

TOWN OF MILLS RIVER, NORTH CAROLINA

Financial Statements

June 30, 2016

Town Council Members

Larry Freeman, Mayor
Shanon Gonce, Mayor Pro Tem
Wayne Carland
Billy Johnston
Roger Snyder

Administrative and Financial Staff

Jeff Wells, Town Manager
Sue Powell, Finance Officer
Aurelie Taylor, Tax Collector

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Independent Auditor's Report

To the Honorable Mayor
and Members of the Governing Board
Town of Mills River, North Carolina

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities and the major fund of the Town of Mills River, North Carolina, 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.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, based on my audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Town of Mills River, North Carolina 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, and the Local Governmental Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Asset and Contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge I obtained during our audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

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

To the Honorable Mayor and
Members of the Governing Board
Independent Auditor's Report
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The individual fund statement and other schedules are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by me. In my opinion, based on my audit, the procedures performed as described above are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

November 7, 2016

Carl E. Shaw, CPA, PLLC

Management's Discussion and Analysis

As management of the Town of Mills River, North Carolina, we offer readers of the Town of Mills River's financial statements this narrative overview and analysis of the financial activities of the Town of Mills River 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

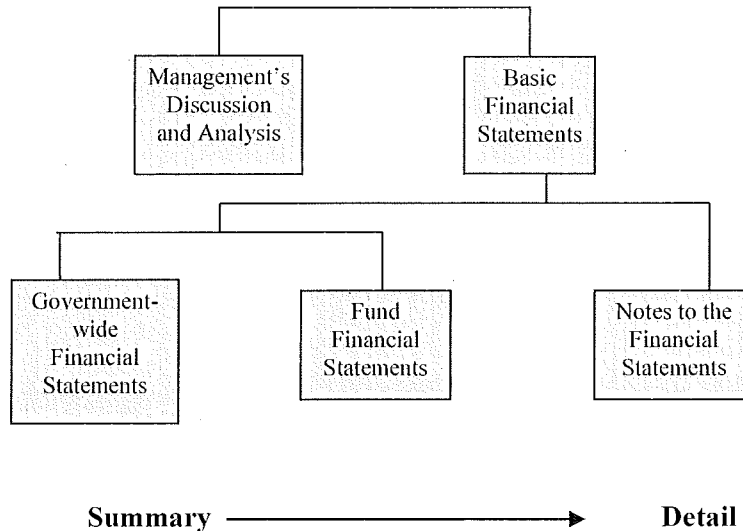
- The assets and deferred outflows of resources of the Town of Mills River *exceeded* its liabilities and deferred inflows of resources at the close of the fiscal year by \$7,854,079.
- The government's total net position *increased* by \$134,536. This year's increase was due to the increase in the Town's property tax base and continued strengthening of the sales tax revenues received from the State, along with expenditures remaining below budgetary provisions.
- As of the close of the current fiscal year, the Town of Mills River's governmental fund reported an ending fund balance of \$2,919,383, a decrease of \$228,527 in comparison with the prior year. Approximately 7% percent of this total amount, or \$195,553, is nonspendable or restricted.

Overview of the Financial Statements

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

Figure 1

Required Components of Annual Financial Report



Basic Financial Statements

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

The next statements (Exhibits 3 through 5) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the Town's government. These statements provide more detail than the government-wide statements. There are two parts to the Fund Financial Statements: 1) the governmental fund statements; and 2) the budgetary comparison statements.

The next section of the basic financial statements is the **notes**. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, **supplemental information** is provided to show details about the Town's property taxes.

Government-wide Financial Statements

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

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

The government-wide statements could be divided into three categories: 1) governmental activities; 2) business-type activities; and 3) component units. The governmental activities include most of the Town's basic services such as general government, parks and recreation, and public safety. Property taxes and State-shared revenues finance most of these activities. The Town has no business-type activities. There are no component units.

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 of Mills River, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the Town's budget ordinance. The Town has one governmental fund.

Governmental Fund – The governmental fund is used to account for those functions reported as governmental activities in the government-wide financial statements. The Town's basic services are accounted for in the governmental fund. This fund focuses on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting* that provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the Town's programs. The relationship between government activities (reported in the Statement of Net Position and the Statement of Activities) and the governmental fund 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 Council about which services to provide and how to pay for them. It also authorizes the Town to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the Town complied with the budget ordinance and whether or not the Town succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the board; 2) the final budget as amended by the board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin after Exhibit 5.

Other Information – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the Town of Mills River’s progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on pages 25-26.

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 and asset values associated with U. S. Treasury Securities because of actions by foreign government and other holders of publicly held U. S. Treasury Securities.

Government-wide Financial Analysis

Figure 2

**Town of Mills River, North Carolina
Condensed Statements of Net Position
June 30**

	<u>2016</u>	<u>2015</u>
Current and Other Assets	\$ 2,998,152	\$ 3,236,405
Capital Assets	5,560,573	5,263,876
Deferred Outflows of Resources	28,122	21,420
Total Assets and Deferred Outflows	<u>8,586,847</u>	<u>8,521,701</u>
Liabilities	718,232	741,843
Deferred Inflows of Resources	14,536	60,315
Total Liabilities and Deferred Inflows	<u>732,768</u>	<u>802,158</u>
Net Position		
Net Investment in Capital Assets	4,899,731	4,541,709
Restricted	187,946	174,758
Unrestricted	2,766,402	3,003,076
Total Net Position	<u>\$ 7,854,079</u>	<u>\$ 7,719,543</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 the Town of Mills River exceeded liabilities and deferred inflows by \$7,854,079 as of June 30, 2016. The Town’s net position *increased* by \$134,536 for the fiscal year ended June 30, 2016. However, approximately 62% of the Town’s net position reflects its investment in capital assets (e.g. land, building, furniture and equipment) less any related debt still outstanding that was issued to acquire those items. The Town of Mills River uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town’s net investment in capital assets is reported net of outstanding related debt, the resources needed to repay the debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of

the Town of Mills River's net position, \$187,946, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$2,766,402 is unrestricted.

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

- The Town achieved an overall tax collection rate of 99%.
- State-shared revenues such as sales taxes on retail goods and utilities increased over prior year totals.

Figure 3

**Town of Mills River, North Carolina
Condensed Statements of Activities
Years Ended June 30**

	2016	2015
Revenues:		
Program Revenues		
Charges for Services	\$ 7,615	\$ 7,105
Operating Grants and Contributions	2,030	27,094
General Revenues		
Ad Valorem Taxes	1,147,452	897,929
Other Taxes	826,482	807,545
Investment Earnings	5,968	4,396
Miscellaneous	7,729	16,625
Total Revenues	1,997,276	1,760,694
Expenses:		
General Government	528,633	639,056
Public Safety	1,009,997	758,523
Transportation	12,103	26,081
Cultural and Recreation	222,015	83,326
Economic and Physical Development	61,763	28,571
Interest and Other Charges	28,229	35,848
Total Expenses	1,862,740	1,571,405
Increase in Net Position	134,536	189,289
Net Position, July 1	7,719,543	7,530,254
Net Position, June 30	\$ 7,854,079	\$ 7,719,543

Financial Analysis of the Town's Funds

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

Governmental Fund – The focus of the Town of Mills River’s governmental fund is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the Town of Mills River’s financing requirements. Specifically, available 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 of Mills River. At the end of the current fiscal year, the Town’s fund balance available is \$2,723,850, while total fund balance totals \$2,919,383. As a measure of the general fund’s liquidity, it may be useful to compare available fund balance to total fund expenditures. Available fund balance represents 122% of annual General Fund expenditures.

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

Revenues were more than budgeted amounts primarily because the Town strives to budget with realistic revenue projections. Actual expenditures were slightly higher than budgeted amounts. The Town continued to provide required governmental services.

The Town provided \$5,139 to support the Henderson County Library branch in Mills River. The citizens of Mills River provided more than 2,792 volunteer hours in support of the Mills River branch library.

Capital Asset and Debt Administration

Capital Assets – The Town of Mills River’s investment in capital assets for its governmental activities as of June 30, 2016 totals \$5,560,573 (net of accumulated depreciation). These assets consist mainly of real property purchased and the Town Hall/Library building constructed in prior years, and construction-related costs for the Town Park.

During the current year, the Town rehabilitated the flood-damaged boat launch and pier that provides river access from the Town Park. The Town also constructed a new parking lot for park goers that was near completion as of June 30, 2016.

Figure 4

**Town of Mills River, North Carolina
Capital Assets - Net of Depreciation
June 30**

	<u>2016</u>	<u>2015</u>
Land	\$ 2,641,827	\$ 2,641,827
Buildings	1,059,598	1,090,545
Land Improvements	1,663,455	1,278,228
Furniture and Equipment	156,478	169,148
Computer Equipment	11,949	21,115
Vehicles	27,266	36,474
Total	<u>\$ 5,560,573</u>	<u>\$ 5,237,337</u>

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

Long-term Obligations

The Town continues to make monthly principal and interest payments of \$5,521 on its USDA-based financing used for the construction of the Town Hall/Library building. As of June 30, 2016, \$660,842 was outstanding on the debt. The Town has no other long-term debt. Additional information on this debt can be found in Note 9 of the Basic Financial Statements.

Economic Factors

The Town continues to experience healthy growth of its tax base with new economic development projects. This past year, the Town welcomed Raumedic into Broadpointe Industrial Park and Tri-Histil and Bold Rock to Schoolhouse Road. Next year, the Town will welcome Smart Products and GF Linamar. GF Linamar is the largest economic development project to locate in the county in decades. With development interest along NC 280 near Ingles and in remaining parcels in Broadpointe and Ferncliff Industrial Parks, the Town is poised to see additional growth in the tax base in coming years. Additional economic development expenditures for fiscal year 2017 include:

- Continuing yearly incentive payments to Sierra Nevada totaling \$12,400.
- First year of incentive payments to Raumedic totaling \$6,070..
- Continuing support to the Henderson County Economic Development Partnership and Agribusiness Henderson County with contributions of \$15,000 and \$10,000, respectively.

The Town completed two park projects this past fiscal year. The first was a canoe/kayak launch and parking area facility on the Mills River. The second was a 137 space parking area to alleviate existing capacity issues and to set ourselves up for additional facilities in the rear area of the park.

Budget Highlights for the Fiscal Year Ending June 30, 2017

- The tax rate for fiscal year 2017 is \$0.18 per \$100 valuation with \$0.09 per \$100 valuation funding the contract with Mills River Fire and Rescue and \$0.09 going to the Town's General Fund for operating expenses, including street lighting, planning and zoning, supplemental police protection, parks and recreation, and support of the local library and economic development activities.
- The Town entered into a new contract with Henderson County for police protection. The contract is for three years and provides for increased levels of service throughout the life of the contract. This first year, a total of three sheriff's deputies will provide dedicated law enforcement service to the Town, for a cost this year of \$372,387. The cost will increase in subsequent years as the level of dedicated officers is increased. The tax increase in this year's budget was done to offset the costs of the new contract over the next three years.
- Expenditures for public safety services provided by Mills River Fire and Rescue at \$865,000.
- Plan review and fire safety inspections totaling \$4,000.
- Lighting at selected street intersections and on town property, totaling \$13,000.
- Total of \$5,460 allocated to continued support of the Mills River Library. This accounts for utilities and garbage removal.
- Upgrades part-time position in Planning/Zoning Department to full-time to meet current development demand.
- Adds a part-time Parks and Recreation Ranger position to help meet current park use demands.

Requests for Information

This report is designed to provide an overview of the Town's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Town Manager at the Town Hall, located at 124 Town Center Drive, Mills River, North Carolina, 28759, or (828) 890-2901.

Town of Mills River, North Carolina
Statement of Net Position
June 30, 2016

Exhibit 1

	Governmental Activities
Assets	
Current Assets	
Cash and Cash Equivalents	\$ 2,746,909
Taxes Receivable (net)	30,641
Accrued Interest Receivable on Taxes	25,069
Due from Other Governments	187,946
Prepaid Items	7,587
Total Current Assets	2,998,152
Non-Current Assets	
Capital Assets:	
Land and Non-Depreciable Improvements	3,045,981
Other Capital Assets, Net of Depreciation	2,514,592
Total Capital Assets	5,560,573
Total Assets	8,558,725
Deferred Outflows of Resources	
Pension Related Deferrals	28,122
Total Deferred Outflows of Resources	28,122
Liabilities	
Current Liabilities	
Accounts Payable	18,969
Current Portion of Long-term Liabilities	54,910
Total Current Liabilities	73,879
Long-term Liabilities	
Net Pension Liability	13,733
Due in More than One Year	630,620
Total Long-term Liabilities	644,353
Total Liabilities	718,232
Deferred Inflows of Resources	
Prepaid Taxes	652
Prepaid Rent and Rental Deposits	3,438
Pension Related Deferrals	10,446
Total Deferred Inflows of Resources	14,536
Net Position	
Net Investment in Capital Assets	4,899,731
Restricted for:	
Stabilization by State Statute	187,946
Unrestricted	2,766,402
Total Net Position	\$ 7,854,079

The notes to the financial statements are an integral part of this statement.

Town of Mills River, North Carolina
Statement of Activities
Year Ended June 30, 2016

Functions / Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Position
					Governmental Activities
Governmental Activities:					
General Government	\$ 528,633	\$ 7,615	2,030	\$ -	\$ (518,988)
Public Safety	1,009,997	-	-	-	(1,009,997)
Economic and Physical Development	61,763	-	-	-	(61,763)
Transportation	12,103	-	-	-	(12,103)
Cultural and Recreation	222,015	-	-	-	(222,015)
Interest on long-term debt	28,229	-	-	-	(28,229)
Total Governmental Activities	\$ 1,862,740	\$ 7,615	\$ 2,030	\$ -	(1,853,095)
General Revenues					
Taxes:					
Property Taxes, levied for general purpose					1,147,452
Other Taxes					826,482
Unrestricted Investment Earnings					5,968
Miscellaneous					7,729
Total General Revenues					1,987,631
Change in Net Position					134,536
Net Position, July 1					7,719,543
Net Position, June 30					\$ 7,854,079

The notes to the financial statements are an integral part of this statement.

Fund Financial Statements

Town of Mills River, North Carolina
Balance Sheet
Governmental Fund
June 30, 2016

	General
Assets	
Cash and Cash Equivalents	\$ 2,746,909
Taxes Receivable - Net	30,641
Due from Other Governments	187,946
Prepaid Items	7,587
Total Assets	\$ 2,973,083
Liabilities and Fund Balance	
Liabilities:	
Accounts Payable and Accrued Liabilities	\$ 18,969
Total Liabilities	18,969
Deferred Inflows of Resources:	
Property Taxes Receivable	30,641
Prepaid Taxes	652
Prepaid Rent and Rental Deposits	3,438
Total Deferred Inflows of Resources	34,731
Fund Balance:	
Nonspendable	
Prepaid Expenditures	7,587
Restricted	
Stabilization by State Statute	187,946
Unassigned	2,723,850
Total Fund Balance	2,919,383
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$ 2,973,083

The notes to the financial statements are an integral part of this statement.

Town of Mills River, North Carolina
Balance Sheet
Governmental Fund
June 30, 2016

Exhibit 3
(Continued)

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

Total Fund Balance - Governmental Fund		\$ 2,919,383
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund.		
Gross capital assets at historical cost	\$ 6,219,137	
Accumulated depreciation	<u>(658,564)</u>	5,560,573
Contributions to the pension plan in the current fiscal year are deferred outflows of resources on the Statement of Net Position		
		28,122
Other long-term assets (accrued interest receivable from taxes) are not available to pay for current-period expenditures and, therefore, are deferred in the fund.		
		25,069
Liabilities for earned revenues considered deferred inflows of resources in fund statements.		
		30,641
Long-term liabilities used in governmental activities are not financial uses and, therefore, are not reported in the fund.		
Gross long-term debt - beginning of year	(716,951)	
Long-term debt included as net position below (includes the addition of long-term debt and principal payments during the year.)	<u>31,421</u>	(685,530)
Net Pension Liability		(13,733)
Pension related deferrals		<u>(10,446)</u>
Net Position of Governmental Activities		<u><u>\$ 7,854,079</u></u>

The notes to the financial statements are an integral part of this statement.

Town of Mills River, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Fund
Year Ended June 30, 2016

	General
Revenues	
Ad Valorem Taxes	\$ 1,152,921
Unrestricted Intergovernmental	826,482
Restricted Intergovernmental	1,830
Restricted Contributions	200
Investment Earnings	5,968
Permits and Fees	7,615
Miscellaneous	7,729
Total Revenues	2,002,745
Expenditures	
Current:	
General Government	434,939
Public Safety	1,009,997
Transportation	12,103
Economic and Physical Development	63,122
Cultural and Recreation	178,953
Debt Service:	
Principal	34,786
Interest and Other Charges	28,229
Capital Outlay	469,143
Total Expenditures	2,231,272
Net Change in Fund Balance	(228,527)
Fund Balance, Beginning	3,147,910
Fund Balance, Ending	\$ 2,919,383

The notes to the financial statements are an integral part of this statement.

Town of Mills River, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Fund
Year Ended June 30, 2016

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Net Change in Fund Balance - Total Governmental Fund	\$	(228,527)
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>		
Capital outlay expenditures which were capitalized	\$ 469,143	
Depreciation expense for governmental assets	<u>(145,907)</u>	323,236
Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities		23,034
<p>Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the fund.</p>		
Change in accrued interest receivable on taxes		259
Change in unavailable revenue for tax revenues		(5,727)
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position.</p>		
<p>This amount is the net effect of these differences in the treatment of long-term debt and related items.</p>		
Principal payments on long-term debt		34,786
<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 the governmental fund.</p>		
Change in compensated absences		(3,365)
Pension expense		<u>(9,160)</u>
Total Change in Net Position of Governmental Activities	\$	<u>134,536</u>

The notes to the financial statements are an integral part of this statement.

Town of Mills River, North Carolina
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance -
Budget and Actual
Year Ended June 30, 2016

	<u>Budget</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	
Revenues				
Ad Valorem Taxes	\$ 1,062,500	\$ 1,143,372	\$ 1,152,921	\$ 9,549
Unrestricted Intergovernmental	693,800	658,682	826,482	167,800
Restricted Intergovernmental Revenue	-	1,830	1,830	-
Restricted Contributions	-	200	200	-
Investment Earnings	2,000	8,474	5,968	(2,506)
Permits and Fees	4,000	6,840	7,615	775
Miscellaneous	5,210	7,536	7,729	193
Total Revenues	<u>1,767,510</u>	<u>1,826,934</u>	<u>2,002,745</u>	<u>175,811</u>
Expenditures				
Current:				
General Government	481,138	430,404	434,939	(4,535)
Public Safety	957,137	1,009,903	1,009,997	(94)
Transportation	12,500	12,103	12,103	-
Economic and Physical Development	63,775	63,274	63,122	152
Cultural and Recreation	189,860	651,367	648,096	3,271
Debt Service:				
Principal Retirement	34,871	34,786	34,786	-
Interest and Other Charges	28,229	28,229	28,229	-
Total Expenditures	<u>1,767,510</u>	<u>2,230,066</u>	<u>2,231,272</u>	<u>(1,206)</u>
Revenues Over (Under) Expenditures	-	(403,132)	(228,527)	174,605
Fund Balance Appropriated	-	403,132	-	(403,132)
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>(228,527)</u>	<u>\$ (228,527)</u>
Fund Balance, Beginning			<u>3,147,910</u>	
Fund Balance, Ending			<u>\$ 2,919,383</u>	

The notes to the financial statements are an integral part of this statement.

Town of Mills River, North Carolina
Notes to the Financial Statements
Year Ended June 30, 2016

Note 1 – Summary of Significant Accounting Policies:

The accounting policies of the Town of Mills River conform to accounting principles generally accepted in the United States of America 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 a five-member Council. There are no other entities for which the Town is accountable and which should be included in the accompanying financial statements.

B. Basis of Presentation

Government-wide Statements: The statement of net position and the statement of activities display information about the Town's financial activities. These statements include the financial activities of the overall government. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions.

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

Fund Financial Statements: The fund financial statements provide information about the Town's funds.

The Town reports the following major governmental fund:

General Fund – The General Fund, the general operating fund of the Town, is used to account for all financial resources. The primary revenue sources are ad valorem taxes and State-shared revenues. The primary expenditures are for general government services and public safety.

C. Measurement Focus and Basis of Accounting

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

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

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

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

The Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as revenues because the amount is not susceptible to accrual. At June 30, taxes receivable are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of 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 the 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 are shown as receivable in these financial statements and are offset by deferred inflows of resources.

Sales taxes and certain intergovernmental revenues, such as the utilities franchise tax, collected and held by the State at year-end on behalf of the Town, are recognized as revenue. Sales taxes are considered a shared revenue for the Town of Mills River because the tax is

levied by Henderson 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 that are unearned at year-end are recorded as unearned revenues. Under the terms of grant agreements, the Town could fund certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there would be 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 budget is adopted as required by North Carolina General Statutes. An annual budget ordinance is adopted for the General Fund. All annual appropriations lapse at fiscal year-end. The budget is prepared using the modified accrual basis of accounting.

Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds. Amendments are required for any revision that alter total expenditures or that change functional appropriations by more than \$2,500. During the year, an amendment to the original budget was necessary.

The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

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

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

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

Cash and Cash Equivalents – The Town's cash and investments are essentially demand deposits and are considered cash and cash equivalents.

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 (lien date); however, interest does not accrue until the following January 6. These taxes are based on the assessed values as of January 1, 2015.

Allowances for Doubtful Accounts – All receivables that historically experience uncollectible accounts are subject to be shown net of an allowance for doubtful accounts. This amount will be estimated by analyzing the percentage of receivables that were written off in prior years. The Town has not established an allowance due to the immaterial amounts of receivables subject to being uncollectible.

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

Capital Assets – Capital assets are defined by the Town as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. Minimum capitalization cost is \$5,000. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

	Estimated Useful Lives (in years)
Buildings	39
Land Improvements	15
Furniture and Equipment	7
Vehicles	5
Computer Equipment	5

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 two items that meet this criterion, contributions made to the pension plan in the 2016 year and a pension related deferral.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period

and so will not be recognized as revenue until then. The Town has several items that meet the criterion for this category - prepaid taxes, property taxes receivable, prepaid rent, rental deposits and deferrals of pension expense that result from the implementation of GASB Statement 68.

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

In fund financial statements, governmental fund types recognize the face amount of debt issues as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

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. An expense and 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.

Net Position/Fund Balance – Net position in government-wide financial statements are classified as net investment in capital assets; restricted and unrestricted. Restricted net position represent constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through State statute.

In the governmental fund financial statements, fund balance is composed of five classifications designed to disclose the hierarchy of constraints placed on how fund balance can be spent.

The governmental fund types classify fund balances as follows:

Nonspendable Fund Balance – This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Prepaid Items – Portion of fund balance that is not an available resource because it represents the year-end balance of prepaid expenses, which are not spendable resources.

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)].

Committed Fund Balance – Portion of fund balance that can only be used for specific purpose imposed by majority vote by quorum of the Town's governing body. 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.

The governing board of the Town has made no commitments of its fund balances that would require separate financial statement disclosure.

Assigned Fund Balance – Portion of fund balance that the Town intends to use for specific purposes.

Subsequent year's expenditures – Portion of fund balance that is appropriated in the next year's budget that is not already classified in restricted or committed. The Town has not appropriated any fund balance in its 2016-2017 budget.

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

Pensions

For purposes of measuring the net pension asset, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Local Governmental Employees' Retirement System (LGERS) and additions to/deductions from LGERS' fiduciary net position have been determined on the same basis as they are reported by LGERS. For this purpose, plan member contributions are recognized in the period in which the contributions are due. The Town of Mills River employer contributions are recognized when due and the Town of Mills River 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.

Note 2 – Deposits and Investments:

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 names. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town, these deposits are considered

to be held by the Town in its name. The amount of pledged collateral is based on an approved averaging method for non-interest-bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Town or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Town under the Pooling Method, the potential exists for under-collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Town has no formal policy regarding custodial credit risk for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The Town complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2016, the Town's deposits had a carrying amount of \$1,868,230 and a bank balance of \$1,868,497. \$1,500,000 of the bank balance was covered by federal depository insurance and \$368,497 in interest-bearing deposits was covered by collateral held under the Pooling Method. At June 30, 2016, the Town's petty cash fund totaled \$300.

Investments:

At June 30, 2016, the Town's investment balances were as follows:

<u>Investment Type</u>	<u>Valuation Measurement Method</u>	<u>Fair Value</u>	<u>Maturity</u>	<u>Rating</u>
NC Capital Management Trust - Cash Portfolio	Amortized Cost	\$ 627,517	N/A	AAAm
NC Capital Management Trust - Term Portfolio	Fair Value Level 1	<u>250,862</u>	.14 Years (a)	Unrated
Total		<u>\$ 878,379</u>		

(a) This is the duration for the Term Portfolio

All investments are measured using the market approach; using prices and other relevant information generated by market transactions involving identical or comparable assets or a group of assets.

Level of fair value hierarchy: Level 1 – Debt securities valued using directly observable, quoted prices (unadjusted) in active markets for identical assets.

Interest Rate Risk. The Town has no formal investment policy regarding interest rate risk.

Credit risk. The Town has no formal policy regarding credit risk, but has internal management procedures that limits the Town's investments to the provisions of G.S. 159-30 and restricts the purchase of securities to the highest possible ratings whenever particular types of securities are rated. The Town's investment in the NC Capital Management Trust Cash Portfolio carried a credit rating of AAAm by Standard & Poor's as of June 30, 2016. The Town's investment in

the NC Capital Management Trust Term Portfolio is unrated. The Term Portfolio is authorized to invest in obligations of the U.S: government and agencies, and in high grade money market instruments as permitted under North Carolina General Statutes 159-30 as amended.

Note 3 – Capital Assets:

Capital asset activity for the Town for the year ended June 30, 2016 was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental Activities:				
Capital Assets Not Being Depreciated:				
Land	\$ 2,641,827	\$ -	\$ -	\$ 2,641,827
Land Improvements	14,873	389,281	-	404,154
Total Capital Assets Not Being Depreciated	<u>2,656,700</u>	<u>389,281</u>	<u>-</u>	<u>3,045,981</u>
Capital Assets Being Depreciated:				
Buildings	1,215,451	-	-	1,215,451
Land Improvements	1,477,114	79,862	-	1,556,976
Furniture and Equipment	269,478	-	-	269,478
Vehicles	46,040	-	-	46,040
Computer Equipment	85,211	-	-	85,211
Total Capital Assets Being Depreciated	<u>3,093,294</u>	<u>79,862</u>	<u>-</u>	<u>3,173,156</u>
Less: Accumulated Depreciation For:				
Land Improvements	213,759	66,016	-	279,775
Buildings	124,906	30,947	-	155,853
Furniture and Equipment	100,330	30,570	-	130,900
Vehicles	9,566	9,208	-	18,774
Computer Equipment	64,096	9,166	-	73,262
Total Accumulated Depreciation	<u>512,657</u>	<u>145,907</u>	<u>-</u>	<u>658,564</u>
Total Capital Assets Being Depreciated - Net	<u>2,580,637</u>	<u>(66,045)</u>	<u>-</u>	<u>2,514,592</u>
Governmental Activity Capital Assets - Net	<u>\$ 5,237,337</u>	<u>\$ 323,236</u>	<u>\$ -</u>	<u>\$ 5,560,573</u>

Depreciation expense of \$145,907 was charged \$89,732 to the Town's general government function and \$56,175 to the Town's cultural and recreation function.

Note 4 – Pension Plan Obligations:

Local Governmental Employees' Retirement System

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

Benefits Provided. LGERS provides retirement and survivor benefits. Retirement benefits are determined as 1.85% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. Plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. Plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service. 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 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.

Contributions. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. Town of Mills River employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Town of Mills River contractually required contribution rate for the year ended June 30, 2015, was 7.71%, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Town of Mills River were \$23,034 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 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 \$13,733 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 liability 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, 2016, the Town's proportion was 0.00306%, which was a decrease of 0.00144% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2016, the Town recognized pension expense of \$9,160. At June 30, 2016, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 3,228
Net difference between projected and actual earnings on pension plan investments	-	3,910
Changes in proportion and differences between Town contributions and proportionate share of contributions	5,088	3,308
Town contributions subsequent to the measurement date	23,034	-
	<u>\$ 28,122</u>	<u>\$ 10,446</u>

\$23,034 reported 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	\$ (3,720)
2018	(3,720)
2019	(3,732)
2020	5,814
2021	-
Total	<u>\$ (5,358)</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

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	6.0%	3.4%
	<u>100%</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.

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

	<u>1% Decrease (6.25%)</u>	<u>Current Discount Rate (7.25%)</u>	<u>1% Increase (8.25%)</u>
Town's proportionate share of the net pension liability (asset)	<u>\$ 95,762</u>	<u>\$ 13,733</u>	<u>\$ (55,375)</u>

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.

Note 5 – 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. All death benefit payments are made from the Death Benefit Plan. The Town has no liability beyond the payment of monthly contributions. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount. The Town considers these contributions to be immaterial.

Note 6 – Claims, Judgments and Contingent Liabilities:

The Town is periodically involved in legal actions and claims arising in the normal course of operations. The ultimate resolution of these actions is not expected to have a material effect upon the financial position of the Town.

Note 7 – Deferred Outflows and Inflows of Resources:

Deferred outflows of resources at June 30, 2016 is comprised of contributions to the pension plan in the current fiscal year totaling \$28,122.

Deferred inflows of resources at June 30, 2016 is comprised of the following:

Prepaid Taxes	\$	652
Prepaid Rent		2,838
Rental Deposits		600
Taxes Receivable		30,641
Differences between expected and actual experience		3,228
Net difference between projected and actual earnings on pension plan investments		3,910
Changes in proportion and differences between employer contributions and proportionate share of contributions		3,308
		<hr/>
	\$	45,177

Note 8 – Risk Management:

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town participates in three self-funded risk-financing pools administered by the North Carolina League of Municipalities. Through these pools, the Town obtains general liability of

\$5 million and auto liability coverage of \$1 million per occurrence, property coverage up to the total insurance values of the property policy, workers' compensation coverage up to statutory limits, and employee health coverage up to a \$2 million lifetime limit. The pools are reinsured through commercial companies for single occurrence claims against general liability, auto liability, and property in excess of \$500,000 and \$300,000 up to statutory limits for workers' compensation. The pools are reinsured for annual employee health claims in excess of \$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 past three fiscal years.

The Town does not carry flood insurance due to the physical location of the Town's facilities and the lack of a risk of potential flood damage, as determined by the Town's management.

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 bonded for \$75,000 and the tax collector is bonded for \$25,000. The remaining employees that have access to funds are bonded under a blanket bond for \$100,000.

Note 9 – Long-term Debt:

General Obligation Indebtedness

The Town makes monthly principal and interest payments of \$5,251 on a loan from the USDA. The loan, which has an annual interest rate of 4.125%, funded the construction of the Town Hall/Library.

A schedule of the changes in long-term debt that occurred during the year ended June 30, 2016 is as follows:

Governmental Activities:	Beginning Balances	Increases	Decreases	Ending Balances	Current Portion
Town Hall/Library	\$ 695,628	\$ -	\$ 34,786	\$ 660,842	\$ 36,394
Net Pension Liability (LGERS)	-	13,733	-	13,733	-
Compensated Absences	21,323	3,365	-	24,688	18,516
Total	\$ 716,951	\$ 17,098	\$ 34,786	\$ 699,263	\$ 54,910

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>	<u>Total</u>
2017	\$ 36,394	\$ 26,621	\$ 63,015
2018	37,927	25,088	63,015
2019	39,524	23,491	63,015
2020	41,129	21,886	63,015
2021	42,920	20,095	63,015
2022-2026	243,241	71,434	314,675
2027-2030	219,707	17,951	237,658
Total	<u>\$ 660,842</u>	<u>\$ 206,566</u>	<u>\$ 867,408</u>

Note 10 – Construction Commitments:

The Town has an active construction project as of June 30, 2016. At year-end, the Town's commitment with the contractor is as follows:

	<u>Original Contract Amount</u>	<u>Remaining Commitment</u>
Parking Area	<u>\$ 393,025</u>	<u>\$ 34,250</u>

Note 11 – Stewardship, Compliance and Accountability:

Noncompliance with North Carolina General Statutes

Excess of Expenditures over Appropriations

During the year ended June 30, 2016, actual expenditures under the General Government and the Public Safety functions exceeded the authorized appropriations made by the governing board. The overage occurred when the Town did not budget for additional expenditures owed at year-end. Management and the Board will consider year end payable amounts when preparing end-of-year budget amendments.

**Required
Supplementary Information**

Town of Mills River, North Carolina
Proportionate Share of Net Pension Liability (Asset)
Required Supplementary Information
Last Three Fiscal Years *

Local Governmental Employees' Retirement System

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Mills River's proportion of the net pension liability (asset) (%)	0.00306%	0.00450%	0.00380%
Mills River's proportion of the net pension liability (asset) (\$)	\$ 13,733	\$ (26,539)	\$ 45,805
Mills River's covered-employee payroll	\$ 298,753	\$ 270,115	\$ 252,053
Mills River's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	4.60%	-9.80%	18.10%
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 ended June 30.

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

Town of Mills River, North Carolina
Schedule of Contributions
Required Supplementary Information
Last Three Fiscal Years

Local Government Employees' Retirement System

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 23,034	\$ 21,420	\$ 19,963
Contributions in relation to the contractually required contribution	<u>23,034</u>	<u>21,420</u>	<u>19,963</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Mills River's covered-employee payroll	\$ 298,753	\$ 270,115	\$ 252,053
Contributions as a percentage of covered-employee payroll	<u>7.70%</u>	<u>7.92%</u>	<u>7.92%</u>

Individual Fund Statements and Schedules

Town of Mills River, North Carolina
General Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
Year Ended June 30, 2016

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Ad Valorem Taxes:			
Current Year		\$ 1,139,325	
Prior Years		5,104	
Interest and Penalties		8,492	
Total	<u>\$ 1,143,372</u>	<u>1,152,921</u>	<u>\$ 9,549</u>
Unrestricted Intergovernmental:			
Local Option Sales Taxes		375,930	
Sales Tax - Utilities		330,938	
Sales Tax - Telecommunications		63,619	
Sales Tax - Video Programming		24,903	
Beer and Wine Tax		31,092	
Total	<u>658,682</u>	<u>826,482</u>	<u>167,800</u>
Restricted Intergovernmental:			
Grant Funds - Wellness	<u>1,830</u>	<u>1,830</u>	
Total	<u>1,830</u>	<u>1,830</u>	<u>-</u>
Restricted Contributions	<u>200</u>	<u>200</u>	<u>-</u>
Permits and Fees:			
Building permits	<u>6,840</u>	<u>7,615</u>	<u>775</u>
Investment Earnings	<u>8,474</u>	<u>5,968</u>	<u>(2,506)</u>
Miscellaneous			
Rental Income	7,428	7,528	
Other Miscellaneous Income	108	201	
	<u>7,536</u>	<u>7,729</u>	<u>193</u>
Total Revenues	<u>1,826,934</u>	<u>2,002,745</u>	<u>175,811</u>
Expenditures:			
General Government:			
Governing Body	<u>3,470</u>	<u>2,168</u>	<u>1,302</u>

Town of Mills River, North Carolina
General Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
Year Ended June 30, 2016

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Administration:			
Salaries and Employee Benefits	\$ 297,021	\$ 300,062	
Other Operating Expenditures	87,493	89,373	
Capital Outlay	-	-	
Total	<u>384,514</u>	<u>389,435</u>	<u>(4,921)</u>
Finance:			
Tax Department	2,503	2,503	
Contract Services	28,568	27,985	
Total	<u>31,072</u>	<u>30,488</u>	<u>584</u>
Legal:			
Contract Services	8,833	10,333	(1,500)
Elections:			
Contracts	2,515	2,515	
Total General Government	<u>430,404</u>	<u>434,939</u>	<u>(4,535)</u>
Public Safety:			
Payments to Henderson County Sheriff	109,137	109,137	
Payments to Fire Departments	895,339	898,147	
Other Operating Expenditures	5,426	2,713	
Total Public Safety	<u>1,009,903</u>	<u>1,009,997</u>	<u>(94)</u>
Transportation:			
Total	<u>12,103</u>	<u>12,103</u>	<u>-</u>

**Town of Mills River, North Carolina
General Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
Year Ended June 30, 2016**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Economic and Physical Development			
Other Operating Expenditures	\$ 63,274	\$ 63,122	
Total	<u>63,274</u>	<u>63,122</u>	<u>152</u>
Cultural and Recreation			
Capital Outlay	479,767	477,643	
Parks	166,461	165,314	
Library	5,139	5,139	
Total	<u>651,367</u>	<u>648,096</u>	<u>3,271</u>
Debt Service			
Principal	34,786	34,786	
Interest	28,229	28,229	
Total	<u>63,015</u>	<u>63,015</u>	<u>-</u>
Total Expenditures	<u>2,230,066</u>	<u>2,231,272</u>	<u>(1,206)</u>
Revenues Over (Under) Expenditures	(403,132)	(228,527)	174,605
Fund Balance Appropriated	<u>403,132</u>	<u>-</u>	<u>(403,132)</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>(228,527)</u>	<u>\$ (228,527)</u>
Fund Balance:			
Beginning of Year		<u>3,147,910</u>	
End of Year		<u>\$ 2,919,383</u>	

Other Schedules

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

Fiscal Year	Uncollected Balance June 30, 2015	Additions	Collections And Credits	Uncollected Balance June 30, 2016
2015-2016	\$ -	\$ 1,134,035	\$ 1,126,539	\$ 7,496
2014-2015	9,126	3,117	8,513	3,730
2013-2014	5,123	2,649	5,124	2,648
2012-2013	5,352	838	2,903	3,287
2011-2012	2,792	119	493	2,418
2010-2011	2,591	-	709	1,882
2009-2010	3,509	-	431	3,078
2008-2009	855	-	97	758
2007-2008	4,592	-	106	4,486
2006-2007	1,205	-	347	858
2005-2006	1,224	-	1,224	-
Totals	\$ 36,369	\$ 1,140,758	\$ 1,146,486	30,641
Less: Allowance for Uncollectible Taxes				-
Ad Valorem Taxes Receivable - Net				<u>\$ 30,641</u>
Reconciliation with Revenues:				
Taxes - Ad Valorem - General Fund				\$ 1,144,429
Reconciling Items:				
Taxes written off				1,181
Releases, Refunds, and Adjustments				<u>876</u>
Total Collections and Credits				<u>\$ 1,146,486</u>

Town of Mills River, North Carolina
Analysis of Current Tax Levy
Year Ended June 30, 2016

	<u>Property Valuation</u>	<u>Rate</u>	<u>Total Levy</u>	<u>Total Levy Property Excluding Registered Motor Vehicles</u>	<u>Registered Motor Vehicles</u>
Original Levy	\$ 988,148,577	0.1124	\$ 1,110,679	\$ 1,030,481	\$ 80,198
Discoveries	26,165,480		29,410	29,410	-
Releases	<u>(5,386,121)</u>		<u>(6,054)</u>	<u>(6,054)</u>	<u>-</u>
Adjusted Levy	<u>\$ 1,008,927,936</u>				
Net Levy			1,134,035	1,053,837	80,198
Less: Uncollected Taxes at June 30, 2016			<u>7,496</u>	<u>7,496</u>	<u>-</u>
Current Year's Taxes Collected			<u>\$ 1,126,539</u>	<u>\$ 1,046,341</u>	<u>\$ 80,198</u>
Percent Collected			<u>99.34%</u>	<u>99.29%</u>	<u>100.00%</u>