>
Fund balance appropriated	<u>212,520</u>	<u>-</u>	<u>(212,520)</u>
Revenues and fund balance appropriated under expenditures and other financing sources	<u>\$ -</u>	<u>\$ 20,567</u>	<u>\$ 20,567</u>

Town of Biscoe, North Carolina
Water and Sewer Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non-GAAP)
For the Year Ended June 30, 2016

Reconciliation from budgetary basis
(modified accrual) to full accrual:

Revenues and fund balance appropriated under expenditures and other financing uses	\$ 20,567
Reconciling items:	
Depreciation	(225,072)
Loss on disposal	(9,079)
Proceeds from disposal of capital assets	(1,150)
Capital outlay	133,281
Less: Items not capitalized	(3,491)
Principal payments on debt	51,918
Increase in accrued vacation pay	(6,778)
Increase in net pension asset	(20,317)
Increase in deferred outflows of resources - pension	2,537
Increase in net pension liability	(20,821)
Decrease in deferred inflows of resources - pension	34,708
Capital contributions	50,000
Increase in inventory	1,434
Amortization of loan costs	(28,050)
Transfers to water and sewer fund from enterprise capital project fund	<u>(12,398)</u>
Total	<u>(53,278)</u>
Change in net position	<u>\$ (32,711)</u>

Town of Biscoe, North Carolina
Enterprise Capital Project Fund (Waste Water Treatment Plant Improvement)
Schedule of Revenues and Expenditures -
Budget and Actual (Non-GAAP)
From Inception and for the Year Ended June 30, 2016

	<u>Project Authorization</u>	<u>Actual</u>		<u>Total to date</u>	<u>Variance favorable (unfavorable)</u>
		<u>Prior years</u>	<u>Current year</u>		
Revenues					
Restricted intergovernmental:					
CWMTF grant proceeds	\$ 584,000	\$ 534,000	\$ 50,000	\$ 584,000	\$ -
Expenditures					
Construction and unit cost price	1,702,050	1,055,618	662,958	1,718,576	(16,526)
Engineering	289,000	84,737	63,688	148,425	140,575
Loan closing costs	28,050	28,050	-	28,050	-
Total expenditures	<u>2,019,100</u>	<u>1,168,405</u>	<u>726,646</u>	<u>1,895,051</u>	<u>124,049</u>
Revenues under expenditures	<u>(1,435,100)</u>	<u>(634,405)</u>	<u>(676,646)</u>	<u>(1,311,051)</u>	<u>124,049</u>
Other financing sources					
Loan proceeds	1,402,500	655,257	667,849	1,323,106	(79,394)
Transfer from water and sewer fund	32,600	28,050	-	28,050	(4,550)
Total other financing sources	<u>1,435,100</u>	<u>683,307</u>	<u>667,849</u>	<u>1,351,156</u>	<u>(83,944)</u>
Revenues and other financing sources over (under) expenditures	<u>\$ -</u>	<u>\$ 48,902</u>	<u>\$ (8,797)</u>	<u>\$ 40,105</u>	<u>\$ 40,105</u>

Town of Biscoe, North Carolina
Enterprise Capital Project Fund (Industrial Park Pump Lift Station)
Schedule of Revenues and Expenditures -
Budget and Actual (Non-GAAP)
From Inception and for the Year Ended June 30, 2016

	Project Authorization	Actual		Total to date	Variance favorable (unfavorable)
		Prior years	Current year		
Expenditures					
Construction	\$ 342,500	\$ -	\$ 238,134	\$ 238,134	\$ 104,366
Bid award	4,500	-	8,000	8,000	(3,500)
Final certification	3,000	-	-	-	3,000
Total expenditures	350,000	-	246,134	246,134	103,866
Revenues under expenditures	(350,000)	-	(246,134)	(246,134)	103,866
Other financing sources (uses)					
Loan proceeds	350,000	-	350,000	350,000	-
Transfer to water and sewer fund	-	-	(12,398)	(12,398)	(12,398)
Total other financing sources (uses)	350,000	-	337,602	337,602	(12,398)
Revenues and other financing sources over expenditures and other financing uses	\$ -	\$ -	\$ 91,468	\$ 91,468	\$ 91,468

Supplementary Financial Data

Town of Biscoe, North Carolina
Schedule of Ad Valorem Taxes Receivable
June 30, 2016

<u>Fiscal year</u>	<u>Uncollected balance July 1, 2015</u>	<u>Additions</u>	<u>Collections and credits</u>	<u>Uncollected balance June 30, 2016</u>
2015-2016	\$ -	\$ 724,815	\$ 712,015	\$ 12,800
2014-2015	16,309	-	10,367	5,942
2013-2014	7,612	-	1,224	6,388
2012-2013	6,808	-	1,156	5,652
2011-2012	4,688	-	609	4,079
2010-2011	3,883	-	996	2,887
2009-2010	3,446	-	298	3,148
2008-2009	3,572	-	133	3,439
2007-2008	3,643	-	295	3,348
2006-2007	3,156	-	93	3,063
2005-2006	<u>2,042</u>	<u>-</u>	<u>2,042</u>	<u>-</u>
	<u>\$ 55,159</u>	<u>\$ 724,815</u>	<u>\$ 729,228</u>	50,746
Less allowance for uncollected taxes receivable				
General fund				<u>(33,000)</u>
Ad valorem taxes receivable (net)				<u>\$ 17,746</u>
<u>Reconciliation with revenues:</u>				
Taxes - ad valorem - General Fund				\$ 731,362
Reconciling items:				
Interest collected				(7,928)
Other adjustments				3,752
Taxes written off				<u>2,042</u>
Subtotal				<u>(2,134)</u>
Total collections and credits				<u>\$ 729,228</u>

Town of Biscoe, North Carolina
Analysis of Current Tax Levy
June 30, 2016

	<u>Town-wide</u>		<u>Total levy</u>		
	<u>Property valuation</u>	<u>Rate</u>	<u>Total Levy</u>	<u>Property excluding registered motor vehicles</u>	<u>Registered motor vehicles</u>
Original levy:					
Property taxed at current year's rate	\$ 129,207,299	\$.56	\$ 724,711	\$ 663,011	\$ 61,700
Discoveries:					
Current year taxes	417,732	.56	2,344	2,344	-
Abatements	<u>(347,060)</u>		<u>(2,240)</u>	<u>(2,019)</u>	<u>(221)</u>
Total property valuation	<u>\$ 129,277,971</u>				
Net levy			724,815	663,336	61,479
Uncollected taxes at June 30, 2016			<u>(12,800)</u>	<u>(12,800)</u>	<u>-</u>
Current year's taxes collected			<u>\$ 712,015</u>	<u>\$ 650,536</u>	<u>\$ 61,479</u>
Current levy collection percentage			<u>98.23%</u>	<u>98.07%</u>	<u>100%</u>

Compliance Section

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

Honorable Mayor and
Town Commissioners
Biscoe, 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 basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Biscoe, North Carolina ("Town"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprises the Town's basic financial statements, and have issued our report thereon dated November 21, 2016.

Internal Control over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency as described in the accompanying schedule of findings and responses as item 2016-001 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with



governance. We consider the deficiency described in the accompanying schedule of findings and responses as item 2016-002 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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 items 2016-001 and 2016-002.

Town of Biscoe's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Town's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dixon Hughes Goodman LLP

**High Point, North Carolina
November 21, 2016**

Schedule of Findings and Responses

Section I. Summary of Auditors' Results

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	Yes
• Significant Deficiency(s) identified that are not considered to be material weaknesses?	Yes
Noncompliance material to financial statements noted	No

Section II. Financial Statement Findings

Finding: 2016-001 Deficit in Fund Balance of Individual Funds

Material Weakness

Criteria: Adequate resources must be available for fund operations.

Condition: The OSFM Grants Fund had a deficit in fund balance of \$58,559.

Effect: The OSFM Grants Fund did not have sufficient assets to pay its liabilities at June 30, 2016.

Identification of repeat finding: This is a repeat finding from the immediate previous audit, 2015-01.

Cause: This deficit is the result of timing related to certificate of deposit maturities that will be used to fund the expenditures. Upon maturity and close out of the project, the Town will transfer the funds as approved in the project ordinance.

Recommendation: We recommend that management transfer funds from the General Fund to the OSFM Grants Fund to cover the deficit.

Management response and planned corrective action: The Town agrees with this finding and will transfer funds from the General Fund to the OSFM grants fund to cover the deficit.

Proposed completion date: June 30, 2017

**Town of Biscoe, North Carolina
Schedule of Findings and Responses
For the Fiscal Year Ended June 30, 2016**

***Finding: 2016-002
Excess of Expenditures Over Appropriations***

Significant Deficiency

Criteria: General Statutes state that all moneys received and expended by a local government or public authority should be included in the budget ordinance.

Condition: The Town expended \$24,790 more in debt service in the Water and Sewer Fund and \$16,526 more in the Waste Water Treatment Plant Improvement Fund than appropriated in the annual budget ordinance. Additionally, the Town had to make a transfer from the Industrial Park Pump Lift Station Fund to the Water and Sewer Fund for reimbursement of expenditures which were not approved in the budget ordinance.

Effect: Moneys were spent that had not been appropriated.

Cause: The Town incurred unanticipated expenditures which had not been budgeted for in the budget ordinance and a budget amendment was not adopted.

Recommendation: We recommend that management review monthly budget to actual reports to determine whether budget amendments need to be approved before incurring additional expenditures.

Management response and planned corrective action: The Town agrees with this finding and will review budgetary documents more closely in order to identify when budget amendments are necessary.

Proposed completion date: June 30, 2017

Corrective Action Plan

Financial Statement Findings

***Finding:* 2016-001**

Name of contact person: Brandon Holland, Town Manager

Corrective Action Plan: The Town will transfer \$58,559 from the General Fund to the OSFM grants fund to cover the deficit.

Proposed Completion Date: June 30, 2017

***Finding:* 2016-002**

Name of contact person: Brandon Holland, Town Manager

Corrective Action Plan: The Town will review a budget-to-actual report prepared by the Town Clerk at each monthly board meeting. Budget amendments will be made as necessary.

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