

TOWN OF FOREST CITY, NORTH CAROLINA

Financial Statements  
(With Supplementary Information)

June 30, 2013

TOWN OFFICIALS

MAYOR

Dennis L. Tarlton

COMMISSIONERS

Dee Dee Bright

David Eaker

Steve Holland

Chris Lee

Shawn Moore

OFFICERS

John Condrey, City Manager

Julie Scherer, Finance Director

Emily Sain, City Clerk

TOWN OF FOREST CITY, NORTH CAROLINA  
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June 30, 2013

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Independent Auditor's Report

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

**Report on the Financial Statements**

I have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, and each fund, and the aggregate remaining fund information of the Town of Forest City, North Carolina, as of and for the year ended June 30, 2013, 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 opinions on these financial statements based on my audit. I did not audit the financial statements of the Town of Forest City ABC Board. Those statements were audited by another auditor whose report has been furnished to me, and my opinion, insofar as it relates to the amounts included for the Town of Forest City ABC Board, is based solely on the report of the other auditor. I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Town of Forest City ABC Board were not audited in accordance with *Government Auditing Standards*.

An audit includes 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 opinions.

### **Opinions**

In my opinion, based on my audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, the discretely presented component unit, and each fund of the Town of Forest City, North Carolina as of June 30, 2013 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 the Management's Discussion and Analysis, (Pages A-I), and the Law Enforcement Officers' Special Separation Allowance (Exhibits I and II), be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental 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. I and the other auditors 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 inquiries, the basic financial statements, and other knowledge I obtained during my 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 Forest City, North Carolina. The individual fund statements, budgetary schedules, other schedules, and Schedule of Expenditures of Federal and State Awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of State and Local Governments and Non-Profit Organizations* and the State Single Audit Implementation Act, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The individual fund statements, budgetary schedules, other schedules and the Schedule of Expenditures of Federal and State Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by me and the other auditors. In my opinion, based on my audit, the procedures performed as

described above, and the report of the other auditors, the individual fund statements, budgetary schedules, Schedule of Expenditures of Federal and State Awards, and other schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required By *Government Auditing Standards***

In accordance with *Government Auditing Standards*, I have also issued my report dated November 15, 2013 on my consideration of the Town of Forest City's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of the report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Forest City's internal control over financial reporting and compliance.



November 15, 2013

TOWN OF FOREST CITY, NORTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

## Town of Forest City, North Carolina

### Management's Discussion and Analysis

As management of the Town of Forest City, we offer readers of Forest City's financial statements this narrative overview and analysis of the financial activities of the Town of Forest City for the fiscal year ended June 30, 2013. 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

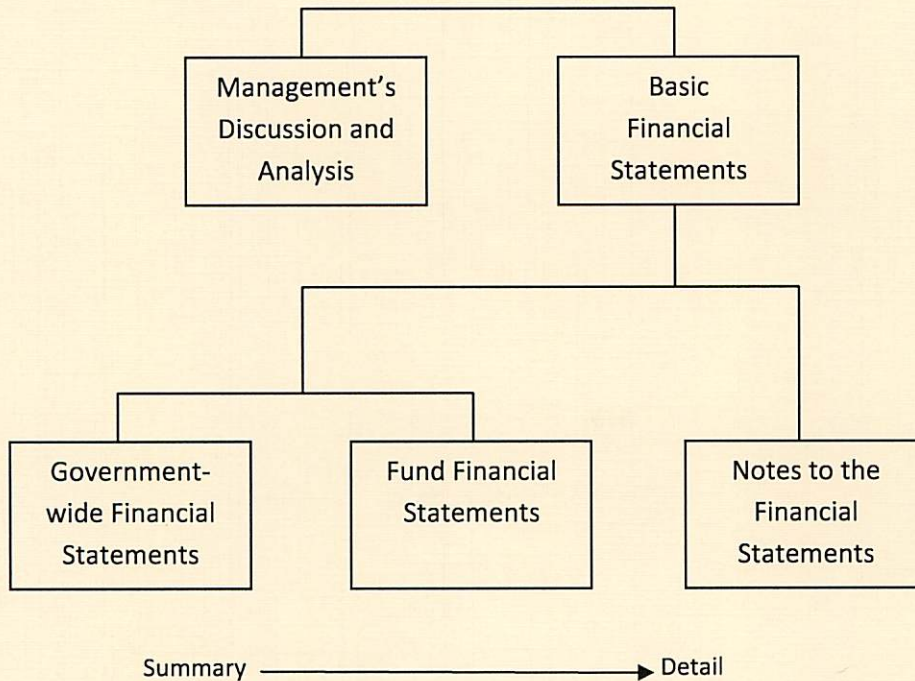
- The assets and deferred outflows of resources of the Town of Forest City exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$77,309,289 (*net position*).
- The government's total net position increased by \$574,784. Current year operations resulted in \$476,862 of this increase while \$97,922 is the result of a prior period adjustment. As of the close of the current fiscal year, the Town of Forest City's governmental funds reported combined ending fund balances of \$4,615,844 with a net increase of \$250,132 in fund balance. Approximately 18.89 percent of this total amount, or \$871,943, is non spendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$3,270,180, or 33.16 percent of the total General Fund expenditures for the year.
- The Town of Forest City's installment debt decreased by \$166,666 (9.37%) during the current fiscal year. The Town has a loan of \$1,611,111 outstanding as of June 30, 2013 related to McNair Field.

### Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to Forest City'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 Forest City.



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



### **Basic Financial Statements**

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

The next statements (Exhibits 3 through 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 fund statements, 2) the budgetary comparison statements, and 3) the proprietary fund statements.

The next section of the basic financial statements is the **Notes to the Financial Statements**. The notes explain in detail some of the data contained in the statements. After the notes, **supplemental information** is provided to show details about the Town's individual funds. Budgetary information required by the General Statutes also can be found in this part of the statements.

## 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 are 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 public safety, parks and recreation, and general administration. Property taxes, sales taxes, utility franchise revenue, and state grants funds finance most of these activities. The business-type activities are those that the Town charges customers to provide. These include water and sewer and electric services offered by the Town of Forest City. The final category is the component unit. Although legally separate from the Town, the ABC Board is important to the Town because the Town exercises control over the Board by appointing its members and the Board is required to distribute its profits to the Town.

The government-wide financial statements are 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 Forest City, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the Town's budget ordinance. All of the funds of the Town of Forest City can be divided into two categories: governmental funds and proprietary funds.

**Governmental Funds** – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the Town's basic services are accounted for in governmental funds. These funds focus on how assets can be readily 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 part of the fund financial statements.

## Management's Discussion and Analysis Town of Forest City

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

**Proprietary Funds** – The Town of Forest City has one type of proprietary fund. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements financial statements. The Town of Forest City uses enterprise funds to account for its water and sewer activity and for its electric operations. These funds are the same as those functions shown in the business-type activities in the Statement of Net Position and the Statement of Activities.

**Notes to the Financial Statements** - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 10 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 of Forest City's progress in funding its obligation to provide pension benefits to its police employees. Required supplementary information can be found after the notes to the financial statements in 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, Forest City is subject to changes in specific flows of intergovernmental revenues based on modifications to Federal and State laws and/or appropriations.

### **Government-Wide Financial Analysis**

The government-wide financial statements for years ending June 30, 2012 and June 30, 2013 are in compliance with generally accepted accounting principles (GAAP). As appropriate, changes may have been made to prior year amounts to make them comparable to current year amounts. The comparisons between the two years in assets and fund balance are commented on in the Financial Highlights and in Figure 2.

**The Town of Forest City's Net Position**  
**Figure 2**

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
<b>Current and other assets</b>	\$ 5,058,203	\$ 4,716,238	\$ 10,304,726	\$ 10,112,280	\$ 15,362,929	\$ 14,828,518
<b>Restricted Assets</b>						
Cash and cash equivalents	\$189,358	253,807	\$921,819	297,347	1,111,177	551,154
<b>Capital assets - net</b>	17,072,725	17,826,927	46,869,992	46,254,145	63,942,717	64,081,072
<b>Other assets</b>						
Due from component unit	122,924	161,669			122,924	161,669
Industrial development loan			950,000	950,000	950,000	950,000
<b>Deferred outflows of resources</b>						
<b>Total assets and deferred outflows of resources</b>	<b>\$ 22,443,210</b>	<b>\$ 22,958,641</b>	<b>\$ 59,046,537</b>	<b>\$ 57,613,772</b>	<b>\$ 81,489,747</b>	<b>\$ 80,572,413</b>
<b>Long-term liabilities outstanding</b>	\$ 1,903,422	\$ 2,051,212			\$ 1,903,422	\$ 2,030,344
<b>Other liabilities</b>	720,698	725,616	1,555,030	1,061,080	2,275,728	2,091,089
<b>Deferred inflows of resources</b>	1,308					
<b>Total liabilities and deferred inflows of resources</b>	<b>\$ 2,625,428</b>	<b>\$ 2,776,828</b>	<b>\$ 1,555,030</b>	<b>\$ 1,061,080</b>	<b>\$ 4,179,150</b>	<b>\$ 4,121,433</b>
<b>Net position:</b>						
<b>Net investment in capital assets</b>	\$ 15,461,614	\$ 16,049,150	\$ 46,869,992	\$ 46,254,145	\$ 62,331,606	\$ 62,303,295
<b>Restricted</b>	663,804	848,272			663,804	848,272
<b>Unrestricted</b>	3,692,364	3,284,391	10,621,515	10,298,547	14,313,879	13,582,938
<b>Total net position</b>	<b>\$ 19,817,782</b>	<b>\$ 20,181,813</b>	<b>\$ 57,491,507</b>	<b>\$ 56,552,692</b>	<b>\$ 77,309,289</b>	<b>\$ 76,734,505</b>

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 Forest City exceeded liabilities and deferred inflows by \$77,309,289 as of June 30, 2013. The Town's net position increased by \$574,784 for the fiscal year ended June 30, 2013. The largest portion of Net Position (80.63%) reflects the Town's net investment in capital assets (e.g. land, buildings, machinery and equipment) which totals \$62,331,606. The Town of Forest City uses its capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Forest City's net investment in capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Town's net position, \$663,804, represents resources which are subject to external restrictions as to how they may be used. The remaining balance, \$14,313,879, is unrestricted.

**Town of Forest City Changes in Net Position**  
**Figure 3**

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
<b>Revenues</b>						
<b>Program Revenues:</b>						
Charges for Services	\$1,388,086	\$1,474,615	\$15,790,823	\$16,601,951	\$17,178,909	\$18,076,566
Operating Grants and Contributions	316,488	739,846			316,488	739,846
Capital Grants and Contributions		8,667	2,141,392	37,179	2,141,392	45,846
					0	
<b>General Revenue:</b>						
Property Taxes	1,887,813	1,637,227			1,887,813	1,637,227
Other Taxes	556,753	552,441			556,753	552,441
Unrestricted Intergovernmental	970,200	843,846			970,200	843,846
Unrestricted Investment earnings	62,873	86,305	184,487	164,941	247,360	251,246
Gain on Sale or Capital Assets	-361,160	17,040			-361,160	17,040
Insurance Recovery	27,621	135,155			27,621	135,155
Miscellaneous	24,699	11,307			24,699	11,307
<b>Total Revenues</b>	<b>4,873,373</b>	<b>5,506,449</b>	<b>18,116,702</b>	<b>16,804,071</b>	<b>22,990,075</b>	<b>22,310,520</b>
<b>Expenses:</b>						
General Government	2,082,279	1,981,056			2,082,279	1,981,056
Public Safety	3,862,822	3,819,222			3,862,822	3,819,222
Transportation	1,417,738	1,327,834			1,417,738	1,327,834
Environmental Protection	1,036,689	1,045,410			1,036,689	1,045,410
Culture and Recreation	1,609,930	1,569,719			1,609,930	1,569,719
Community Development	38,416	469,111			38,416	469,111
Cemetary	16,943	5,811			16,943	5,811
Water and Sewer			4,341,663	4,168,650	4,341,663	4,168,650
Electric			8,106,733	8,645,595	8,106,733	8,645,595
<b>Total Expenses</b>	<b>10,064,817</b>	<b>10,218,163</b>	<b>12,448,396</b>	<b>12,814,245</b>	<b>22,513,213</b>	<b>23,032,408</b>
<b>Total before transfers</b>	<b>(5,191,444)</b>	<b>(4,711,714)</b>	<b>5,668,306</b>	<b>3,989,826</b>	<b>476,862</b>	<b>(721,888)</b>
<b>Transfers</b>	<b>4,827,413</b>	<b>4,637,738</b>	<b>(4,827,413)</b>	<b>(4,637,738)</b>	<b>-</b>	<b>-</b>
<b>Increase (Decrease) in Net Position</b>	<b>(364,031)</b>	<b>(73,976)</b>	<b>840,893</b>	<b>(647,912)</b>	<b>476,862</b>	<b>(721,888)</b>
<b>Net Position July 1 as previously stated</b>	<b>20,181,813</b>	<b>20,255,789</b>	<b>56,552,692</b>	<b>57,200,604</b>	<b>76,734,505</b>	<b>77,456,393</b>
<b>Prior period adjustment</b>			<b>\$97,922</b>		<b>\$97,922</b>	
<b>Net Position July 1 restated</b>	<b>\$20,181,813</b>	<b>\$20,255,789</b>	<b>\$56,650,614</b>	<b>\$57,200,604</b>	<b>\$76,832,427</b>	
<b>Net Position June 30</b>	<b>\$19,817,782</b>	<b>\$20,181,813</b>	<b>\$57,491,507</b>	<b>\$56,552,692</b>	<b>\$77,309,289</b>	<b>\$76,734,505</b>

Management's Discussion and Analysis  
Town of Forest City

**Governmental activities:** Governmental activities decreased the Town's net position by \$364,031. This decrease is mainly attributable to a decrease in Capital Assets, net of depreciation, of approximately \$750,000. The Town sold buildings located in the downtown area during the year resulting in the majority of the decline. In addition, a minimal decline occurred due to typical depreciation of capital assets with no major capital asset additions to offset the depreciation.

**Business-type activities:** Business-type activities increased the Town of Forest City's net position by \$840,893 based on current year operations and by \$97,922 as the result of a prior period adjustment. The increase due to current year operations can be attributed to Water and Sewer Fund Construction in Process occurring as of June 30, 2013 at the new Horsehead facility. Funded mainly with grant funds, the Town is constructing water and sewer improvements to service the Horsehead facility which is anticipated to begin operations during fiscal year 2013-2014. The increase due to the prior period adjustment relates to certain prior year engineering expenditures that had previously been made from the Water and Sewer Fund. In the current year, it was determined that these expenditures were eligible for grant reimbursement and were, therefore, reclassified to the Capital Projects Fund.

### Financial Analysis of the Town's Funds

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

**Governmental Funds** – The focus of the Town of Forest City's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the Town of Forest City's financing requirements. Specifically, unreserved 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 Forest City. At the end of the current fiscal year, the Town of Forest City's fund balance available in the General fund was \$3,743,901, and total fund balance reached \$4,615,844. The Town Council of Forest City has determined that the Town should maintain an available balance of 25% of General Fund expenditures; currently the Town has an available balance of 37.96% of General Fund expenditures.

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

Revenues were \$272,995 more than the budgeted amounts. Expenditures were \$608,341 less than budgeted amounts and the Town was able to comply with its budgetary requirements.

Management's Discussion and Analysis  
Town of Forest City

**Proprietary Funds** – The Town of Forest City's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the Water and Sewer Fund at the end of the fiscal year amounted to \$6,307,423 and those for the Electric Fund amounted to \$4,314,092. The change in net position for both funds was an increase of \$1,199,242 in the Water and Sewer Fund and a decrease of (\$358,349) in the Electric Fund. Other factors concerning the finances of these two funds have already been addressed in the discussion of the Town of Forest City's business-type activities.

**Capital Assets and Debt Administration**

**Capital Assets** - The Town of Forest City's investment in capital assets for its governmental and business-type activities as of June 30, 2013 totals \$63,942,716 (net of accumulated depreciation). These assets include buildings, roads and bridges, land, machinery and equipment and vehicles.

**Town of Forest City Capital Assets  
(Net of depreciation)  
Figure 4**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>Land</b>	\$ 7,206,674	\$ 293,597	\$ 7,500,271
<b>Plant and Lines</b>		42,615,223	42,615,223
<b>Buildings</b>	6,767,706		6,767,706
<b>Equipment</b>	1,150,934	1,678,868	2,829,802
<b>Infrastructure</b>	837,046		837,046
<b>Vehicles</b>	1,110,365		1,110,365
<b>Construction in process</b>		2,282,303	2,282,303
<b>Total</b>	<u>\$ 17,072,725</u>	<u>\$ 46,869,991</u>	<u>\$ 63,942,716</u>

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

Management's Discussion and Analysis  
Town of Forest City

**Long-term debt outstanding** – As of June 30, 2013, the Town of Forest City had no bonded debt outstanding. The Town's debt consisted of an installment loan incurred in constructing the baseball stadium (\$1,611,111) and net pension obligation (\$292,311). During the current fiscal year, long-term debt decreased by \$147,790.

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries less debt outstanding. The legal debt margin for Town of Forest City is approximately \$52,000,000.

**Budget Highlights for the Fiscal Year Ending June 30, 2014**

**Governmental Activities** - Property taxes remain at \$.29/100 for fiscal year 2013-2014. The current revenue is adequate to finance programs currently in place.

Budgeted expenditures in the General Fund are expected to increase approximately 15%, or \$1,480,000, as compared to fiscal year 2012-2013 actual expenditures and approximately 8%, or \$870,000, as compared to the fiscal year 2012-2013 budget. Approximately \$950,000 of the increase in both of these comparisons is due to the increase in the Facebook incentive grant.

**Business-type Activities** - The water and sewer revenues in the Town are expected to increase slightly due to increases in commercial sales. Water revenues are estimated to increase mainly due to beginning of production at the Horsehead Metals facility. Rates for electricity will adjust to allow for changes in the fuel factor, as well as increased capital projects on behalf of our wholesale energy provider.

**Request for Information**

The Town of Forest City ABC Board issued its separately prepared financial statements. Any questions or requests for additional information pertaining to the ABC Board's financial statements should be directed to Town of Forest City ABC Board, 430 Oak Street, Forest City, North Carolina 28043.

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 Julie Scherer, Finance Director, Town of Forest City, 128 N. Powell Street, Forest City, North Carolina 28043.



TOWN OF FOREST CITY, NORTH CAROLINA

BASIC FINANCIAL STATEMENTS

TOWN OF FOREST CITY, NORTH CAROLINA  
**Statement of Net Position**  
 June 30, 2013

Assets	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	
<b>Current assets:</b>				
Cash and cash equivalents	\$ 4 220 448	\$ 7 349 474	\$11 569 922	\$348 321
Taxes receivable - net	115 653		115 653	
Accrued interest on taxes receivable	15 100		15 100	
Accounts receivable	147 341	2 299 826	2 447 167	
Due from component unit	60 804		60 804	
Other receivables	10 530	643 148	653 678	
Due from other governments	469 546	12 278	481 824	
Inventories	18 781		18 781	164 350
Prepaid items				5 218
<b>Restricted assets:</b>				
Cash	189 358	306 163	495 521	
Reimbursements receivable		615 656	615 656	
	<u>5 247 561</u>	<u>11 226 545</u>	<u>16 474 106</u>	<u>517 889</u>
<b>Capital assets:</b>				
Land, non-depreciable improvements	7 206 674	2 575 900	9 782 574	50 000
Other-net of depreciation	<u>9 866 051</u>	<u>44 294 092</u>	<u>54 160 143</u>	<u>222 830</u>
	<u>17 072 725</u>	<u>46 869 992</u>	<u>63 942 717</u>	<u>272 830</u>
<b>Other assets:</b>				
Due from component unit	122 924		122 924	
Industrial development loan		950 000	950 000	
	<u>122 924</u>	<u>950 000</u>	<u>1 072 924</u>	<u>-</u>
<b>Total assets</b>	<u>22 443 210</u>	<u>59 046 537</u>	<u>81 489 747</u>	<u>790 719</u>
<b>Liabilities</b>				
<b>Current liabilities:</b>				
Accounts payable	475 239	734 689	1 209 928	114 943
Due primary government				60 804
Current portion - long term debt	166 667		166 667	
Compensated absences	245 459	95 531	340 990	
<b>Payable from restricted assets:</b>				
Customer deposits		306 163	306 163	
Construction costs		418 647	418 647	
	<u>887 365</u>	<u>1 555 030</u>	<u>2 442 395</u>	<u>175 747</u>
<b>Long-term liabilities</b>				
Due primary government				123 326
Other	1 736 755		1 736 755	
	<u>1 736 755</u>	<u>-</u>	<u>1 736 755</u>	<u>123 326</u>
<b>Total liabilities</b>	<u>2 624 120</u>	<u>1 555 030</u>	<u>4 179 150</u>	<u>299 073</u>
<b>Deferred Inflow of Resources</b>				
Prepaid taxes	1 308	-	1 308	-
<b>Net Position</b>				
Net invested in capital assets	15 461 614	46 869 992	62 331 606	149 504
<b>Restricted for:</b>				
Stabilization by State Statute	663 804		663 804	
Other				51 834
Unrestricted	<u>3 692 364</u>	<u>10 621 515</u>	<u>14 313 879</u>	<u>290 308</u>
<b>Total net position</b>	<u>\$19 817 782</u>	<u>\$57 491 507</u>	<u>\$77 309 289</u>	<u>\$491 646</u>

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

TOWN OF FOREST CITY, NORTH CAROLINA  
Statement of Activities  
For the Year Ended June 30, 2013

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Unit	
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-Type Activities	Total		
Expenses								
<b>Primary Government:</b>								
<b>Governmental activities:</b>								
General government	\$ 2 082 279	\$ 53 655	\$	\$	\$(2 028 624)		\$(2 028 624)	
Public safety	3 862 822	45 477	23 749		(3 793 596)		(3 793 596)	
Transportation	1 417 738		250 097		(1 167 641)		(1 167 641)	
Environmental protection	1 036 689	961 177	4 266		(71 286)		(71 286)	
Cultural and recreation	1 609 930	325 777			(1 284 153)		(1 284 153)	
Community development	38 416		38 416					
Cemetery	16 943	2 000			(14 943)		(14 943)	
Total governmental activities	10 064 817	1 388 086	316 488	-	(8 360 243)	-	(8 360 243)	
<b>Business-type activities:</b>								
Electric	8 106 733	11 427 922				3 321 189	3 321 189	
Water and sewer	4 341 663	4 362 901		2 141 392	-	2 162 630	2 162 630	
Total business-type activities	12 448 396	15 790 823	-	2 141 392	-	5 483 819	5 483 819	
Total primary government	\$22 513 213	\$17 178 909	\$316 488	\$2 141 392	(8 360 243)	5 483 819	( 2 876 424)	
<b>Component Unit:</b>								
ABC Board	\$ 1 749 564	\$ 1 754 823	\$ -	\$ -			5 259	
<b>General revenues:</b>								
<b>Taxes:</b>								
Property taxes					1 887 813		1 887 813	
Other taxes					556 753		556 753	
Unrestricted intergovernmental					970 200		970 200	
Unrestricted investment earnings					62 873	184 487	247 360	1 804
Gain on sale of capital assets					( 361 160)		( 361 160)	
Insurance recovery					27 621		27 621	
Miscellaneous					24 699		24 699	137
Total general revenues not including transfers					3 168 799	184 487	3 353 286	1 941
Transfers					4 827 413	(4 827 413)	-	-
Total general revenues and transfers					7 996 212	(4 642 926)	3 353 286	1 941
Change in net position					( 364 031)	840 893	476 862	7 200

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

TOWN OF FOREST CITY, NORTH CAROLINA  
Statement of Activities  
For the Year Ended June 30, 2013

Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-Type Activities	Total	Component Unit
Net position:							
Beginning as previously reported				\$20 181 813	\$56 552 692	\$76 734 505	\$484 446
Prior period adjustment				-	97 922	97 922	-
Beginning as restated				20 181 813	56 650 614	76 832 427	484 446
Ending				\$19 817 782	\$57 491 507	\$77 309 289	\$491 646

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

TOWN OF FOREST CITY, NORTH CAROLINA  
**Balance Sheet**  
**Governmental Funds**  
 June 30, 2013

<b>Assets</b>	<u>General</u>	<u>Capital Projects</u>	<u>Total</u>
Cash and cash equivalents	\$4 220 448	\$	\$4 220 448
Restricted cash	189 358		189 358
Receivables:			
Taxes	115 653		115 653
Accounts	147 341		147 341
Other	10 530		10 530
Due from other governments	469 546		469 546
Inventories	18 781		18 781
Component unit: Note receivable	122 924		122 924
Distributions	60 804		60 804
	<u>\$5 355 385</u>	<u>\$ -</u>	<u>\$5 355 385</u>
<b>Liabilities</b>			
Liabilities:			
Accounts payable and accrued liabilities	\$ 475 239	\$ -	\$ 475 239
<b>Deferred Inflows of Resources</b>			
Property tax receivable	115 653		115 653
Accounts receivable	147 341		147 341
Prepaid taxes	1 308		1 308
	<u>264 302</u>	<u>-</u>	<u>264 302</u>
<b>Fund Balances:</b>			
Non spendable:			
Inventories	18 781		18 781
Restricted:			
Stabilization by State Statute	663 804		663 804
Streets	189 358		189 358
Assigned:			
Subsequent year expenditures	473 721		473 721
Unassigned	3 270 180		3 270 180
	<u>\$4 615 844</u>	<u>\$ -</u>	<u>\$4 615 844</u>

Amounts reported for governmental activities in the statement of net position (Exhibit 1) are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in fund statements	\$17 072 725
Other long-term assets (accrued interest receivable on taxes) are not available to pay for current period expenditures and therefore are deferred	15 100
Liabilities for earned revenues considered deferred inflows of resources in fund statements	262 994
Some liabilities are not due and payable in the current period and are not reported in the fund statements:	
Compensated absences	\$ ( 245 459)
Long-term debt	<u>(1 903 422)</u>
Reconciling amount	15 201 938
Fund balance - June 30, 2013	<u>4 615 844</u>
Net position governmental activities - June 30, 2013	<u>\$19 817 782</u>

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

TOWN OF FOREST CITY, NORTH CAROLINA

Statement of Revenues, Expenditures, and Changes in Fund Balance

Governmental Funds

For the Year Ended June 30, 2013

	<u>General</u>	<u>Capital Projects</u>	<u>Total</u>
<b>Revenues:</b>			
Ad valorem taxes	\$ 1 886 280	\$	\$ 1 886 280
Other taxes and licenses	560 753		560 753
Unrestricted intergovernmental	1 000 875		1 000 875
Restricted intergovernmental	278 369		278 369
Permits and fees	28 323		28 323
Sales and services	1 266 502		1 266 502
Investment earnings	68 413		68 413
Miscellaneous	85 915		85 915
	<u>5 175 430</u>	<u>-</u>	<u>5 175 430</u>
<b>Expenditures:</b>			
Current:			
General government	1 868 306		1 868 306
Public safety	3 571 548		3 571 548
Transportation	1 278 598		1 278 598
Environmental protection	1 036 689		1 036 689
Cultural and recreation	1 464 991		1 464 991
Cemetery	16 601		16 601
Community development		38 416	38 416
Capital outlay	399 023	33 000	432 023
Debt service:			
Principal	166 666		166 666
Interest	59 423		59 423
	<u>9 861 845</u>	<u>71 416</u>	<u>9 933 261</u>
Revenues under expenditures	<u>(4 686 415)</u>	<u>(71 416)</u>	<u>(4 757 831)</u>
<b>Other financing sources (uses):</b>			
Operating transfers from			
Enterprise Funds	4 827 413		4 827 413
Operating transfers -			
Capital Projects	(33 000)	33 000	
Sale of fixed assets	114 513		114 513
Insurance recovery	27 621		27 621
Contributions		38 416	38 416
	<u>4 936 547</u>	<u>71 416</u>	<u>5 007 963</u>
Net changes in fund balance	250 132	-	250 132
<b>Fund balance:</b>			
Beginning	<u>4 365 712</u>	<u>-</u>	<u>4 365 712</u>
Ending	<u>\$ 4 615 844</u>	<u>\$ -</u>	<u>\$ 4 615 844</u>

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

TOWN OF FOREST CITY, NORTH CAROLINA

Statement of Revenues, Expenditures, and Changes in Fund Balance

Governmental Fund - General Fund

For the Year Ended June 30, 2013

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

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.

Capital outlay expenditures capitalized	\$ 432 023	
Depreciation for governmental assets	<u>(710 552)</u>	\$ ( 278 529)
The cost or book value of fixed assets sold is not considered in the governmental fund statements		( 475 673)

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.

Principal payments on long-term debt		166 666
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Tax revenues	1 533	
Environmental protection revenues	(8 567)	
Other	<u>100</u>	(6 934)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Compensated absences	( 817)	
Net pension obligation	<u>( 18 876)</u>	<u>(19 693)</u>

Reconciling amount		(614 163)
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Net changes in fund balance - governmental fund		<u>250 132</u>
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Total changes in net position of governmental activities		<u><u>\$ ( 364 031)</u></u>
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The notes to the financial statements are an integral part of this statement.

TOWN OF FOREST CITY, NORTH CAROLINA  
 Statement of Revenues, Expenditures and Changes in Fund Balance -  
 Budget and Actual  
 Governmental Fund - General Fund  
 For the Year Ended June 30, 2013

	Budget		Actual	Variance With
	Original	Final		Final Budget Positive ( Negative)
<b>Revenues:</b>				
Ad valorem taxes	\$ 1 869 500	\$ 1 869 500	\$1 886 280	\$ 16 780
Other taxes and licenses	619 000	619 000	560 753	(58 247)
Unrestricted				
intergovernmental	654 000	654 000	1 000 875	346 875
Restricted intergovernmental	247 000	261 000	278 369	17 369
Permits and fees	32 000	32 000	28 323	(3 677)
Sales and services	1 292 300	1 302 175	1 266 502	(35 673)
Investment earnings	85 000	85 000	68 413	(16 587)
Miscellaneous	55 400	79 760	85 915	6 155
	<u>4 854 200</u>	<u>4 902 435</u>	<u>5 175 430</u>	<u>272 995</u>
<b>Expenditures:</b>				
Current:				
General government	1 841 759	2 138 871	1 878 737	260 134
Public safety	3 719 900	3 764 115	3 596 035	168 080
Transportation	1 338 870	1 351 031	1 298 412	52 619
Environmental protection	1 058 500	1 058 500	1 036 689	21 811
Cultural and recreation	1 809 649	1 904 980	1 809 282	95 698
Cemetery	26 600	26 600	16 601	9 999
Debt service:				
Principal	166 666	166 666	166 666	
Interest	59 423	59 423	59 423	
Contingency	20 000			
	<u>10 041 367</u>	<u>10 470 186</u>	<u>9 861 845</u>	<u>608 341</u>
Deficiency of revenues over expenditures	<u>(5 187 167)</u>	<u>(5 567 751)</u>	<u>(4 686 415)</u>	<u>881 336</u>
<b>Other financing sources:</b>				
Transfers from other funds	4 755 238	4 827 413	4 827 413	
Operating transfer to Capital Projects Fund	(33 000)	(33 000)	(33 000)	
Insurance recovery		14 300	27 621	13 321
Sale of fixed assets			114 513	114 513
Fund balance appropriated	464 929	759 038		( 759 038)
	<u>5 187 167</u>	<u>5 567 751</u>	<u>4 936 547</u>	<u>( 631 204)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>250 132</u>	<u>\$ 250 132</u>
<b>Fund balance:</b>				
Beginning of year			<u>4 365 712</u>	
End of year			<u>\$4 615 844</u>	

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



TOWN OF FOREST CITY, NORTH CAROLINA

Statement of Fund Net Position

Proprietary Funds

June 30, 2013

	<u>Enterprise Funds</u>		
	<u>Electric Total</u>	<u>Water and Sewer Fund</u>	<u>Total</u>
<b>Assets:</b>			
Current assets:			
Cash and cash equivalents	\$ 2 390 317	\$ 4 959 157	\$ 7 349 474
Accounts receivable:			
Billed - net	1 228 130	134 796	1 362 926
Unbilled	729 800	207 100	936 900
Other receivables	641 168	629 914	1 271 082
Restricted cash/cash equivalents	<u>218 850</u>	<u>87 313</u>	<u>306 163</u>
	<u>5 208 265</u>	<u>6 018 280</u>	<u>11 226 545</u>
Noncurrent assets:			
Capital assets:			
Land and other non-depreciable assets	115 715	2 460 185	2 575 900
Other capital assets, net of depreciation	<u>3 988 134</u>	<u>40 305 958</u>	<u>44 294 092</u>
	<u>4 103 849</u>	<u>42 766 143</u>	<u>46 869 992</u>
Other:			
Industrial development loan	-	950 000	950 000
 Total assets	 <u>9 312 114</u>	 <u>49 734 423</u>	 <u>59 046 537</u>
<b>Liabilities:</b>			
Current liabilities:			
Accounts payable and accrued liabilities	653 561	499 775	1 153 336
Compensated absences	21 762	73 769	95 531
Payable from restricted assets:			
Customer deposits	<u>218 850</u>	<u>87 313</u>	<u>306 163</u>
	<u>894 173</u>	<u>660 857</u>	<u>1 555 030</u>
 Total liabilities			
<b>Net position:</b>			
Invested in capital assets	4 103 849	42 766 143	46 869 992
Unrestricted	<u>4 314 092</u>	<u>6 307 423</u>	<u>10 621 515</u>
 Total net position	 <u>\$ 8 417 941</u>	 <u>\$49 073 566</u>	 <u>\$57 491 507</u>

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

TOWN OF FOREST CITY, NORTH CAROLINA

Statement of Revenues, Expenses, and

Changes in Fund Net Position

Proprietary Funds

For the Fiscal Year Ended June 30, 2013

	Enterprise Funds		
	Electric Fund	Water and Sewer Fund	Total
<b>Operating revenues:</b>			
Charge for services	\$11 366 059	\$ 4 275 888	\$15 641 947
Water and sewer taps		29 650	29 650
Other operating revenue	61 863	57 363	119 226
	<u>11 427 922</u>	<u>4 362 901</u>	<u>15 790 823</u>
<b>Operating expenses:</b>			
Administration	132 356	289 442	421 798
Operations	1 079 356	1 009 851	2 089 207
Electric power purchased	6 439 738		6 439 738
Water plant		630 140	630 140
Waste treatment plant		686 575	686 575
Pump station and storage		448 005	448 005
Depreciation	455 283	1 277 650	1 732 933
	<u>8 106 733</u>	<u>4 341 663</u>	<u>12 448 396</u>
Operating income	3 321 189	21 238	3 342 427
<b>Nonoperating revenues:</b>			
Investment earnings	75 700	108 787	184 487
Income before transfers and contributions	3 396 889	130 025	3 526 914
Capital contributions - net		2 141 392	2 141 392
Transfers to other funds	(3 755 238)	(1 072 175)	(4 827 413)
Change in net position	<u>( 358 349)</u>	<u>1 199 242</u>	<u>840 893</u>
<b>Net position:</b>			
Beginning as previously reported	8 776 290	47 776 402	56 552 692
Prior period adjustment		97 922	97 922
	<u>8 776 290</u>	<u>47 874 324</u>	<u>56 650 614</u>
Ending	<u>\$ 8 417 941</u>	<u>\$49 073 566</u>	<u>\$57 491 507</u>

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

TOWN OF FOREST CITY, NORTH CAROLINA

Statement of Cash Flows

Proprietary Funds

For the Fiscal Year Ended June 30, 2013

	<u>Enterprise Funds</u>		
	<u>Electric Fund</u>	<u>Water and Sewer Fund</u>	<u>Total</u>
<b>Cash flows from operating activities:</b>			
Cash received from customers	\$11 410 727	\$ 4 391 456	\$15 802 183
Cash paid for goods and services	(7 658 394)	(1 556 022)	(9 214 416)
Cash paid to or on behalf of employees for services	( 526 260)	(1 536 313)	(2 062 573)
Other operating revenues	<u>107 568</u>	<u>100 410</u>	<u>207 978</u>
	<u>3 333 641</u>	<u>1 399 531</u>	<u>4 733 172</u>
<b>Cash flows from noncapital financing activities:</b>			
Transfers to other funds	(3 755 238)	(1 072 175)	(4 827 413)
Contributed capital		750 000	750 000
Industry incentive grant		<u>( 750 000)</u>	<u>( 750 000)</u>
	<u>(3 755 238)</u>	<u>(1 072 175)</u>	<u>(4 827 413)</u>
<b>Cash flows from capital and related financing activities:</b>			
Acquisition of capital assets	(3 995)	(1 840 315)	(1 844 310)
Contributed capital		<u>1 525 736</u>	<u>1 525 736</u>
	<u>(3 995)</u>	<u>( 314 579)</u>	<u>( 318 574)</u>
<b>Cash flows from investing activities:</b>			
Interest on investments	<u>75 700</u>	<u>108 787</u>	<u>184 487</u>
<b>Net decrease in cash and cash equivalents</b>	( 349 892)	121 564	( 228 328)
<b>Cash and cash equivalents:</b>			
Beginning of year - July 1	<u>2 959 059</u>	<u>4 924 906</u>	<u>7 883 965</u>
End of year - June 30	<u>\$ 2 609 167</u>	<u>\$ 5 046 470</u>	<u>\$ 7 655 637</u>

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

TOWN OF FOREST CITY, NORTH CAROLINA

Statement of Cash Flows

Proprietary Funds

For the Fiscal Year Ended June 30, 2013

	<u>Enterprise Funds</u>		
	<u>Electric</u>	<u>Water and</u>	<u>Total</u>
	<u>Fund</u>	<u>Sewer Fund</u>	
<b>Reconciliation of operating income to net cash provided by operating activities:</b>			
Operating income	\$ 3 321 189	\$ 21 238	\$ 3 342 427
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	455 283	1 277 650	1 732 933
Decrease (increase) in assets:			
Accounts receivable	84 651	79 560	164 211
Other receivables	( 639 969)	46 167	( 593 802)
Increase (decrease) in liabilities:			
Accounts payable	101 924	(40 109)	61 815
Customer deposits	4 235	2 488	6 723
Compensated absences	6 328	12 537	18 865
Total adjustments	<u>12 452</u>	<u>1 378 293</u>	<u>1 390 745</u>
Net cash provided by operating activities	<u>\$ 3 333 641</u>	<u>\$ 1 399 531</u>	<u>\$ 4 733 172</u>

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

TOWN OF FOREST CITY, NORTH CAROLINA

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2013

I. **Summary of Significant Accounting Policies**

The accounting policies of the Town of Forest City and its discretely presented component unit conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant accounting policies.

(A) **Reporting Entity**

The Town of Forest City 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 and its component unit, a legally separate entity for which the Town is financially accountable. The discretely presented component unit identified below is reported in a separate column in the Town's financial statements in order to emphasize that it is legally separate from the Town.

**Town of Forest City ABC Board**

The members of the ABC Board's governing board are appointed by the Forest City Town Council. In addition, the ABC Board is required by state statute to distribute its surpluses to the Town's General Fund. The ABC Board, which has a June 30 year-end, is presented as if it were a proprietary fund (discrete presentation). Complete financial statements for the ABC Board may be obtained from the entity's administrative offices at Forest City ABC Board, 430 Oak Street, Forest City, N.C., 28043.

(B) **Basis of Presentation**

**Government-wide Statements**

The statement of net position and the statement of activities display information about the primary government and its component unit. 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

TOWN OF FOREST CITY, NORTH CAROLINA

Notes to the Financial Statements

a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

**Fund Financial Statements**

The fund financial statements provide information about the Town's funds. Separate statements for each fund category - governmental and proprietary - are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. The Town has no nonmajor funds or fiduciary 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 essentially equal values. Non-operating revenues, such as subsidies, result from non-exchange transactions. Other non-operating revenues are ancillary activities such as investment earnings.

The Town reports the following governmental funds:

**General Fund** - The General Fund is the general operating fund of the Town. The General Fund accounts for all financial resources except those that are required to be accounted for in another fund. The primary revenue sources are ad valorem taxes, intergovernmental, and various service fees. The primary expenditures are for public safety, street maintenance and construction, and recreation. The Town maintains a separate Parks and Recreation Fund for accounting purposes. This fund has been consolidated into the General Fund for reporting purposes.

**Capital Projects Fund** - This fund is used to account for capital projects which extend beyond a single fiscal year.

The Town reports the following enterprise funds:

**Electric Fund** - This fund is used to account for the Town's electric operations.

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

**Capital Projects Fund** - The fund is used to account for enterprise capital projects which extend beyond a single fiscal year.

TOWN OF FOREST CITY, NORTH CAROLINA

Notes to the Financial Statements

(C) **Measurement Focus and Basis of Accounting**

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

**Government-wide and Proprietary Fund Financial Statements**

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and 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 takes 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, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of Town enterprise funds are charges to customers for sales and services. The Town also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the water and sewer system. Operating 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

TOWN OF FOREST CITY, NORTH CAROLINA

Notes to the Financial Statements

judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

The Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as a revenue because the amount is not susceptible to accrual. At June 30, taxes receivable are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of January 1, 1993, 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, Rutherford County is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts in the County, including the Town of Forest City. For motor vehicles registered under the staggered system, property taxes are due the first day of the fourth month after the vehicles are registered. The billed taxes are applicable to the fiscal year in which they become due. Therefore, the Town's vehicle taxes for vehicles registered in Rutherford County from March 2012 through February 2013 apply to the fiscal year ended June 30, 2013. Uncollected taxes which were billed during this period are shown as a receivable in these financial statements and are offset by deferred inflows of resources.

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

(D) **Budgetary Data**

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund and the Enterprise Funds. All annual appropriations lapse at the fiscal-year end. Project ordinances, either annual or multi-year as appropriate, are adopted for the Capital Projects Fund, the Enterprise Fund Capital Projects Funds, and the Electric Rate Stabilization Fund.



TOWN OF FOREST CITY, NORTH CAROLINA

Notes to the Financial Statements

The enterprise fund projects are consolidated with their respective operating fund for reporting purposes. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional or department level, as appropriate, for all annually budgeted funds and at the functional level for the multi-year funds. The Town Manager is authorized to transfer appropriations within a fund up to \$5,000; however, any revisions that alter the total expenditures of any fund or exceed \$5,000 must be approved by the governing board. During the year, several amendments to the original budget were made by the governing board.

(E) **Assets, Liabilities, Deferred Inflows of Resources and Fund Equity**

**Deposits and Investments**

All deposits of the Town of Forest City and the ABC Board are made in board-designated official depositories and are secured as required by State law [G.S. 159-31]. The Town and the ABC Board may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the Town and the ABC Board 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 and the ABC Board 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 nonguaranteed federal agencies, certain high quality issues of commercial paper and bankers' acceptances, and the North Carolina Capital Management Trust (NCCMT). The securities of the NCCMT-Cash Portfolio, a SEC-registered (2a-7) money market mutual fund, are valued at fair value, which is the NCCMT's share price. The NCCMT Term Portfolio's securities are valued at fair value.

**Cash and Cash Equivalents**

The Town pools money from all 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. The ABC Board considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash and cash equivalents.

TOWN OF FOREST CITY, NORTH CAROLINA

Notes to the Financial Statements

**Restricted Assets**

Customer deposits held by the Town before any services are supplied are restricted to the services for which the deposit was collected. Powell Bill funds are also classified as restricted cash because they can be expended only for the purposes of maintaining, repairing, constructing, reconstructing or widening of local streets and sidewalks per G.S.136-41.1 through 136-41.4.

**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. These taxes are based on the assessed values as of January 1 prior to date of levy. As allowed by State law, the Town periodically establishes a schedule of discounts that apply to taxes which are paid prior to the due date. In the Town's General Fund, ad valorem tax revenues are reported net of such discounts.

**Allowance for Doubtful Accounts**

All receivables that historically experience uncollectible accounts are shown net of an allowance for doubtful accounts. This amount is estimated based on amounts written off in prior years.

**Inventory**

The inventories of the Town of Forest City and the ABC Board are valued at cost (first-in, first-out), which approximates market. The Town's General Fund inventory consists primarily of gasoline which will be expensed as consumed by the various departments.

**Capital Assets**

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. Minimum capitalization costs are \$5,000 for furniture, equipment, buildings and land; \$100,000 for infrastructure. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. General infrastructure assets acquired prior to July 1, 2003, consist of the road network and water and sewer system assets that were acquired or that received substantial improvements subsequent to July 1, 1980, and are reported at estimated historical cost using deflated replacement cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

TOWN OF FOREST CITY, NORTH CAROLINA

Notes to the Financial Statements

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Equipment	5
Office furniture	10
Tractors, backhoes	15
Vehicles - police	5
Vehicles - other	10
Buildings	40
Electric distribution system	25
Water and sewer systems	50
Streets, highways, curbing, and sidewalks	50

Property, plant and equipment of the ABC Board are depreciated over their useful lives on a straight-line basis as follows:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Furniture and equipment	5-10
Building	30
Building improvements	10-29

**Compensated Absences**

The Town's vacation policy provides that an employee can carry-over one-half of the vacation hours earned in any calendar year; vacation hours can be accumulated up to 240 hours per employee; vacation hours in excess of 240 at December 31, are converted to sick-leave hours for consideration at retirement. The non-current portion of accumulated vacation pay which will be taken rather than converted to sick-leave is not considered to be material; therefore, the accrued liability is designated as a current liability in the government-wide financial statements.

ABC Board employees may accumulate earned vacation and such leave is fully vested when earned. Accumulated earned vacation at June 30, 2013 amounted to \$29,824. The current portion of accumulated vacation pay is not considered to be material.

Both the Town's and the ABC Board's sick leave policies provide for an unlimited accumulation of earned sick leave. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since neither the Town nor the ABC Board has any obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

TOWN OF FOREST CITY, NORTH CAROLINA

Notes to the Financial Statements

**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.

**Net Position**

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

**Fund Balances**

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

**Nonspendable Fund Balance** - This classification includes amounts which cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. An example would be inventories which are not in spendable form.

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

Restricted for Stabilization by State Statute - This portion of fund balance is restricted by State Statute [GS 159-8(a)];

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

**Committed Fund Balance** - This portion of fund balance can only be used for specific purposes, imposed by majority vote by quorum of the Town of Forest City's Town Council (highest level of decision-making authority). Any changes or removal of specific purpose requires a majority action by the Town Council.

TOWN OF FOREST CITY, NORTH CAROLINA

Notes to the Financial Statements

**Assigned Fund Balance** - This is the portion of Fund balance which the Town of Forest City intends to use for specific purposes.

Subsequent year's expenditures - This portion of fund balance is appropriated in next year's budget and is not already classified in the restricted or committed classifications.

**Unassigned Fund Balance** - This portion of fund balance has not been restricted, committed, or assigned to specific purposes or other funds.

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

II. Detail Notes on All Funds

(A) Assets

Deposits

All the deposits of the Town and the ABC Board 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 Unit'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 and the ABC Board, these deposits are considered to be held by the Town's and the ABC Board's agents in their names. 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 ABC Board or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Town or the ABC Board under the Pooling Method, the potential exists for under-collateralization; this risk may increase in periods of high cash

TOWN OF FOREST CITY, NORTH CAROLINA

Notes to the Financial Statements

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. The ABC Board has no formal policy regarding custodial credit risk for deposits.

At June 30, 2013, the Town's deposits had a carrying amount of \$9,977,291 and a bank balance of \$10,179,585. Of the bank balance \$750,000 was covered by federal depository insurance and the balance was collateralized under the Pooling Method. The carrying amount of deposits of the ABC Board was \$344,766 and the bank balance was \$465,706; all of the ABC Board's bank balance was covered by federal depository insurance. At June 30, 2013, the Town's drawer funds totaled \$3,450 and the ABC Board's totaled \$3,555.

**Investments**

At June 30, 2013, the Town of Forest City had \$2,084,702 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.

**Receivables - Allowance for Doubtful Accounts**

Receivables at the government-wide level at June 30, 2013 were as follows:

	<u>Taxes &amp; Accrued Interest</u>	<u>Accounts</u>	<u>Due From Other Governments</u>	<u>Other</u>
Governmental Activities:				
General	\$183 053	\$161 341	\$469 546	\$ 71 334
Allowance for doubtful accounts	<u>52 300</u>	<u>14 000</u>	<u>469 546</u>	<u>71 334</u>
	<u>\$130 753</u>	<u>\$147 341</u>	<u>\$469 546</u>	<u>\$ 71 334</u>

TOWN OF FOREST CITY, NORTH CAROLINA

Notes to the Financial Statements

	<u>Taxes &amp; Accrued Interest</u>	<u>Accounts</u>	<u>Due From Other Governments</u>	<u>Other</u>
Business-Type Activities:				
Electric	\$ -	\$2 021 230	\$ 1 037	\$640 131
Water and sewer	<u>          </u>	<u>345 096</u>	<u>626 897</u>	<u>3 017</u>
		2 366 326	627 934	643 148
 Allowance for doubtful accounts		 <u>66 500</u>		
	<u>\$ -</u>	<u>\$2 299 826</u>	<u>\$627 934</u>	<u>\$643 148</u>

The "Due From Other Governments" that is owed to the Town consists of the following:

	<u>Governmental</u>	<u>Proprietary</u>
Sales tax refund	\$139 563	\$
Property taxes unremitted	38 632	
State taxes collected	273 104	
Cost reimbursements		615 656
Services rendered	3 983	12 278
Payments in lieu	<u>14 264</u>	
	<u>\$469 546</u>	<u>\$627 934</u>

**Industrial Development Loan Receivable**

In accordance with an "Economic Development Agreement" dated September 19, 2011, the Town of Forest City agreed to advance \$950,000 to an industry as part of an incentive package to locate a manufacturing facility within Rutherford County. In accordance with a "Water Supply Agreement" as dated October 3, 2012 (supercedes Raw Water Supply Agreement as dated September 19, 2011), the industry will pay a fee "... for the various payments and services provided by the Town in connection with the construction of the Facilities (the Construction Contributions)..." in the amount of \$11,905 for 84 equal payments. This fee shall be in addition to the monthly billing for actual water usage and shall commence when the Town initially supplies water to the site.

It is anticipated that repayment will commence in late 2014. As the fee is received, the Town shall consider the \$50,000 received in excess of the \$950,000 advanced as imputed interest.

TOWN OF FOREST CITY, NORTH CAROLINA

Notes to the Financial Statements

Capital Assets

Capital asset activity for the Primary Government for the year ended June 30, 2013 was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decrease</u>	<u>Ending Balances</u>
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$7 610 675	\$ 69 000	\$ 473 001	\$7 206 674
Capital assets being depreciated:				
Equipment	\$ 3 191 768	\$ 350 546	\$ 93 675	\$ 3 448 639
Vehicles	3 640 184	40 022	180 007	3 500 199
Buildings	10 532 420			10 532 420
Infrastructure	<u>1 114 000</u>			<u>1 114 000</u>
	<u>18 478 372</u>	<u>\$ 390 568</u>	<u>\$ 273 682</u>	<u>18 595 258</u>
Less accumulated depreciation:				
Equipment	\$ 2 174 826	\$ 148 237	\$ 25 358	\$ 2 297 705
Vehicles	2 365 961	241 980	218 107	2 389 834
Buildings	3 466 659	298 055		3 764 714
Infrastructure	<u>254 674</u>	<u>22 280</u>		<u>276 954</u>
	<u>8 262 120</u>	<u>\$ 710 552</u>	<u>\$243 465</u>	<u>8 729 207</u>
Governmental activities capital assets - net	<u>\$17 826 927</u>			<u>\$17 072 725</u>

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

General government	\$218 993
Public safety	272 398
Transportation	139 140
Cultural and recreation	79 679
Cemetery	<u>342</u>
	<u>\$710 552</u>



TOWN OF FOREST CITY, NORTH CAROLINA

Notes to the Financial Statements

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decrease</u>	<u>Ending Balances</u>
<b>Business-Type</b>				
<b>Activities:</b>				
<b>Electric Fund:</b>				
Capital assets not being depreciated:				
Land	\$ 115 715	\$ -	\$ -	\$ 115 715
Capital assets being depreciated:				
Equipment	\$ 1 081 911	\$ 3 995	\$ -	\$ 1 085 906
Plant and lines	<u>10 485 007</u>	<u>          </u>	<u>          </u>	<u>10 485 007</u>
	<u>11 566 918</u>	<u>\$ 3 995</u>	<u>\$ -</u>	<u>11 570 913</u>
Less accumulated depreciation:				
Equipment	789 350	\$ 69 028	\$ -	858 378
Plant and lines	<u>6 338 147</u>	<u>386 255</u>	<u>          </u>	<u>6 724 401</u>
	<u>7 127 497</u>	<u>\$ 455 283</u>	<u>\$ -</u>	<u>7 582 779</u>
Electric Fund capital assets- net	<u>4 555 136</u>			<u>4 103 849</u>
<b>Water and Sewer Fund:</b>				
Capital assets not being depreciated:				
Land	177 882	\$ -	\$ -	177 882
Work in process	<u>262 577</u>	<u>2 019 726</u>	<u>          </u>	<u>2 282 303</u>
	<u>440 459</u>	<u>\$2 019 726</u>	<u>\$ -</u>	<u>2 460 185</u>
Capital assets being depreciated:				
Equipment	4 025 644	\$ 201 623	\$ -	4 227 267
Plant and lines	<u>57 427 211</u>	<u>60 523</u>	<u>65 227</u>	<u>57 422 507</u>
	<u>61 452 855</u>	<u>\$ 262 146</u>	<u>\$ 65 227</u>	<u>61 649 774</u>

TOWN OF FOREST CITY, NORTH CAROLINA

Notes to the Financial Statements

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decrease</u>	<u>Ending Balances</u>
Less				
accumulated				
depreciation:				
Equipment	\$ 2 632 564	\$ 165 469	\$ 22 106	\$ 2 775 927
Plant and lines	<u>17 463 819</u>	<u>1 112 181</u>	<u>8 110</u>	<u>18 567 890</u>
	<u>20 096 383</u>	<u>\$1 277 650</u>	<u>\$ 30 216</u>	<u>21 343 817</u>
Water and Sewer				
Fund capital				
assets - net	<u>41 796 931</u>			<u>42 766 142</u>
Business-type				
activities				
capital assets				
net	<u>\$46 352 067</u>			<u>\$46 869 991</u>

**Commitments**

The Primary Government has two active construction projects as of June 30, 2013. At year end, the Town had outstanding contractor commitments for these projects in the amount of approximately \$990,000.

**Discretely Presented Component Unit**

Capital asset activity for the Forest City ABC Board for the period ended June 30, 2013 was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decrease</u>	<u>Ending Balances</u>
Capital assets not				
being depreciated:				
Land	<u>\$ 50 000</u>	<u>\$</u>	<u>\$</u>	<u>\$ 50 000</u>
Capital asset				
being depreciated:				
Equipment	89 050	\$ 12 377	\$	101 427
Building and				
improvements	<u>300 000</u>	<u></u>	<u></u>	<u>300 000</u>
	<u>389 050</u>	<u>\$ 12 377</u>	<u>\$</u>	<u>401 427</u>
Less accumulated				
depreciation:				
Equipment	67 611	\$ 9 319	\$	76 930
Building and				
improvements	<u>91 667</u>	<u>10 000</u>	<u></u>	<u>101 667</u>
	<u>159 278</u>	<u>\$ 19 319</u>	<u>\$</u>	<u>178 597</u>
Forest City ABC				
capital assets -				
net	<u>\$279 772</u>			<u>\$272 830</u>

TOWN OF FOREST CITY, NORTH CAROLINA

Notes to the Financial Statement

(B) Liabilities

Payables

Payables at the government-wide level at June 30, 2013 were as follows:

	<u>Vendors</u>	<u>Salaries and Benefits</u>	<u>Total</u>
Government Activities:			
General	\$ 388 574	\$ 86 665	\$ 475 239
Business-Type Activities:			
Enterprise	\$ 704 887	\$ 29 802	\$ 734 689

Pension Plan Obligation and Post-Employment Obligations:

a) Local Governmental Employees' Retirement System

**Plan Description:** The Town of Forest City contributes to the statewide Local Governmental Employees' Retirement System (LGERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS provides retirement and disability benefits to plan members and beneficiaries. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Local Governmental Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing the Office of State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

**Funding Policy:** Plan members are required to contribute six percent of their annual covered salary. The Town is required to contribute at an actuarially determined rate. The Town's current rate for employees not engaged in law enforcement and for law enforcement officers is 12.04% and 12.07%, respectively, of annual covered payroll. The contribution requirements of members and of the Town of Forest City are established and may be amended by the North Carolina General Assembly. The Town's contributions to LGERS for the years ended June 30, 2013, 2012, and 2011 were \$613,629, \$594,280, and \$538,000 respectively. The contributions made by the Town equaled the required contributions for each year.

TOWN OF FOREST CITY, NORTH CAROLINA

Notes to the Financial Statements

b) Law Enforcement Officers Special Separation Allowance

**Plan Description:** The Town of Forest City administers a public employee retirement system (the "Separation Allowance"), a single-employer defined benefit pension plan that provides retirement benefits to the Town's qualified sworn law enforcement officers. The Separation Allowance is equal to .85% 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, 2012, the Separation Allowance's membership consisted of:

Retirees receiving benefits	2
Terminated plan members entitled to but not yet receiving benefits	
Active plan members	<u>30</u>
Total	<u>32</u>

A separate report was not issued for the plan.

**Summary of Significant Accounting Policies:**

**Basis of Accounting:** The Town has chosen to fund the Separation Allowance on a pay as you go basis. Pension expenditures are made from the General Fund, which is maintained on the modified accrual basis of accounting.

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

**Contributions:** The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the benefit payments on a pay as you go basis 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.

TOWN OF FOREST CITY, NORTH CAROLINA

Notes to the Financial Statements

The annual required contribution for the current year was determined as part of the December 31, 2011 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 5.00% investment rate of return (net of administrative expenses) and (b) projected salary increases of 4.25% to 7.85% per year. Both (a) and (b) included an inflation component of 3.00%. The assumptions did not include postretirement benefit increases.

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

Annual required contribution	\$ 56 422
Interest on net pension obligation	13 672
Adjustment to annual required contribution	<u>(17 016)</u>
Annual pension cost	53 078
Contributions made	<u>34 202</u>
Increase in net pension obligation	18 876
Net pension obligation beginning of year	<u>273 435</u>
Net pension obligation end of year	<u><u>\$292 311</u></u>

3 Year Trend Information

<u>Fiscal</u> <u>Year Ended</u>	<u>Annual Pension</u> <u>Cost (APC)</u>	<u>Percentage of</u> <u>APC Contributed</u>	<u>Net Pension</u> <u>Obligation</u>
6/30/11	56 566	53.01%	252 567
6/30/12	50 853	58.96%	273 435
6/30/13	53 078	64.44%	292 311

**Funded Status and Funding Progress:** As of December 31, 2012, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and the unfunded actuarial accrued liability (UAAL) was \$479,886. The covered payroll (annual payroll of active employees covered by the plan) was \$1,365,308, and the ratio of the UAAL to the covered payroll was 35.15%.

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

TOWN OF FOREST CITY, NORTH CAROLINA

Notes to the Financial Statements

c) Supplemental Retirement Income Plan for Law Enforcement Officers

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

**Funding Policy:** Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2013 were \$80,425 which consisted of \$70,789 from the Town and \$9,636 from the law enforcement officers.

d) Firemen's Pension Fund

**Plan Description:** The State of North Carolina contributes, on behalf of the Town of Forest City to the Firemen's and Rescue Squad Workers' Pension Fund (Fund), a cost-sharing multiple-employer defined benefit pension plan with a special funding situation administered by the State of North Carolina. The Fund provides pension benefits for eligible firemen who have elected to become members of the Fund.

Article 86 of G.S. Chapter 58 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Firemen's Pension Fund is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for the Firemen's and Rescue Squad Workers' Pension Fund. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

TOWN OF FOREST CITY, NORTH CAROLINA

Notes to the Financial Statements

**Funding Policy:** Plan members are required to contribute \$10 per month to the Fund. The State, a nonemployer contributor, funds the plan through appropriations. The Town does not contribute to the Fund. Contribution requirements of plan members and the State of North Carolina are established and may be amended by the North Carolina General Assembly. For the current fiscal year, the Town has recognized on-behalf payments made by the State for \$9,963 as a revenue and an expenditure.

e) **Other Postemployment Benefits**

Forest City is one of the state municipal units which has elected to come under the state retirement system as administered for school systems in regards to postemployment benefits.

**Health Care Benefits**

**Plan Description:** The postemployment health care benefits are provided through a cost-sharing multiple-employer defined benefit plan administered by the Executive Administrator and the Board of Trustees of the Comprehensive Major Medical Plan (the Plan). The Executive Administrator and the Board of Trustees of the Plan establishes premium rates except as may be established by the General Assembly in an appropriation act. The Plan's benefit and contribution provisions are established by Chapter 135-7, Article 1, and Chapter 135, Article 3 of the General Statutes and may be amended only by the North Carolina General Assembly. By General Statute, the Plan accumulates contributions from employers and any earnings on those contributions in the Retiree Health Benefit fund. These assets shall be used to provide health benefits to retired and disabled employees and their applicable beneficiaries. These contributions are irrevocable. Also by law, these assets are not subject to the claims of creditors of the employers making contributions to the Plan.

The State of North Carolina issues a publicly available financial report that includes financial statements and required supplementary information for the State's Comprehensive Major Medical Plan (also, referred to as the State Health Plan). An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.ncosc.net/> and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919)981-5454.

**Funding Policy:** The Comprehensive Major Medical Plan is administered by the Executive Administrator and Board of Trustees of the Plan, which establish premium rates except as may be established by the General Assembly in an appropriate act. The health care benefits for retired and disabled employees are the same as for active employees, except that the coverage becomes secondary when former employees become eligible for Medicare.

TOWN OF FOREST CITY, NORTH CAROLINA

Notes to the Financial Statements

For employees first hired on and after October 1, 2006, future coverage as retired employees is subject to the requirement that the future retiree have 20 or more years of retirement service credit in order to receive coverage on a noncontributory basis. Employees first hired on and after October 1, 2006 with 10 but less than 20 years of retirement service are eligible for coverage on a partially contributory basis. For such future retirees, the State will pay 50% of the State Health Plan's total noncontributory premium.

Contributions are determined as a percentage of covered monthly payroll. Annually, the monthly contribution rates to the Plan, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the General Assembly in the Appropriations Bill. For the fiscal years ended June 30, 2013, 2012, and 2011, the Town paid all annual required contributions to the Plan for postemployment health care benefits of \$269,900, \$247,800, and \$231,900 respectively. These contributions represented 4.4%, 4.9%, and 4.5% of covered payroll, respectively.

f) **Other Employment Benefits**

The Town has also 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.



TOWN OF FOREST CITY, NORTH CAROLINA

Notes to the Financial Statements

Deferred Inflows of Resources

The balance in deferred inflow of resources on the General Fund balance sheet at June 30, 2013 is composed of the following:

	<u>Unavailable Revenue</u>	<u>Unearned Revenue</u>
Property taxes:		
Prepaid taxes	\$	\$ 1 308
Taxes receivable-net	115 653	
Solid waste fee receivable-net	141 526	
Cemetery lots receivable	<u>5 815</u>	
	<u>\$262 994</u>	<u>\$ 1 308</u>

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 secures insurance coverage for these risks from several commercial insurance companies. The Town's insurance coverage includes: (1) general liability, \$13 million; (2) fire coverage on buildings at estimated replacement costs and up to \$5 million for flood and earthquake; (3) errors and omissions liability, \$11 million; (4) auto liability, \$11 million and (5) public officials liability, \$13 million. Various deductibles apply to coverage amounts. In addition, the Town secures workers' compensation coverage up to the statutory limits and an employers' liability limit of \$1 million. All of these coverages are secured through commercial insurance companies.

There have been no significant reductions in the Town's insurance coverage in the prior year; settled fidelity claims have not exceeded coverage in the past three fiscal years.

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 director is individually bonded for \$100,000. The remaining employees that have access to funds are bonded under a blanket bond for \$100,000.

TOWN OF FOREST CITY, NORTH CAROLINA

Notes to the Financial Statements

Long-Term Obligations

During the year ended June 30, 2008, the Town incurred the following long-term obligation to finance the construction of a municipal baseball facility:

	<u>Total Due</u>
Commercial note issued in the amount of \$2,500,000; collateral is improvements financed by the note proceeds; 3.66% annual rate (reduced to 2.43% effective February 21, 2013); \$13,899 plus interest due monthly	
Due June 30, 2013	\$1 611 111
Due after 12 months	<u>166 667</u>
	<u>\$1 444 444</u>

Annual debt service payments for this installment purchase obligation are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 166 667	\$ 37 293	\$ 203 960
2015	166 666	33 245	199 911
2016	166 667	29 193	195 860
2017	166 666	25 144	191 810
2018	166 667	21 094	187 761
Last five years	<u>777 778</u>	<u>44 887</u>	<u>822 665</u>
	<u>\$1 611 111</u>	<u>\$190 856</u>	<u>\$1 801 967</u>

In addition to the above note, the Town was approved on May 3, 2013 for a loan/grant through the N.C. Department of Environmental and Natural Resources in the amount of \$944,197 to finance a sewer rehabilitation project. At the conclusion of the project \$451,350 in principal will be forgiven and the balance of \$492,847 will be amortized by 20 annual payments starting May 30, 2015 in the amount of \$24,642.35 interest free.

During the year ended June 30, 2013, the following changes occurred in long-term debt obligations:

	<u>Balance</u>			<u>Balance</u>	<u>Current</u>
	<u>06/30/12</u>	<u>Increase</u>	<u>Decrease</u>	<u>06/30/13</u>	<u>Portion</u>
Commercial note	\$1 777 777	\$	\$166 666	\$1 611 111	\$166 667
Net pension obligation	<u>273 435</u>	<u>18 876</u>	<u>          </u>	<u>292 311</u>	<u>          </u>
	<u>\$2 051 212</u>	<u>\$ 18 876</u>	<u>\$166 666</u>	<u>\$1 903 422</u>	<u>\$166 667</u>
Component unit:					
Due Town	<u>\$ 161 669</u>	<u>\$</u>	<u>\$ 38 745</u>	<u>\$ 122 924</u>	<u>\$ 27 696</u>

TOWN OF FOREST CITY, NORTH CAROLINA

Notes to the Financial Statements

The ABC Board's long-term debt as above consisted at June 30, 2013 of the following:

..Promissory note to the Town of Forest City for the purchase and construction of the ABC facility and secured by a deed of trust on that real estate, due \$2,768 monthly including interest at 5%. Amount due within 12 months is \$27,696.

At June 30, 2013, the Town of Forest City had no bonds which were authorized as outstanding; the Town's legal debt margin was approximately \$52,000,000.

(C) **Interfund Activity**

Transfers to/from other funds for the year ended June 30, 2013 consist of the following:

General Fund to Capital Projects Fund	\$ 33 000
Electric Fund to Parks and Recreation Fund	\$ 755 238
Electric Fund to General Fund	\$3 000 000
Water Sewer Fund to Parks and Recreation	\$1 072 175
Electric Fund to Rate Stabilization Fund	\$ 639 362

Transfers are used to move unrestricted revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts provided matching funds for various grant programs. The current year transfers were to supplement funding of the General Fund and the Capital Projects Fund.

(D) **Revenues, Expenditures, and Expenses**

**On-Behalf Payments for Fringe Benefits**

For the fiscal year ended June 30, 2013, the Town of Forest City has recognized on-behalf payments for pension contributions made by the State as a revenue and an expenditure of \$9,963 for the firemen who perform firefighting duties for the Town's fire department. The firemen elected to be members of the Firemen's and Rescue Squad Workers' Pension Fund, a cost-sharing, multiple-employer public employee retirement system established and administered by the State of North Carolina. The Plan is funded by a \$10 monthly contribution paid by each member, investment income, and a State appropriation.

TOWN OF FOREST CITY, NORTH CAROLINA

Notes to the Financial Statements

(E) **Prior Period Adjustment**

During the fiscal year ended June 30, 2013, management determined that engineering cost incurred in prior fiscal years to design the projects and provide assistance in grant applications were allowable and appropriate cost of two projects under construction. The financial amounts involved in this restatement are as follows:

	<u>Previously Reported</u>	<u>Adjustment</u>	<u>As Adjusted</u>
Exhibit 2: Business-Type Activities - Net position - Beginning	\$56 552 692	\$97 922	\$56 650 614
Exhibit 7: Water Sewer Net position - Beginning	\$47 776 402	\$97 922	\$47 874 324
Notes to Financial Statements Water Sewer Construction in process	\$ 164 655	\$97 922	\$ 262 577

(F) **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		\$4 615 844
Less: Inventories	\$ 18 781	
Stabilization by State Statute	663 804	
Streets - Powell Bill	189 358	
Appropriated fund balance in 2013 budget	<u>473 721</u>	<u>1 345 664</u>
Unassigned - available for appropriation		<u>\$3 270 180</u>

(G) **Interfund Balances**

The Water Sewer Fund routinely advances funds to the Water Sewer Capital Project Fund. The advances are normally repaid within 60 days by grant reimbursement. At June 30, 2013 this advance totaled \$287,920.

TOWN OF FOREST CITY, NORTH CAROLINA

Notes to the Financial Statements

**III. Related Organization**

The five-member board of the Forest City Housing Authority is appointed by the Board of Commissioners of Forest City. The Town is accountable for the Housing Authority because it appoints the governing board; however, the Town is not financially accountable for the Housing Authority. The Town of Forest City is also disclosed as a related organization in the notes to the financial statements for the Forest City Housing Authority. Complete financial statements for the Housing Authority can be obtained from its office at 147 East Spruce Street, Forest City, North Carolina 28043.

**IV. 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 monies to the grantor agencies. Management believes that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant moneys.

**V. Change in Accounting Principles/Restatement**

The Town implemented Governmental Accounting Standards Board (GASB) Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and Statement 65, *Items Previously Reported as Assets and Liabilities*, in the fiscal year ended June 30, 2013. In accordance with GASB Statement 63, the Statement of Net Assets has been replaced with the Statement of Net Position. Items on the Statement of Net Position are now classified into Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position. Additionally, GASB Statement 65 requires that deferred costs from the refunding of debt, which were previously deferred and amortized, be presented as deferred outflows of resources.

TOWN OF FOREST CITY, NORTH CAROLINA

REQUIRED SUPPLEMENTAL FINANCIAL DATA

TOWN OF FOREST CITY, NORTH CAROLINA

Law Enforcement Officers Special Separation Allowance

Required Supplemental Information

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) - Proj Unit Credit (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll for Year Ending on Val Date (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/07	0	319 580	319 580	0.00	1 310 640	24.38
12/31/08	0	301 192	301 192	0.00	1 376 359	21.88
12/31/09	0	509 701	509 701	0.00	1 363 482	37.38
12/31/10	0	475 950	475 950	0.00	1 343 309	35.43
12/31/11	0	485 656	485 656	0.00	1 388 529	34.98
12/31/12	0	479 886	479 886	0.00	1 365 308	35.15

TOWN OF FOREST CITY, NORTH CAROLINA

Law Enforcement Officers Special Separation Allowance

Required Supplemental Information

Schedule of Employer Contributions

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Fiscal Year Ended <u>June 30,</u>	<u>Annual Required Contributions</u>	<u>Percentage Contributed</u>
2008	30 572	73.11
2009	37 708	54.26
2010	37 748	79.43
2011	57 366	52.27
2012	53 292	56.27
2013	56 422	60.62

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Notes to the Required Schedules

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	December 31, 2012
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay closed
Remaining amortization period	18 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return*	5.0%
Projected salary increases*	4.25 - 7.85%
*Includes inflation at	3.00%
Cost-of living adjustments	None



TOWN OF FOREST CITY, NORTH CAROLINA

INDIVIDUAL FUND STATEMENTS AND SCHEDULES

TOWN OF FOREST CITY, NORTH CAROLINA  
General Fund  
Statement of Revenues, Expenditures, and  
Changes in Fund Balance - Budget and Actual  
For the Fiscal Year Ended June 30, 2013

	2013		Variance Positive (Negative)
	Budget	Actual	
<u>Revenues:</u>			
Ad valorem taxes:			
Taxes	\$ 1 859 500	\$1 867 988	\$ 8 488
Penalties and interest	<u>10 000</u>	<u>18 292</u>	<u>8 292</u>
	<u>1 869 500</u>	<u>1 886 280</u>	<u>16 780</u>
Other taxes and licenses:			
Local option sales taxes	525 000	517 371	(7 629)
Privilege licenses		460	460
Fire district tax	4 000	4 000	
Sales tax refund	<u>90 000</u>	<u>38 922</u>	<u>(51 078)</u>
	<u>619 000</u>	<u>560 753</u>	<u>(58 247)</u>
Unrestricted intergovernmental:			
Utility franchise tax	249 000	392 044	143 044
Telecommunications sales tax	102 100	160 735	58 635
Piped natural gas tax	22 500	35 441	12 941
Video programming sales tax	26 400	41 581	15 181
Court costs and fees	3 000	3 713	713
Beer and wine tax	30 000	30 289	289
Hold harmless revenue	140 000	197 091	57 091
Policing subsidies and fees	30 000	26 962	(3 038)
ABC profit distributions	45 000	98 755	53 755
Payments-in-lieu	<u>6 000</u>	<u>14 264</u>	<u>8 264</u>
	<u>654 000</u>	<u>1 000 875</u>	<u>346 875</u>
Restricted intergovernmental:			
Powell Bill allocation	225 000	244 557	19 557
Controlled substance tax	2 000	5 837	3 837
On-behalf of payments - fire retiremen	14 000	9 963	(4 037)
ABC allocations	9 000	7 394	(1 606)
State Fire Fund	6 000	6 392	392
Solid waste disposal	<u>5 000</u>	<u>4 226</u>	<u>( 774)</u>
	<u>261 000</u>	<u>278 369</u>	<u>17 369</u>
Permits and fees:			
Building permits	30 000	23 563	(6 437)
Code enforcement fees	<u>2 000</u>	<u>4 760</u>	<u>2 760</u>
	<u>32 000</u>	<u>28 323</u>	<u>(3 677)</u>
Sales and services:			
Recreation department	265 175	264 761	( 414)
Waste collection fees	1 020 000	969 744	(50 256)
Cemetery lots	2 000	1 900	( 100)
Fire protection fees	4 000	4 965	965
Other sales and services	<u>11 000</u>	<u>25 132</u>	<u>14 132</u>
	<u>1 302 175</u>	<u>1 266 502</u>	<u>(35 673)</u>

TOWN OF FOREST CITY, NORTH CAROLINA  
General Fund  
Statement of Revenues, Expenditures, and  
Changes in Fund Balance - Budget and Actual  
For the Fiscal Year Ended June 30, 2013

	2013		Variance Positive (Negative)
	Budget	Actual	
Investment earnings	\$ 85 000	\$ 68 413	\$ (16 587)
Miscellaneous:			
Rents	56 100	61 216	5 116
Contributions - local	16 660	16 660	
Other	7 000	8 039	1 039
	<u>79 760</u>	<u>85 915</u>	<u>6 155</u>
Total revenues	<u>4 902 435</u>	<u>5 175 430</u>	<u>272 995</u>
<b>Expenditures:</b>			
General government:			
Governing body:			
Salaries and benefits		55 193	
Materials and supplies		3 639	
Repairs and maintenance		987	
Insurance		8 770	
Other		19 731	
	92 725	<u>88 320</u>	<u>4 405</u>
Administration:			
Salaries and benefits		348 781	
Materials and supplies		70 149	
Repairs and maintenance		126 223	
Incentive grant		319 193	
Other		78 734	
Capital outlay		10 431	
	1 176 843	<u>953 511</u>	223 332
Finance and legal:			
Salaries and benefits		259 348	
Professional fees		23 870	
Materials and supplies		24 722	
Repairs and maintenance		55 065	
Other		25 012	
	419 100	<u>388 017</u>	31 083
Planning and code enforcement:			
Salaries and benefits		295 248	
Materials and supplies		8 151	
Repairs and maintenance		4 558	
Other		117 574	
	425 584	<u>425 531</u>	53

TOWN OF FOREST CITY, NORTH CAROLINA  
General Fund  
Statement of Revenues, Expenditures, and  
Changes in Fund Balance - Budget and Actual  
For the Fiscal Year Ended June 30, 2013

	2013		Variance Positive (Negative)
	Budget	Actual	
Public buildings:			
Repairs and maintenance	\$	\$ 17 678	\$
Utilities		2 580	
Insurance		1 228	
Other		<u>1 872</u>	
		24 619	1 261
Total general government	<u>2 138 871</u>	<u>1 878 737</u>	<u>260 134</u>
Public safety:			
Police:			
Salaries and benefits		2 150 773	
Automotive supplies and repair		112 600	
Insurance		39 463	
Uniforms		16 464	
Repairs and maintenance		42 154	
Other		<u>150 762</u>	
	2 643 860	<u>2 512 216</u>	131 644
Fire:			
Salaries and benefits		883 810	
Insurance		32 371	
Materials and supplies		28 588	
On-behalf payments		9 963	
Repairs and maintenance		32 244	
Other		72 356	
Capital outlay		<u>24 487</u>	
	1 120 255	<u>1 083 819</u>	36 436
Total public safety	<u>3 764 115</u>	<u>3 596 035</u>	<u>168 080</u>
Transportation:			
Streets and highways:			
Salaries and benefits		555 430	
Utilities		91 623	
Materials and supplies		74 569	
Repairs and maintenance		298 905	
Other		<u>26 892</u>	
	1 069 761	<u>1 047 419</u>	22 342
Warehouse and garage:			
Salaries and benefits		158 326	
Repairs and maintenance		18 085	
Supplies		24 244	
Other		30 524	
Capital outlay		<u>19 814</u>	
	281 270	<u>250 993</u>	30 277
Total transportation	<u>1 351 031</u>	<u>1 298 412</u>	<u>52 619</u>

TOWN OF FOREST CITY, NORTH CAROLINA  
General Fund  
Statement of Revenues, Expenditures, and  
Changes in Fund Balance - Budget and Actual  
For the Fiscal Year Ended June 30, 2013

	2013		Variance Positive (Negative)
	Budget	Actual	
Environmental protection:			
Supplies	\$	\$ 7 263	\$
Contract services		1 022 343	
Landfill fee		7 083	
Total environmental protection	<u>1 058 500</u>	<u>1 036 689</u>	<u>21 811</u>
Cultural and recreational:			
Parks and recreation:			
Salaries and benefits		812 863	
Supplies		160 844	
Repairs and maintenance		103 561	
Other		249 229	
Debt service:			
Principal		166 666	
Interest		59 423	
Capital outlay		336 372	
	<u>1 976 163</u>	<u>1 888 958</u>	87 205
Library:			
Salaries and benefits		98 820	
Supplies		17 269	
Repairs and maintenance		13 331	
Other		9 074	
Capital outlay		7 919	
	<u>154 906</u>	<u>146 413</u>	8 493
Total cultural and recreational	<u>2 131 069</u>	<u>2 035 371</u>	<u>95 698</u>
Cemetery:			
Supplies		6 018	
Repairs and maintenance		436	
Other		10 147	
Total cemetery	<u>26 600</u>	<u>16 601</u>	<u>9 999</u>
Total expenditures	10 470 186	9 861 845	608 341
Revenues under expenditures	<u>(5 567 751)</u>	<u>(4 686 415)</u>	<u>881 336</u>

TOWN OF FOREST CITY, NORTH CAROLINA  
General Fund  
Statement of Revenues, Expenditures, and  
Changes in Fund Balance - Budget and Actual  
For the Fiscal Year Ended June 30, 2013

	2013		Variance Positive (Negative)
	Budget	Actual	
Other financing sources (uses):			
Operating transfers from Enterprise Funds	\$ 4 827 413	\$4 827 413	\$
Operating transfers from (to) Capital Projects Fund:			
Oak Street Sidewalk Project	(33 000)	(33 000)	
Insurance recovery	14 300	27 621	13 321
Sale of fixed assets		114 513	114 513
Fund balance appropriated	<u>759 038</u>	<u>                    </u>	<u>( 759 038)</u>
Revenues and other financing sources over expenditures	<u>5 567 751</u>	<u>4 936 547</u>	<u>(631 204)</u>
	<u>\$ -0-</u>	<u>250 132</u>	<u>\$ 250 132</u>
Fund balance:			
Beginning of year		<u>4 365 712</u>	
End of year		<u>\$4 615 844</u>	

TOWN OF FOREST CITY, NORTH CAROLINA  
 Schedule of Revenues and Expenditures -  
 Budget and Actual (Non-GAAP)  
 Capital Projects Fund  
 From Inception and for the Year Ended June 30, 2013

	Project Authorization	Actual		Total To Date	Variance Positive (Negative)
		Prior Years	Current Year		
N.C. Small Towns Prosperity Program (NC STEP-FY 08)					
Revenue:					
Restricted intergovernmental:					
State grant:					
Rural Economic Development Center, Inc.					
	<u>\$100 000</u>	<u>\$ 61 584</u>	<u>\$ 38 416</u>	<u>\$100 000</u>	<u>\$ -</u>
Expenditures:					
Branding and marketing	10 000	7 119	2 881	10 000	
Small business incentives	50 000	28 150	21 850	50 000	
Highway 74 build-out plan	7 500	6 315	1 185	7 500	
Business apprentice program	12 500		12 500	12 500	
Broadband connectivity increase	<u>20 000</u>	<u>20 000</u>		<u>20 000</u>	
	<u>100 000</u>	<u>61 584</u>	<u>38 416</u>	<u>100 000</u>	<u>-</u>
Revenues over expenditures - Project	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Oak Street Sidewalk Project:					
Revenue:					
Restricted intergovernmental:					
State grant:					
North Carolina Department of Transportation					
	\$100 000	\$ -	\$ -	\$ -	\$(100 000)
Expenditures:					
Construction	<u>133 000</u>		<u>33 000</u>	<u>33 000</u>	<u>100 000</u>
Expenditures over revenue	(33 000)	-	33 000	33 000	-
Other financing sources:					
Town contribution	<u>33 000</u>	<u>-</u>	<u>33 000</u>	<u>33 000</u>	
Revenue and other financing sources over expenditures - Project	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Revenue and other financing sources over expenditures - Fund	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

TOWN OF FOREST CITY, NORTH CAROLINA

Electric Fund

Schedule of Revenues and Expenditures

Budget and Actual (Non-GAAP)

For the Fiscal Year Ended June 30, 2013

	2013		Variance Positive (Negative)
	Budget	Actual	
<b>Revenues:</b>			
Operating revenues:			
Electricity sales	\$11 551 000	\$11 102 092	\$ ( 448 908)
Late payment penalties	260 000	257 264	(2 736)
Tap and connection fees	1 200	664	( 536)
Reconnection and transfer fees	5 000	6 039	1 039
Cable pole fees	11 000	13 279	2 279
Other operating revenue	10 000	48 584	38 584
	<u>11 838 200</u>	<u>11 427 922</u>	<u>( 410 278)</u>
Nonoperating revenue:			
Interest earnings	50 000	75 700	25 700
	<u>11 888 200</u>	<u>11 503 622</u>	<u>( 384 578)</u>
<b>Expenditures:</b>			
Administration:			
Salaries and benefits		92 225	
Credit card fees		28 867	
Other 7210- 7210-550		11 264	
	278 011	<u>132 356</u>	145 655
Operations:			
Salaries and benefits		438 863	
Supplies		154 348	
Repairs and maintenance		258 680	
Other		227 465	
	1 413 539	<u>1 079 356</u>	334 183
Electric power purchased 7220-270) #7.2(?) 7 100 000 7210-350)		6 439 738	660 262
			→ Net of true up
Capital outlay:			
Equipment 7210-550	4 000	3 995	5
Contingency	10 000		10 000
	<u>8 805 550</u>	<u>7 655 445</u>	<u>1 150 105</u>
Total expenditures			
	<u>8 805 550</u>	<u>7 655 445</u>	<u>1 150 105</u>
Revenues over expenditures	3 082 650	3 848 177	765 527



TOWN OF FOREST CITY, NORTH CAROLINA

Electric Fund

Schedule of Revenues and Expenditures

Budget and Actual (Non-GAAP)

For the Fiscal Year Ended June 30, 2013

	<u>2013</u>		
	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
<b>Other financing sources (uses):</b>			
Transfers to other funds:			
Rate Stabilization Fund	\$ ( 639 362)	\$ ( 639 362)	\$
General Fund	(3 755 238)	(3 755 238)	
Fund balance appropriated	<u>1 311 950</u>	<u>                    </u>	<u>(1 311 950)</u>
	<u>(3 082 650)</u>	<u>(4 394 600)</u>	<u>(1 311 950)</u>
Revenue under expenditures and other financing uses	 \$ -	 <u>( 546 423)</u>	 \$ ( 546 423)
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>Reconciliation from budgetary basis (modified accrual) to full accrual:</b>			
Reconciling items:			
Transfer to Rate Stabilization Fund		639 362	
Capital outlay		3 995	
Depreciation		<u>( 455 283)</u>	
		<u>188 074</u>	
Change in net position		<u>\$ ( 358 349)</u>	

TOWN OF FOREST CITY, NORTH CAROLINA

Electric Rate Stabilization Fund

Schedule of Revenues and Expenditures

Budget and Actual (Non-GAAP)

For the Fiscal Year Ended June 30, 2013

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Current Year</u>	<u>Total to Date</u>	<u>Variance Positive (Negative)</u>
Other financing sources (uses):					
Transfers from Electric Fund	\$1 394 493	\$ 755 131	\$ 639 362	\$1 394 493	\$ -
Transfers to Electric Fund	<u>(1 394 493)</u>	<u>( 252 218)</u>	<u>                    </u>	<u>( 252 218)</u>	<u>1 142 275</u>
Other financing sources (uses)	<u>\$ -</u>	<u>\$ 502 913</u>	639 362	<u>\$1 142 275</u>	<u>\$1 142 275</u>
Fund balance:					
Beginning			<u>502 913</u>		
Ending			<u>\$1 142 275</u>		

TOWN OF FOREST CITY, NORTH CAROLINA

Water and Sewer Fund

Schedule of Revenues and Expenditures

Budget and Actual (Non-GAAP)

For the Fiscal Year Ended June 30, 2013

	2013		Variance Positive (Negative)
	Budget	Actual	
<b>Revenues:</b>			
Operating revenues:			
Water sales	\$ 3 150 000	\$ 3 021 791	\$ ( 128 209)
Sewer charges	1 311 000	1 254 097	(56 903)
Tap and connection fees	35 000	29 650	(5 350)
Other	<u>33 000</u>	<u>57 363</u>	<u>24 363</u>
	4 529 000	4 362 901	( 166 099)
Nonoperating revenues:			
Interest	<u>100 000</u>	<u>108 787</u>	<u>8 787</u>
Total revenues	<u>4 629 000</u>	<u>4 471 688</u>	<u>( 157 312)</u>
<b>Expenditures:</b>			
Administration:			
Salaries and benefits		236 156	
Supplies		34 791	
Repairs and maintenance		3 224	
Other		<u>15 271</u>	
	<u>330 068</u>	<u>289 442</u>	<u>40 626</u>
Water operations:			
Salaries and benefits		306 274	
Supplies		162 397	
Repairs and maintenance		31 970	
Other		<u>108 457</u>	
	<u>889 632</u>	<u>609 098</u>	<u>280 534</u>
Water plant:			
Salaries and benefits		338 737	
Supplies		105 162	
Repairs and maintenance		54 185	
Utilities		78 821	
Other		<u>53 235</u>	
	<u>826 100</u>	<u>630 140</u>	<u>195 960</u>

TOWN OF FOREST CITY, NORTH CAROLINA

Water and Sewer Fund

Schedule of Revenues and Expenditures

Budget and Actual (Non-GAAP)

For the Fiscal Year Ended June 30, 2013

	2013		Variance Positive (Negative)
	Budget	Actual	
Sewer Operations:			
Salaries and benefits	\$	\$ 159 708	\$
Supplies		23 098	
Repairs and maintenance		45 968	
Contributions to County		70 000	
Other		<u>101 979</u>	
	<u>1 082 450</u>	<u>400 753</u>	<u>681 697</u>
Waste treatment plant:			
Salaries and benefits		305 280	
Supplies		87 958	
Utilities		178 413	
Repairs and maintenance		57 109	
Other		<u>57 815</u>	
	<u>734 950</u>	<u>686 575</u>	<u>48 375</u>
Pump station and storage:			
Salaries and benefits		206 728	
Supplies		14 496	
Utilities		89 769	
Repairs and maintenance		108 240	
Other		<u>28 772</u>	
	<u>517 700</u>	<u>448 005</u>	<u>69 695</u>
Capital outlay:			
Administration	7 800	7 767	33
Water operations	61 000	60 523	477
Water plant	<u>160 000</u>	<u>156 174</u>	<u>3 826</u>
	<u>228 800</u>	<u>224 464</u>	<u>4 336</u>
Total expenditures	<u>4 609 700</u>	<u>3 288 477</u>	<u>1 321 223</u>
Revenues over expenditures	19 300	1 183 211	1 163 911

TOWN OF FOREST CITY, NORTH CAROLINA

Water and Sewer Fund

Schedule of Revenues and Expenditures

Budget and Actual (Non-GAAP)

For the Fiscal Year Ended June 30, 2013

	<u>2013</u>		
	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
<b>Other financing sources (uses):</b>			
Operating transfer:			
To General Fund	\$(1 072 175)	\$(1 072 175)	\$
Fund balance appropriated	<u>1 052 875</u>	<u>(1 072 175)</u>	<u>(1 052 875)</u>
	<u>(19 300)</u>	<u>(1 072 175)</u>	<u>(1 052 875)</u>
Revenue and other sources under expenditures	\$ -	<u>111 036</u>	\$ 111 036
	<u>-</u>	<u>111 036</u>	<u>111 036</u>
<b>Reconciliation from budgetary basis (modified accrual) to full accrual:</b>			
Reconciling items:			
Capital outlay		224 464	
Depreciation		(1 277 650)	
Capital Project Fund:			
State and Federal grants received		2 891 392	
Federal grant distributed		<u>( 750 000)</u>	
		<u>1 088 206</u>	
Change in net position		<u>\$ 1 199 242</u>	

TOWN OF FOREST CITY, NORTH CAROLINA  
Water Sewer Capital Project Fund  
Schedule of Revenues and Expenditures  
Budget and Actual (Non-GAAP)

From Inception and for the Year Ended June 30, 2013

	Project Authorization	Prior Years	Actual Current Year	Total To Date	Variance Positive (Negative)
<b>Broad River Water Sewer Project:</b>					
<b>Revenues:</b>					
Restrictive Intergovernmental:					
Federal Grant:	\$ 960 000	\$ -	\$ 825 349	\$ 825 349	\$ ( 134 651)
Community Development Block Grant through N.C. Department of Commerce through Rutherford County	1 000 000		828 587	828 587	( 171 413)
State grants:	500 000		487 456	487 456	(12 544)
Rural Development Center, Inc.	2 460 000	-	2 141 392	2 141 392	( 318 608)
N.C. Department of Commerce - Industrial Development Fund					
Expenditures:					
Technical services	321 000	192 765 (1)	120 767	313 532	7 468
Grant administration	26 000	2 580	18 197	20 777	5 223
Water construction	1 381 601		1 379 880	1 379 880	1 721
Sewer construction	527 037		457 203	457 203	69 834
Contingency	254 362		20 000	20 000	234 362
Revenues under expenditures	2 510 000	195 345	1 996 047	2 191 392	318 608
	(50 000)	( 195 345)	145 345	(50 000)	-
Other financing sources:					
Water Sewer Fund transfer	50 000	50 000		50 000	
Water Sewer Fund advances	-	145 345 (1)	( 145 345)		
	50 000	( 195 345)	( 145 345)	50 000	

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

TOWN OF FOREST CITY, NORTH CAROLINA  
Water Sewer Capital Project Fund  
Schedule of Revenues, and Expenditures  
Budget and Actual (Non-GAAP)

From Inception and for the Year Ended June 30, 2013

	Project Authorization	Prior Years	Actual Current Year	Total To Date	Variance Positive (Negative)
Revenues and other financing sources over Expenditures - Project Total	\$ -	\$ -	\$ -	\$ -	\$ -
Central Business District Sewer Rehabilitation:					
Revenue:					
Restrictive Intergovernmental:					
State Grant:					
North Carolina Department of Environmental and Natural Resources	944 197	-	-	-	( 944 197)
Loan/Loan Forgiveness					
Expenditures:					
Professional services	145 825	67 232 (2)	23 679	90 911	54 914
Construction	760 354				760 354
Contingency	38 018				38 018
Loan closing fee	18 885				18 885
	963 082	67 232 (2)	23 679	90 911	90 911
Expenditures over revenue	(18 885)	(67 232)	(23 679)	(90 911)	(72 026)
Other financing sources:					
Water-Sewer Fund Contribution	18 885				(18 885)
Water-Sewer Fund Advance	18 885	67 232 (2)	23 679	90 911	90 911
		67 232	23 679	90 911	72 026
Revenues and other financing sources over expenditures	-	-	-	-	-

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

TOWN OF FOREST CITY, NORTH CAROLINA  
Water Sewer Capital Project Fund  
Schedule of Revenues, and Expenditures  
Budget and Actual (Non-GAAP)

From Inception and for the Year Ended June 30, 2013

	Project Authorization	Prior Years	Actual Current Year	Total To Date	Variance Positive (Negative)
<b>Local Industry Building Rehabilitation:</b>					
Revenue:					
Restrictive Intergovernmental:					
Federal grant:					
Community Development Block Grant: passed through North Carolina Department of Commerce	\$ 750 000	-	\$ 750 000	\$ 750 000	\$ -
Expenditures:					
Reimburse industrial recipient for approved construction costs	750 000		750 000	750 000	
Grant administration	10 000		9 268	9 268	732
	760 000	-	759 268	759 268	732
Expenditures over Revenue	(10 000)		(9 268)	(9 268)	732
Other financing sources:					
Water-Sewer Fund contribution	10 000		9 268	9 268	( 732)
Revenue and other financing sources over expenditures - Project Total	-	-	-	-	-
Revenue and other financing sources over Expenditures - Fund Total	\$ -	\$ -	\$ -	\$ -	\$ -

**Notes:**

- (1) Prior year activity has been restated by \$30,690 for Engineering services incurred in prior periods and now considered appropriate cost of this project.
- (2) Prior year activity has been restated by \$67,232 for Engineering services incurred in prior periods and now considered appropriate cost of this project.

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



TOWN OF FOREST CITY, NORTH CAROLINA

OTHER SCHEDULES

TOWN OF FOREST CITY, NORTH CAROLINA

General Fund

Schedule of Ad Valorem Taxes Receivable

June 30, 2013

Year of Levy	Uncollected Balance <u>June 30, 2012</u>	<u>Additions</u>	<u>Collections and Credits</u>	Uncollected Balance <u>June 30, 2013</u>
2012	\$	\$1 896 003	\$1 821 414	\$ 74 589
2011	79 671		46 763	32 908
2010	29 525		10 362	19 163
2009	15 071		4 943	10 128
2008	12 214		2 473	9 741
2007	7 937		1 736	6 201
2006	6 415		1 059	5 356
2005	4 873		812	4 061
2004	3 472		526	2 946
2003	3 215		355	2 860
2002	<u>2 927</u>		<u>2 927</u>	
	 <u>\$165 320</u>	 <u>\$1 896 003</u>	 <u>\$1 893 370</u>	 167 953
Less allowance for doubtful accounts				<u>52 300</u>
<b>Ad Valorem Taxes receivable - net</b>				<u><u>\$115 653</u></u>
<b>Reconciliation with revenue:</b>				
Ad valorem taxes - General Fund			\$1 886 280	
Discounts allowed	\$ 2 897			
Releases	19 676			
Penalties and interest collected	(18 292)			
Taxes written off	<u>2 809</u>		<u>7 090</u>	
			<u><u>\$1 893 370</u></u>	

TOWN OF FOREST CITY, NORTH CAROLINA

Analysis of Current Tax Levy

Town-Wide Levy

For the Fiscal Year Ended June 30, 2013

	<u>Property</u> <u>Valuation</u>	<u>Rate</u>	<u>Total</u> <u>Levy</u>	<u>Levy</u> <u>Other</u> <u>Property</u>	<u>Motor</u> <u>Vehicles</u>
Original levy:					
Property taxed at current year's rate	\$653 794 138	.29	\$1 896 003	\$1 783 591	\$112 412
Uncollected taxes at June 30, 2013			74 589	54 860	19 729
Current year's taxes collected and credited			\$1 821 414	\$1 728 731	\$92 683
Current levy collection percentage			96.07%	96.92%	82.45%

TOWN OF FOREST CITY, NORTH CAROLINA

COMPLIANCE SECTION

*Don L. Heath*  
*Certified Public Accountant*

Forest City, North Carolina 28043 • Telephone 828-245-4841

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

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

I 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 financial statements of the governmental activities, the business-type activities, the discretely presented component units, and each fund of the Town of Forest City, North Carolina, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town of Forest City's basic financial statements, and have issued my report thereon dated November 15, 2013.

**Internal Control over Financial Reporting**

In planning and performing my audit of the financial statements, I considered the Town of Forest City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Forest City's internal control. Accordingly, I do not express an opinion on the effectiveness of the Town of Forest City's internal control.

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

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and other Matters**

As part of obtaining reasonable assurance about whether the Town of Forest City's financial statements are free from material misstatement, I 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclose no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

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



November 15, 2013

*Don L. Heath*  
*Certified Public Accountant*

Forest City, North Carolina 28043 • Telephone 828-245-4841

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133  
AND THE SINGLE AUDIT IMPLEMENTATION ACT

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

**Report on Compliance for Each Major Federal And State Program**

I have audited the Town of Forest City's compliance with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Town of Forest City's major federal and State programs for the year ended June 30, 2013. The Town of Forest City's major federal and State programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

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

**Auditor's Responsibility**

My responsibility is to express an opinion on compliance for each of the Town of Forest City's major federal and State programs based on my audit of the types of compliance requirements referred to above. I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the *State Single Audit Implementation Act*. Those standards, OMB Circular A-133, require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal and State program occurred. An audit includes examining, on a test basis, evidence about the Town of Forest City's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances.

I believe that my audit provides a reasonable basis for my opinion on compliance for each major federal and State program. However, my audit does not provide a legal determination of the Town of Forest City's compliance.

**Opinion on Each Major Program**

In my opinion, the Town of Forest City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal and State programs for the year ended June 30, 2013.

**Other Matters**

The results of my auditing procedures disclosed no instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133.

**Report on Internal Control Over Compliance**

Management of the Town of Forest City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing my audit of compliance, I considered the Town of Forest City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal and State program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal and State program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the Town of Forest City's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of my testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



November 15, 2013



TOWN OF FOREST CITY, NORTH CAROLINA  
**Schedule of Findings and Questioned Costs**  
 For the Fiscal Year Ending June 30, 2013

**Section I. Summary of Auditor's Results**

**Financial Statements**

Type of Auditor's report issued Unqualified

Internal control over financing reporting:

- . Material weakness identified? \_\_\_\_\_ yes   X   no
- . Significant deficiency identified that is not considered to be material weakness \_\_\_\_\_ yes   X   none reported

Noncompliance material to financial statements noted \_\_\_\_\_ yes   X   no

**Federal Awards**

Internal control over major federal programs:

- . Material weaknesses identified? \_\_\_\_\_ yes   X   no
- . Significant Deficiency identified that is not considered to be material weakness? \_\_\_\_\_ yes   X   none reported

Type of auditor's report issued on compliance for major federal programs: Unqualified

Any findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133 \_\_\_\_\_ yes   X   no

<u>CFDA Number</u>	<u>Name of Federal Program</u>
14.228	U.S. Department of Housing and Urban Development - Community Development Block Grant - Building reuse
14.228	U.S. Department of Housing and Urban Development - Community Development Block Grant - Pass-Through Rutherford County

Dollar threshold used to distinguish between Type A and Type B Programs \$300,000

Auditee qualified as low-risk auditee \_\_\_\_\_ yes   X   no

TOWN OF FOREST CITY, NORTH CAROLINA  
**Schedule of Findings and Questioned Costs**  
 For the Fiscal Year Ending June 30, 2013

**State Awards**

Internal control over major State programs?

. Material weaknesses identified \_\_\_\_\_ yes  X  no

. Significant deficiencies identified that are not considered to be material weaknesses? \_\_\_\_\_ yes  X  none reported

Type of auditor's report issued on compliance for major State programs: Unqualified

Any findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133 \_\_\_\_\_ yes  X  no

Major programs:

Rural Economic Development Center, Inc. -  
Project Chrysalis Water, Sewer, Drainage

N.C. Department of Commerce  
Industrial Development - Horsehead Sewer

Dollar threshold used to distinguish between Type A and Type B Programs \$300,000

Auditee qualified as low-risk auditee? \_\_\_\_\_ yes  X  no

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Section II. Financial Statement Findings

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None reported

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Section III. Federal Award Findings and Questioned Costs

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None reported

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Section IV. State Award Findings and Questioned Costs

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None reported

TOWN OF FOREST CITY, NORTH CAROLINA  
 Schedule of Expenditures of Federal and State Awards  
 For the Year Ended June 30, 2013

<u>Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>State Pass-Through Grantor's Number</u>	<u>Federal (Direct &amp; Pass-Through) Expenditures</u>	<u>State Expenditures</u>	<u>Local Expenditures</u>
<b>Federal Grants:</b>					
<b>Cash Programs:</b>					
<u>U.S. Department of Housing and     Urban Development</u>					
Pass-Through N.C. Department of Commerce Community Development Block Grant - State's Program	14.228	11E-2284	\$ 750 000	\$	\$835 648
CDBG - Economic Development Grant - Building Reuse					
Pass-Through Rutherford County Small Cities CDBG - Horsehead Water & Sewer	14.228	11-E 2284	825 349	-	-
Total assistance - Federal Programs			<u>1 575 349</u>	<u>-</u>	<u>835 648</u>
<b>State Grants:</b>					
<b>Cash Programs</b>					
<u>N.C. Department of Transportation</u>					
Powell Bill		38570		302 476	
Oak Street Sidewalk Project					33 000
<u>N.C. Department of Commerce</u>					
Industrial Development Fund - Utility Account					
Horsehead Sewer Improvements		U-426		487 456	50 00
<u>N.C. Department of Environmental     and Natural Resources</u>					
Clean Water State Revolving Fund					
Central Business District Sewer Rehabilitation				72 026	18 885

TOWN OF FOREST CITY, NORTH CAROLINA  
 Schedule of Expenditures of Federal and State Awards  
 For the Year Ended June 30, 2013

	Federal CFDA Number	State Pass-Through Grantor's Number	Federal (Direct & Pass-Through) Expenditures	State Expenditures	Local Expenditures
Rural Economic Development Center, Inc.					
Project Chrysalis Water, Sewer, & Drainage		11-218-			
Construction Horsehead		40401-107	828 587		
STEP Implementation Investment Grant		08-409-			
		60401-117	38 416		
			<u>1 728 961</u>	<u>101 885</u>	
Total assistance - State programs		-		<u>\$1 728 961</u>	<u>\$937 533</u>
Total assistance			<u>\$1 575 349</u>		

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

The accompanying Schedule of Expenditures of federal and State Awards includes federal and State grant activity of the Town of Forest City and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations and the State Single Audit Implementation Act. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.