

**TOWN OF MONTREAT  
NORTH CAROLINA**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**FOR THE YEAR ENDED JUNE 30, 2015**



**TOWN OF MONTREAT  
NORTH CAROLINA**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**FOR THE YEAR ENDED JUNE 30, 2015**

**PREPARED BY  
THE FINANCE DEPARTMENT OF THE TOWN OF MONTREAT**



# TOWN OF MONTREAT, NORTH CAROLINA

## COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2015

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# **INTRODUCTORY SECTION**

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## Town of Montreat

P.O. Box 423, Montreat, North Carolina 28757

Phone: (828) 669-8002 • Fax: (828) 669-3810

[www.townofmontreat.org](http://www.townofmontreat.org)

October 9, 2015

The Honorable Mayor and Members of the Board of Commissioners  
Town of Montreat  
Montreat, North Carolina

The Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2015 is hereby submitted. This is our fourth annual CAFR. For readers that are unfamiliar with municipal CAFRs, a brief introduction is in order.

In the simplest possible terms, one could think of a CAFR as a financial reporting sandwich. The audited financial statements and notes could be thought of as the meat of the sandwich. In a CAFR we add material to both ends of the audited material, just as there are slices of bread on each side of the meat. In the front end we add introductory materials such as a table of contents, this transmission letter, an organization chart, and similar items. In the rear of this CAFR you will find a set of supplementary statistical information, providing additional data beyond what is presented in the audited financial statements. While virtually all governmental units (including all North Carolina local governments) must produce annual audited financial statements, a CAFR is considered to be a step beyond this minimal requirement. Local governments produce CAFRs in an attempt to better inform their elected officials and the general public about their financial condition. In some cases, lenders may also expect to see a CAFR for the sake of the additional information they provide.

The basic structure of this and all CAFRs conform to standards that have been established by the Government Finance Officers Association (GFOA). These standards are somewhat flexible, given that there are so many differences between governmental units at the state and local level. This CAFR reflects the attempt of the Town's administration to provide the reader with that information which we believe to be most relevant to our particular situation and to the needs of our elected officials and our citizens.

Responsibility for both the accuracy of the data and the completeness and fairness of the presentation (including all disclosures within this report) rests with the administration of the Town of Montreat. To ensure reliability of the information Town management has established a comprehensive framework of internal control. Internal controls protect the

Town's assets from loss, theft and misuse and help ensure that information is reliable for the preparation of this report. Because the cost of internal controls should not outweigh their benefits, the Town's controls have been designed to provide reasonable, rather than absolute assurance that the financial statements are free of any material misstatements. We believe, to the best of our knowledge and belief, that this financial report is accurate and reliable in all material respects. The financial statements and supplemental schedules contained herein have been audited by the independent certified public accounting firm of Martin Starnes and Associates, C.P.A.s, P.A. Their unqualified opinion is included in the financial section of this CAFR.

In this CAFR and the audited financial statements contained herein, we are reporting on the financial accounts and activities considered to be controlled by or dependent upon the Town's Board of Commissioners, as defined by the Governmental Standards Accounting Board (GASB). The Town of Montreat is a small municipality, and provides a substantial but limited range of services to our citizens. Our General Fund accounts for the police, building inspections and zoning, streets, sanitation, and Open Space programs undertaken by the Town, as well as its general governmental activities. Our Water Fund accounts for the activities associated with operating, maintaining, and expanding the Town's water system. Some other functions that might be typically provided by municipal governments, such as fire protection or wastewater treatment, are provided in Montreat by other governmental entities (i.e., the East Buncombe Fire District and the Metropolitan Sewer District of Buncombe County) which service a wider region and thus are not included within the purview of this CAFR.

An obvious question that any reader of a document such as this one will ask immediately is: How are we doing? What is the financial condition of the Town? The administration of the Town of Montreat can confidently report that our Town is in good financial condition. Our revenues and expenditures have been roughly in balance with each other, remaining relatively steady from year to year, and remaining adequate to meet our highest priorities. Our fund balances and cash assets are ample, and our indebtedness is prudently low. We provide a more complete review of the Town's financial condition in the Management Discussion and Analysis (MD&A) section of the audited financial statements, immediately following the auditor's opinion letter below. That document and this letter are intended to be read together. Combined, it is hoped that the reader will derive a comprehensive overview of the Town's present situation.

## **Profile of the Town**

The Town of Montreat is situated on the Southern slopes of the Black Mountains of the Blue Ridge range, including Mt. Mitchell, the tallest peak East of the Mississippi, and the Eastern Continental Divide. Our community is placed entirely within a narrow box canyon bisected by the rapidly running clear water of Flat Creek, a tributary of the Swannanoa River. It is a heavily wooded, rugged mountainous terrain and enjoys four distinct seasons of natural beauty. Our healthy natural environment teams with wildlife, including the black bears that are symbolic of our community and are commonly seen by our residents and visitors.

Montreat is a small community with an official population of only 728 people according to the U.S. Census Bureau. This figure is somewhat deceptive as far more people than that abide in Montreat temporarily over the course of the year, especially during the summer months. Only a few hundred people are actual year-round residents.

While the community of Montreat is over a century old, the Town has only been incorporated since 1967. Montreat is predominantly a residential community. While some of our residents live here year-round, many have their primary residence elsewhere and come here only seasonally or for vacation. There are also a mix of single family, multi-family, and group seasonal rental units in Montreat. Our community is home to two large institutions: The Montreat Conference Center and Montreat College. These two institutions, along with the town's residences and the Town government, all have an intertwined history and continue to cooperate together to the present day. The Town exercises direct jurisdiction over 2.78 square miles, and exercises limited extraterritorial jurisdiction for land use regulation over much of the remaining territory within our cove up to the ridgelines.

There are no industrial and only minimal commercial entities within the Montreat Town limits, although there are a wider range of such entities within the immediately adjacent Town of Black Mountain. While a large portion of our population (disregarding conferees and vacationers) are either college students or retirees, many of our working-age population commute to employment in Black Mountain, Asheville, or other nearby communities.

Montreat operates under a mayor-council form of government. The Town Board of Commissioners consists of a mayor and five commissioners, all elected at large to staggered four year terms. The Town provides police, water, solid waste collection, streets, and code enforcement services to its residents. Fire protection, sewers, and public education are provided by other governmental entities serving part or all of Buncombe County.

### **Local Economic Conditions**

As indicated above, Montreat is a small residential community with no industry and – excepting the two large not-for-profit institutions - a trivial commercial sector. Most of our residents are either college students or retirees living here for part or all of the year. Only a minority of our population is employed, and most of these people commute to jobs in Black Mountain, Asheville, or other nearby communities. In turn, most of the employees of the Town, the Montreat Conference Center, and Montreat College do not live in Montreat but rather commute in from other nearby communities. A total of 340 people were employed in Montreat, earning a total of \$8,767,000 in wages and salaries in 2010, according to Census Bureau data. Most of the income received by Montreat residents thus comes from either wages and salaries earned elsewhere, or from pension, investment, and government transfer payments that all derive from outside the community. With the exception of the payment of property taxes, water bills, and – in the case of college students – tuition, most of the income received by Montreat residents is expended outside of our town limits. The Montreat Conference Center also receives fees paid by conferees that live outside of the area. In consequence of all of this, the local Montreat economy is extremely

integrated with and dependent upon the wider regional and national economy, and there is very little that can or does happen here that has an impact upon the flow of funds through our community.

The Asheville Metropolitan Statistical Area and the entire Southern Highlands region have become an attractive destination for retirees over the past few decades. As a consequence, the median age for the Asheville MSA is 42.2 years vs. 36.9 years nationally, according to Census Bureau data. The source of household income within the entire region is skewed more toward unearned income (investment income, rents, pensions, government transfer payments) and away from earned income (salaries and wages) than the national average. The advantage of this is that the unearned income tends to be more stable than is the case with earned income subject to cyclical fluctuations in employment. This in turn means that the regional economy has been more stable and less vulnerable to the extremes of the boom and bust cycles that have been inflicted upon the national economy as a whole. The unemployment rate in the Asheville MSA has generally remained slightly below national averages, and stood at 5.0% vs. 5.3% nationally as of June, 2015, according to Bureau of Labor Statistics data. Nevertheless, regional employment has suffered through the recent recession, as it has throughout the nation, and has been slow to recover.

While we have been spared the worst of the recent recession, the regional employment market has nevertheless offered limited opportunities for job seekers even during good times, especially for those who are highly educated or skilled, and as a consequence individual and household incomes in this area have generally been below national averages. For example, the median household income in the Asheville MSA in 2013 was \$43,681 vs. a national median of \$52,018, while the average household income of \$61,553 was less than the national average of \$74,349, according to the Economic Development Coalition of Asheville-Buncombe County. Montreat is a more affluent community than is typical for our area, and our residents thus enjoy higher incomes: a 2010 household median of \$48,430, and a household average of \$60,893, according to CLRsearch.com.

Overall non-farm employment in the Asheville MSA has increased by 8.6% from 2000 to 2013, according to the Economic Development Coalition of Asheville-Buncombe County. The best performing sectors in our region have been: health care and education (with an employment increase of 51.9% from 2000-2013); professional and business services (with an increase of 43.4% from 2000-2013); and leisure and hospitality (with an increase of 33.5% from 2000-2013). In contrast, the area has experienced sustained declines in the construction (-36.4%) and manufacturing (-32.5%) sectors between 2000 and 2013.

The Asheville region has had a history of being a center for health care going back to the large concentration of tuberculosis sanitariums located in the area over a century ago. More recently, the large influx of retirees settling in the region, with their increasing needs for health care as part of the natural aging process, has led to the development of an extensive health care industry serving the local population. Most of the hospitals, specialist clinics, and other facilities serving the Montreat population are located in Asheville, but there are a few private health care practices located in Black Mountain that serve some of our residents.

In addition to Montreat College located within our Town's boundaries, the area is also served by several other institutions of higher learning. The famous Black Mountain College closed nearly a half-century ago, but Warren Wilson College is still operating nearby. Asheville is home to both the Asheville-Buncombe Technical Community College and the University of North Carolina at Asheville. In addition to the Buncombe County and Asheville City public school systems, several private primary and secondary schools operate in the area; none of these have facilities within the boundaries of the Town of Montreat, and all of our K-12 students must be transported to schools in Black Mountain or elsewhere.

The growth of the professional and business services sector in our area mirrors the nationwide trend and the U.S. continues its transition to a post-industrial economy. In our area, this trend appears to be driven not by a few large employers but rather by the growth of a myriad of smaller firms. The area, with its exceptional quality of life, is an attractive location for entrepreneurs to set up small businesses, especially ones that are able to deliver services nationally and even globally over the internet.

Tourism has been a strong regional industry going back for over a century. People have always been drawn to the beautiful scenery, comfortable climate, and abundant recreational opportunities offered by our mountains. Tourism is an industry in which Montreat participates directly through the Montreat Conference Center. Because most of our visitors come from North Carolina and other nearby states rather than internationally, our area has been seen as a relatively inexpensive vacation destination and an affordable value for many people living in the Eastern half of the nation.

As in much of the rest of the nation, the construction industry in the Asheville MSA was hit hard by the recent downturn, and is still in recovery. Because of our limited area for development due to our mountainous terrain, Montreat saw less new construction during the boom times through the mid-2000s than did the rest of the region and the nation. At the same time, we are continuing to see a few new houses built each year, and our homeowners – generally more affluent than the national average – continuing to contract for repairs, remodeling, and additions at a steady or even increasing pace. Thus, Montreat is actually a little bit of a bright spot for local contractors, and their business here has been doing quite a bit better than the regional and national statistics would suggest. The Asheville MSA ranked 125<sup>th</sup> nationally, or 3.82%, in the rate of increase in housing values (as indicated by the All-transactions Housing Price Index, per the Federal Housing Finance Agency) for the year ended June 30, 2014. This lags the national average of 5.1%. Our local region has still not experienced a complete recovery in housing values, as we are still down 7.0% from 2010, compared with an increase for the same period nationwide of 8.25%.

Our area still seems to be lagging behind the rest of the nation. Anecdotally, we have reason to believe that housing values within Montreat have not declined much at all but rather have continued to rise. According to CLRsearch.com, in 2010 the median home value in Montreat was \$296,739, compared to \$177,046 for the U.S. as a whole.

Manufacturing has never been the dominant employer in the area, due to our distance to larger markets and the extra difficulties and expenses involved in transporting products through the mountains. Textile manufacturing used to be an important industry in the

Swannanoa Valley, but it has declined precipitously over the past couple of decades. The outsourcing trends driven by globalization over the past decades adversely impacted many manufacturers in the area, but there have been some recent gains in manufacturing employment in some local industries. There never has been any manufacturing located within the Town of Montreat, and it is doubtful that many of our residents are employed in this sector.

Local government, represented by the Town of Montreat, is itself an important industry in the local economy. Montreat is fortunate in enjoying a relatively stable and affluent tax base, and has thus not had to implement the severe expenditure reductions that many other local jurisdictions have been forced to do. Our general and water fund budgets (excluding extraordinary grant-funded activities) have remained relatively stable over the past five years. While governments at all levels in the Asheville MSA increased employment by 10.4% over the past year, the Town of Montreat was able to hold its staffing steady at fourteen full-time employees (with one vacancy as of the time of this writing).

### **Long-Term Financial Planning & Major Initiatives**

The Town's Board of Commissioners and staff are dedicated to managing the Town's financial affairs in a professional and prudent manner, and to maintaining the Town in sound financial condition. To this end, we strive to maintain fund balances that are in excess of annual operating expenditures. We avoid running operating deficits and funding them with appropriated fund balance unless absolutely necessary for the internal funding of extraordinary expenditures to avoid taking on additional debt. Our indebtedness is far below the maximums mandated by North Carolina state law. We strive to manage the Town's operations efficiently and to avoid the need to resort to increases in the ad valorem tax rate. The water fund is operated as much as possible on a fully self-supporting basis, and we attempt to set water rates that are fair to all users.

The Board of Commissioners, in collaboration with the Town staff, establishes a set of goals as a part of the annual budget process. These goals are discussed in the Town's annual budget document, which is available on the Town's website ([www.townofmontreat.org](http://www.townofmontreat.org)).

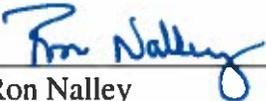
The Town also maintains a multi-year Capital Improvement Plan as a part of its annual budget process. Projects largely or entirely completed in FYE 15 included: the extension of streets and water lines in Upper Kentucky Road area and engineering for the Texas Road bridge replacement. Projects planned for FYE 15 include: continued progress on the Texas Road bridge replacement; continued progress on the construction of a new Town Hall; and various street and water line repairs or replacements.

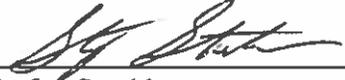
### **Awards and Acknowledgements**

The previous fiscal year that ended on June 30, 2014 was our third year that the Town has participated in the Certificate of Achievement for Excellence in Financial Reporting program of the Government Finance Officers Association. We are pleased to report that

the Town did once again receive this award, and it is our intention to also submit this current year CAFR to the GFOA program.

The preparation of this comprehensive annual financial report was made possible with the assistance of Martin Starnes & Associates, C.P.A.s, P.A., and with the assistance of Town of Montreat staff members, to whom we express our appreciation. We also acknowledge the support of the Mayor, Board of Commissioners, and members of the Audit Committee of the Town of Montreat in our efforts to improve the professionalism and quality of our management and reporting of the Town's financial affairs.

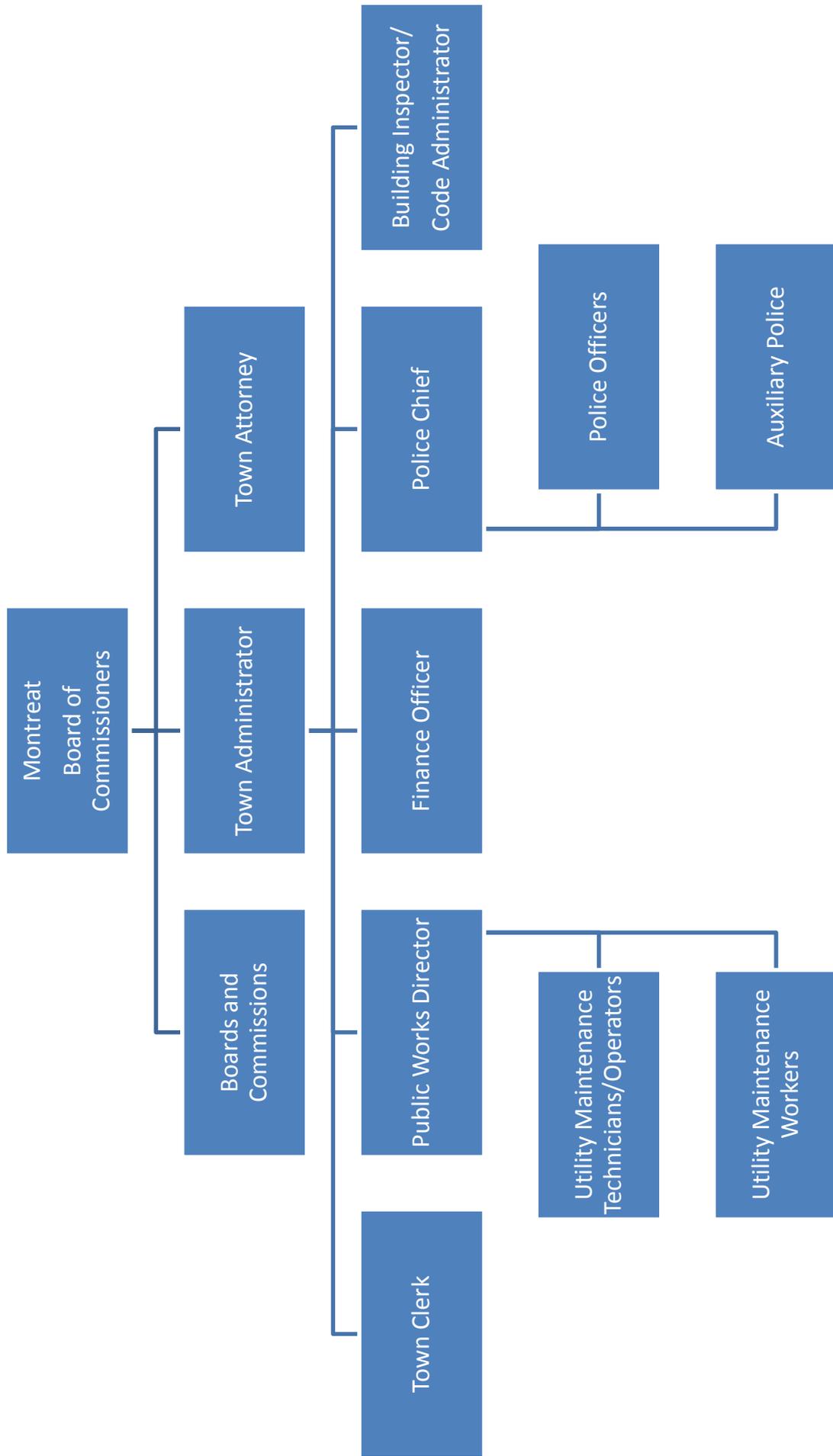
  
\_\_\_\_\_  
Ron Nalley  
Town Administrator

  
\_\_\_\_\_  
Stefan Stackhouse  
Finance Officer

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## TOWN OF MONTREAT ORGANIZATIONAL CHART

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Government Finance Officers Association

**Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting**

Presented to

**Town of Montreat  
North Carolina**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2014**

Executive Director/CEO

Town of Montreat, North Carolina  
List of Principal Officials  
June 30, 2015

## **TOWN COUNCIL**

Honorable Letta Jean Taylor, Mayor  
Mary Standaert, Mayor Pro Tem  
John McCaskill  
Martha Campbell  
Tim Helms  
Ann Vinson

## **ADMINISTRATION**

Ron Nalley, Town Administrator  
Stefan Stackhouse, Finance Officer and Deputy Town Clerk  
Jack Staggs, Chief of Police  
David Currie, Building Inspector/Code Administrator  
Stephen Freeman, Director of Public Works

## **AUDIT COMMITTEE**

Ann Vinson, Chair  
William Hollins, Vice Chair  
Phillip Arnold, Secretary  
Tim Helms  
John McCaskill,

# **FINANCIAL SECTION**

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# MARTIN ♦ STARNES & ASSOCIATES, CPAs, P.A.

*"A Professional Association of Certified Public Accountants and Management Consultants"*

## INDEPENDENT AUDITOR'S REPORT

To The Honorable Mayor and  
Members of the Board of Commissioners  
Town of Montreat  
Montreat, North Carolina

### **Report On the Financial Statements**

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

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, and each major fund, of the Town of Montreat, North Carolina as of June 30, 2015, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### ***Required Supplementary Information***

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

### ***Supplementary and Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Montreat's basic financial statements. The introductory section, budgetary schedules, supplemental ad valorem tax schedules, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

The introductory section and the statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide assurance on them.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have issued our report dated October 9, 2015 on our consideration of the Town of Montreat's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Montreat's internal control over financial reporting and compliance.

*Martin Starnes & Associates, CPAs, P.A.*

Martin Starnes & Associates, CPAs, P.A.  
Hickory, NC  
October 9, 2015

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## **Management's Discussion and Analysis**

As management of the Town of Montreat, we offer readers of the Town of Montreat's financial statements this narrative overview and analysis of the financial activities of the Town of Montreat for the fiscal year ended June 30, 2015. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

### **Financial Highlights**

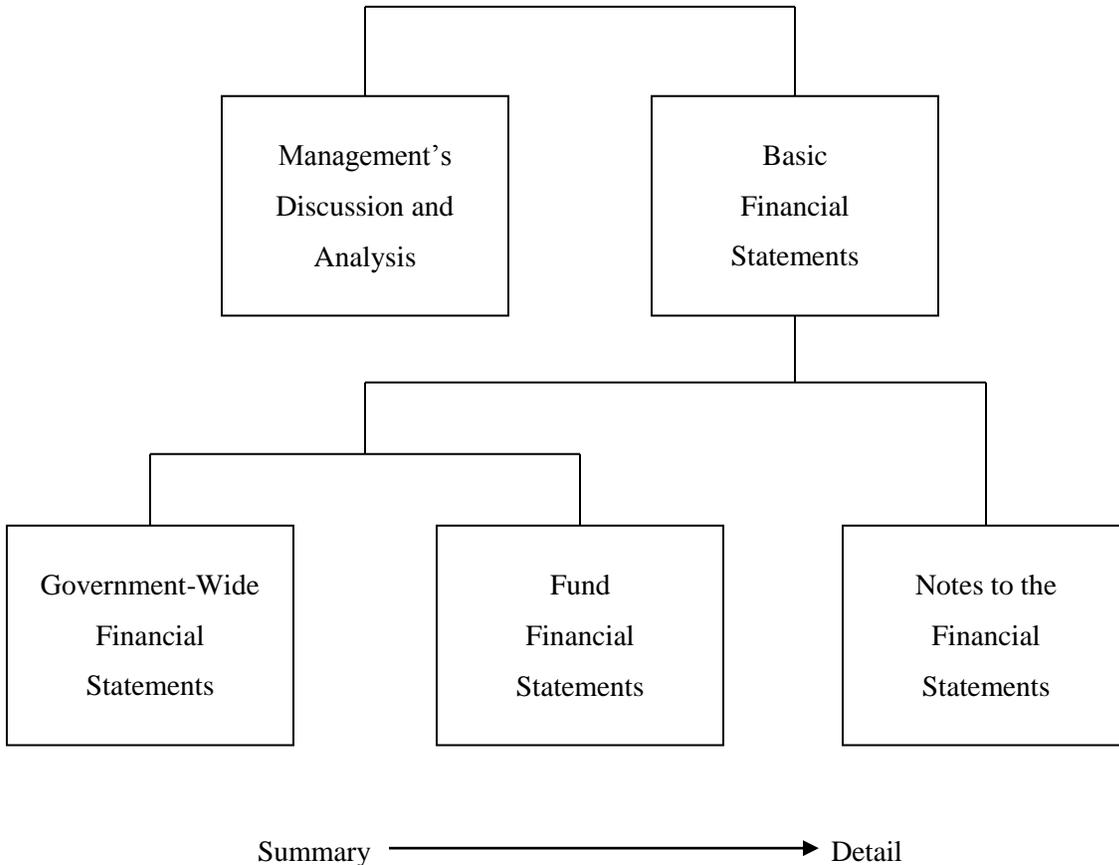
- The assets and deferred outflows of resources of the Town of Montreat exceed its liabilities and deferred inflows of resources at the close of the fiscal year by \$6,482,327.
- The government's total net position increased by \$345,715.
- At the close of the current fiscal year, the Town of Montreat's General Fund reported ending fund balance of \$1,457,016, an increase of \$49,467 from the prior year. Approximately 52.3 percent of this total amount, or \$762,256, is classified as unassigned.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$762,256, or 49.4 percent of total General Fund expenditures and transfers out for the fiscal year.

### **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Town of Montreat'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 Montreat.

## Required Components of Annual Financial Report

Figure 1



### Basic Financial Statements

The first two statements (Exhibits A and B) 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 C - I) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the Town's government. These statements provide more detail than the government-wide statements. There are three parts to the fund financial statements: 1) the governmental funds statements, 2) the budgetary comparison statements, and 3) the proprietary fund statements.

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

## **Government-Wide Financial Statements**

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

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

The government-wide statements are divided into two categories: 1) governmental activities and 2) business-type activities. The governmental activities include most of the Town's basic services, such as general government, public safety, transportation, and general administration. Property taxes and federal and State grant funds finance most of these activities. The business-type activities are those that the Town charges customers to provide. These include the water services offered by the Town of Montreat.

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 Montreat, 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 Montreat can be divided into two categories: governmental funds and proprietary funds.

**Governmental Funds** - Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the Town's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting*, 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 governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The Town of Montreat adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the Town, the management of the Town, and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the Town to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the Town complied with the budget ordinance and whether or not the Town succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the

budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the Board; 2) the final budget as amended by the Board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges.

**Proprietary Funds** - The Town of Montreat has one proprietary fund. *Enterprise funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town of Montreat uses enterprise funds to account for its water activity. 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 after Exhibit I 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 Montreat’s progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 53 of this report.

**Interdependence with Other Entities:** The Town depends on financial resources flowing from, or associated with, both the federal government and the State of North Carolina. Because of this dependency, the Town is subject to changes in specific flows of intergovernmental revenues based on modifications to federal and State laws and federal and State appropriations. It is also subject to changes in investment earnings and asset values associated with U.S. Treasury Securities because of actions by foreign governments and other holders of publicly held U.S. Treasury Securities.

**Government-Wide Financial Analysis**

**Town of Montreat's Net Position**

**Figure 2**

|   | <b>Governmental<br/>Activities</b> |                     | <b>Business-Type<br/>Activities</b> |                     | <b>Total</b>        |                     |
|---|------------------------------------|---------------------|-------------------------------------|---------------------|---------------------|---------------------|
|   | <b>2015</b>                        | <b>2014</b>         | <b>2015</b>                         | <b>2014</b>         | <b>2015</b>         | <b>2014</b>         |
| <b>Assets:</b>  |                                    |                     |                                     |                     |                     |                     |
| Current and other assets                                | \$ 1,516,299                       | \$ 1,444,338        | \$ 425,652                          | \$ 622,154          | \$ 1,941,951        | \$ 2,066,492        |
| Net pension asset                                       | 55,082                             | -                   | -                                   | -                   | 55,082              | -                   |
| Capital assets  | 3,731,572                          | 3,394,386           | 1,832,617                           | 1,756,309           | 5,564,189           | 5,150,695           |
| Total assets  | <u>5,302,953</u>                   | <u>4,838,724</u>    | <u>2,258,269</u>                    | <u>2,378,463</u>    | <u>7,561,222</u>    | <u>7,217,187</u>    |
| <b>Deferred Outflows<br/>of Resources:</b>              |                                    |                     |                                     |                     |                     |                     |
| Contributions to pension<br>plan in current fiscal year | <u>45,387</u>                      | <u>-</u>            | <u>-</u>                            | <u>-</u>            | <u>45,387</u>       | <u>-</u>            |
| <b>Liabilities:</b>                                     |                                    |                     |                                     |                     |                     |                     |
| Current liabilities                                     | 65,117                             | 32,358              | 103,484                             | 92,304              | 168,601             | 124,662             |
| Long-term liabilities                                   | <u>232,454</u>                     | <u>139,005</u>      | <u>582,287</u>                      | <u>651,753</u>      | <u>814,741</u>      | <u>790,758</u>      |
| Total liabilities                                       | <u>297,571</u>                     | <u>171,363</u>      | <u>685,771</u>                      | <u>744,057</u>      | <u>983,342</u>      | <u>915,420</u>      |
| <b>Deferred Inflows<br/>of Resources:</b>               |                                    |                     |                                     |                     |                     |                     |
| Pension deferrals                                       | 139,440                            | -                   | -                                   | -                   | 139,440             | -                   |
| Prepaid taxes   | <u>1,500</u>                       | <u>1,519</u>        | <u>-</u>                            | <u>-</u>            | <u>1,500</u>        | <u>1,519</u>        |
| Total deferred inflows<br>of resources                  | <u>140,940</u>                     | <u>1,519</u>        | <u>-</u>                            | <u>-</u>            | <u>140,940</u>      | <u>1,519</u>        |
| <b>Net Position:</b>                                    |                                    |                     |                                     |                     |                     |                     |
| Net investment in<br>capital assets                     | 3,731,572                          | 3,394,386           | 1,180,864                           | 1,036,410           | 4,912,436           | 4,430,796           |
| Restricted  | 267,742                            | 255,216             | -                                   | -                   | 267,742             | 255,216             |
| Unrestricted  | <u>910,515</u>                     | <u>1,016,240</u>    | <u>391,634</u>                      | <u>597,996</u>      | <u>1,302,149</u>    | <u>1,614,236</u>    |
| Total net position                                      | <u>\$ 4,909,829</u>                | <u>\$ 4,665,842</u> | <u>\$ 1,572,498</u>                 | <u>\$ 1,634,406</u> | <u>\$ 6,482,327</u> | <u>\$ 6,300,248</u> |

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets and deferred outflows of the Town of Montreat exceeded liabilities and deferred inflows by \$6,482,327 as of June 30, 2015. The Town's net position increased by \$345,715 for the fiscal year ended June 30, 2015. However, the largest portion (76%) reflects the Town's investment in capital assets (e.g. land, buildings, machinery, and equipment). The Town of Montreat uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Montreat's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Town of Montreat's net position, \$267,742, or 4.1 percent, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$1,302,149 is unrestricted. Also, the Town implemented GASB Statement 68 this year. With the new reporting change, the Town is allocated its proportionate share of the Local Government Employees' Retirement System's net pension asset, deferred outflows of resources, deferred inflows of resources, and pension expense. A restatement to record the effects of the new reporting guidance decreased beginning net position by \$82,207. Decisions regarding the allocations are made by the administrators of the pension plan, not by the Town's management.

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

- The net position in governmental activities increased by \$407,623, primarily due to an excess of operating revenues over operating expenditures.
- The net position in business-type activities decreased by \$61,908, primarily due to a decline in operating revenues and an increase in operating expenditures.

## Town of Montreat Changes in Net Position

**Figure 3**

|  | <b>Governmental<br/>Activities</b> |                     | <b>Business-Type<br/>Activities</b> |                     | <b>Total</b>        |                     |
|--|------------------------------------|---------------------|-------------------------------------|---------------------|---------------------|---------------------|
|  | <b>2015</b>                        | <b>2014</b>         | <b>2015</b>                         | <b>2014</b>         | <b>2015</b>         | <b>2014</b>         |
| <b>Revenues:</b>                             |                                    |                     |                                     |                     |                     |                     |
| Program revenues:                            |                                    |                     |                                     |                     |                     |                     |
| Charges for services                         | \$ 83,021                          | \$ 106,488          | \$ 320,392                          | \$ 346,006          | \$ 403,413          | \$ 452,494          |
| Operating grants                             | 135,379                            | 108,380             | -                                   | -                   | 135,379             | 108,380             |
| Capital grants                               | 36,977                             | 360,088             | -                                   | -                   | 36,977              | 360,088             |
| General revenues:                            |                                    |                     |                                     |                     |                     |                     |
| Property taxes                               | 968,042                            | 970,716             | -                                   | -                   | 968,042             | 970,716             |
| Other taxes                                  | 356,952                            | 332,403             | -                                   | -                   | 356,952             | 332,403             |
| Investment earnings                          | 1,073                              | 1,629               | 75                                  | 102                 | 1,148               | 1,731               |
| Other  | 10,362                             | 194                 | -                                   | -                   | 10,362              | 194                 |
| Total revenues                               | <u>1,591,806</u>                   | <u>1,879,898</u>    | <u>320,467</u>                      | <u>346,108</u>      | <u>1,912,273</u>    | <u>2,226,006</u>    |
| <b>Expenses:</b>                             |                                    |                     |                                     |                     |                     |                     |
| General government                           | 551,016                            | 347,272             | -                                   | -                   | 551,016             | 347,272             |
| Public safety                                | 415,119                            | 418,288             | -                                   | -                   | 415,119             | 418,288             |
| Transportation                               | 107,255                            | 214,513             | -                                   | -                   | 107,255             | 214,513             |
| Environmental protection                     | 1,587                              | 162,683             | -                                   | -                   | 1,587               | 162,683             |
| Culture and recreation                       | 109,206                            | 60,993              | -                                   | -                   | 109,206             | 60,993              |
| Water and sewer                              | -                                  | -                   | 382,375                             | 335,697             | 382,375             | 335,697             |
| Total expenses                               | <u>1,184,183</u>                   | <u>1,203,749</u>    | <u>382,375</u>                      | <u>335,697</u>      | <u>1,566,558</u>    | <u>1,539,446</u>    |
| Increase in net position<br>before transfers | 407,623                            | 676,149             | (61,908)                            | 10,411              | 345,715             | 686,560             |
| Transfers                                    | -                                  | (45,614)            | -                                   | 45,614              | -                   | -                   |
| Change in net position                       | 407,623                            | 630,535             | (61,908)                            | 56,025              | 345,715             | 686,560             |
| <b>Net Position:</b>                         |                                    |                     |                                     |                     |                     |                     |
| Beginning of year - July 1                   | 4,665,842                          | 4,035,307           | 1,634,406                           | 1,578,381           | 6,300,248           | 5,613,688           |
| Restatement                                  | <u>(163,636)</u>                   | <u>-</u>            | <u>-</u>                            | <u>-</u>            | <u>(163,636)</u>    | <u>-</u>            |
| Beginning of year - July 1<br>as restated    | <u>4,502,206</u>                   | <u>4,035,307</u>    | <u>1,634,406</u>                    | <u>1,578,381</u>    | <u>6,136,612</u>    | <u>5,613,688</u>    |
| End of year - June 30                        | <u>\$ 4,909,829</u>                | <u>\$ 4,665,842</u> | <u>\$ 1,572,498</u>                 | <u>\$ 1,634,406</u> | <u>\$ 6,482,327</u> | <u>\$ 6,300,248</u> |

**Governmental Activities.** Governmental activities increased the Town's net position by \$407,623, thereby accounting for of 117% of the total growth in the net position of \$345,715 for the Town of Montreat. This compares to an increase of \$630,535 in the previous fiscal year, a difference of \$222,912. Key elements of this increase are as follows:

- Program revenues decreased by about \$319,579 over the prior year. In addition to the decrease in capital grant revenues, there was a decrease in building permit activity.
- Government activity revenues decreased by \$299,092, or 15.3%, from the previous year. This was due entirely to a reduction in the amount of capital grant revenues received.
- Governmental activity expenses decreased by \$19,566, or 1.6%, compared to the previous fiscal year. This was due mainly to reduced grant-funded activities.

**Business-Type Activities.** Business-type activities in the Water Fund decreased the Town of Montreat's net position by \$61,908. This compares to an increase in net position of \$56,025 in the previous fiscal year, for an overall change of (\$117,933). Key elements of this decrease are as follows:

- Business-type revenues decreased by \$25,641 from the previous year. As the Town's water rates did not change, this decrease was driven entirely by a reduction in the amount of water used and billed.
- Business-type activity expenses increased by \$46,678 over the prior year. This was due entirely to an increase in capital outlays.

### **Financial Analysis of the Town's Funds**

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

**Governmental Funds.** The focus of the Town of Montreat'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 Montreat's financing requirements.

The General Fund is the chief operating fund of the Town of Montreat. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$762,256; available fund balance was \$1,377,731, while total fund balance reached \$1,457,016. As a measure of the General Fund's liquidity, it may be useful to compare both available fund balance and total fund balance to total fund expenditures. Available fund balance represents 89.29 percent of total General Fund expenditures and transfers out, while total fund balance represents 94.43 percent of that same amount.

**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.

**Proprietary Funds.** The Town of Montreat’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 Fund at the end of the fiscal year amounted to \$391,634. The total change in net position for the Water Fund was (\$61,908).

**Capital Asset and Debt Administration**

**Capital Assets.** The Town of Montreat’s investment in capital assets for its governmental and business–type activities as of June 30, 2015 totals \$5,564,189 (net of accumulated depreciation). These assets include land, buildings, building improvements, equipment, infrastructure, vehicles, and water system.

**Town of Montreat’s Capital Assets  
(net of depreciation)**

**Figure 4**

|                          | <u>Governmental<br/>Activities</u> |                     | <u>Business-Type<br/>Activities</u> |                     | <u>Total</u>        |                     |
|--------------------------|------------------------------------|---------------------|-------------------------------------|---------------------|---------------------|---------------------|
|                          | <u>2015</u>                        | <u>2014</u>         | <u>2015</u>                         | <u>2014</u>         | <u>2015</u>         | <u>2014</u>         |
| Land                     | \$ 1,355,224                       | \$ 1,355,224        | \$ 367,968                          | \$ 367,968          | \$ 1,723,192        | \$ 1,723,192        |
| Construction in progress | 422,112                            | 548,337             | -                                   | 8,678               | 422,112             | 557,015             |
| Buildings                | 1,921                              | -                   | 85,285                              | 88,838              | 87,206              | 88,838              |
| Building improvements    | 25,461                             | 29,433              | 557,446                             | 577,355             | 582,907             | 606,788             |
| Equipment                | 712,271                            | 708,072             | 44,849                              | 59,799              | 757,120             | 767,871             |
| Infrastructure           | 1,114,893                          | 650,098             | 777,069                             | 652,286             | 1,891,962           | 1,302,384           |
| Vehicles                 | 89,271                             | 83,945              | -                                   | -                   | 89,271              | 83,945              |
| IT equipment             | 10,419                             | 19,277              | -                                   | 1,385               | 10,419              | 20,662              |
| Total                    | <u>\$ 3,731,572</u>                | <u>\$ 3,394,386</u> | <u>\$ 1,832,617</u>                 | <u>\$ 1,756,309</u> | <u>\$ 5,564,189</u> | <u>\$ 5,150,695</u> |

Additional information on the Town’s capital assets can be found in Note 2 of the basic financial statements.

**Long-Term Debt.** As of June 30, 2015, the Town of Montreat had long-term debt obligations of \$651,753.

|                  | <u>Governmental<br/>Activities</u> |             | <u>Business-Type<br/>Activities</u> |                   | <u>Total</u>      |                   |
|------------------|------------------------------------|-------------|-------------------------------------|-------------------|-------------------|-------------------|
|                  | <u>2015</u>                        | <u>2014</u> | <u>2015</u>                         | <u>2014</u>       | <u>2015</u>       | <u>2014</u>       |
| Bonds payable    | \$ -                               | \$ -        | \$ 174,000                          | \$ 201,000        | \$ 174,000        | \$ 201,000        |
| Installment debt | -                                  | -           | 477,753                             | 518,899           | 477,753           | 518,899           |
| Total            | <u>\$ -</u>                        | <u>\$ -</u> | <u>\$ 651,753</u>                   | <u>\$ 719,899</u> | <u>\$ 651,753</u> | <u>\$ 719,899</u> |

North Carolina General Statutes limit the amount of general obligation debt that a unit of government can issue to 8% of the total assessed value of taxable property located within that government’s boundaries. The legal debt margin for the Town of Montreat is \$18,599,892.

Additional information regarding the Town of Montreat's long-term debt can be found in Note 2 of this report.

### **Economic Factors and Next Year's Budgets and Rates**

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

- The population of Montreat is estimated to have grown by 15% over the past 10 years, from 630 in 2000 to 724 in 2010. The most recent estimate for 2014 is 728. This represents a recovery from the past few years, during which it had experienced some decline. (Source: US Census Bureau and NC State Demographics Unit)
- While Montreat is mainly a residential community, there are two large institutions located within our town limits: the Mountain Retreat Association d/b/a Montreat Conference Center and Montreat College. The number of conferences hosted by the Montreat Conference Center declined from 11,110 in 2014 to 10,690 in 2015. The number of full-time equivalent employees at the Montreat Conference Center has remained at around 60 for the past two years. The operating budget for Montreat Conference Center been increased from \$6.5 million in 2014 to \$6.7 million in 2015. The total headcount enrollment of full and part-time students on the Montreat College main campus increased from 449 in fall 2014 to 461 in fall 2015. The number of employees at the Montreat campuses decreased from 187 in fall 2014 to 127 in fall 2015. The operating budget for Montreat College remained about the same at \$17.4 million in both fiscal years ended in 2014 and 2015. (Source: Montreat Conference Center and Montreat College)
- The total valuation of real property within the jurisdiction of the Town of Montreat for calendar year 2014 was \$238,942,753. (Source: Buncombe County)
- A total of 106 building permits were issued by the Town. This is a decrease of 22 from the previous year. Given that the size and scope of building projects can differ considerably from year to year to year, all that can be reasonably be inferred from this is that the building activity within Montreat has been relatively stable. (Source: Town of Montreat)
- The Town delivered a total of 27,008,283 gallons through fiscal year ended 2015, an decrease of 5%. (Source: Town of Montreat)

### **Budget Highlights for the Fiscal Year Ending June 30, 2016**

#### **Governmental Activities:**

- Budgeted General Fund revenues for the fiscal year ending June 30, 2016 have been estimated at \$2,225,300. This represents an increase of \$632,850, or 39.7%, from the final actual revenues of \$1,592,450 for the fiscal year ended June 30, 2015. This increase is mostly due to an allowance for intergovernmental grant funds anticipated to be received to fund a bridge project.
- Budgeted expenditures in the General Fund for the fiscal year ending June 30, 2016 equal \$2,510,750. This represents an increase of \$967,767, or 38.5%, from the final actual expenditures of \$1,542,983 for fiscal year ended June 30, 2015. Most of the increase is due to anticipated expenditures funded by federal grants.

- Other financing sources for the General Fund for fiscal year ending 2016 are budgeted at \$285,450. This compares with actual other financing sources for the fiscal year ended 2015 of zero, which is an increase of \$285,450. The change is due entirely to the budgeting of an appropriated fund balance. Note that the Town routinely budgets an appropriation of fund balance in excess of what it ultimately uses. In the fiscal year ended 2015, an appropriation of fund balance of \$365,000 was left entirely unused.

#### **Business–Type Activities:**

- Budgeted Water Fund revenues for the fiscal year ending June 30, 2016 have been estimated at \$327,000. This represents an increase of \$20,370, or 6.6%, from the final actual revenues of \$306,630 for the fiscal year ended June 30, 2015. This increase is due to a change in the amount of special assessment project debt proceeds anticipated.
- Budgeted Water Fund expenditures and debt service for the fiscal year ending June 30, 2016 equal \$327,000. This is a decrease of \$199,829, or 62%, from the final actual expenditures of \$526,829 for fiscal year ended June 30, 2015. This is due to the completion of several special assessment capital projects.

#### **Requests for Information**

This report is designed to provide an overview of the Town’s finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to Ron Nalley, Town Administrator, P.O. Box 423, Montreat, North Carolina 28757, or call (828) 669-8002.

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**BASIC  
FINANCIAL STATEMENTS**

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## TOWN OF MONTREAT, NORTH CAROLINA

STATEMENT OF NET POSITION  
JUNE 30, 2015

|  | <b>Primary Government</b>          |                                     |                     |
|--|------------------------------------|-------------------------------------|---------------------|
|  | <b>Governmental<br/>Activities</b> | <b>Business-Type<br/>Activities</b> | <b>Total</b>        |
| <b>Assets:</b>                                       |                                    |                                     |                     |
| Current assets:                                      |                                    |                                     |                     |
| Cash and cash equivalents                            | \$ 1,235,410                       | \$ 326,104                          | \$ 1,561,514        |
| Taxes receivable, net                                | 3,161                              | -                                   | 3,161               |
| Accounts receivable, net                             | 69,299                             | 77,054                              | 146,353             |
| Inventories  | -                                  | 17,974                              | 17,974              |
| Prepaid items  | 9,986                              | 860                                 | 10,846              |
| Restricted cash and cash equivalents                 | 198,443                            | 3,660                               | 202,103             |
| Total current assets                                 | <u>1,516,299</u>                   | <u>425,652</u>                      | <u>1,941,951</u>    |
| Non-current assets:                                  |                                    |                                     |                     |
| Net pension asset                                    | <u>55,082</u>                      | <u>-</u>                            | <u>55,082</u>       |
| Capital assets:                                      |                                    |                                     |                     |
| Land and construction in progress                    | 1,777,336                          | 367,968                             | 2,145,304           |
| Other capital assets, net of depreciation            | <u>1,954,236</u>                   | <u>1,464,649</u>                    | <u>3,418,885</u>    |
| Total capital assets                                 | <u>3,731,572</u>                   | <u>1,832,617</u>                    | <u>5,564,189</u>    |
| Total assets   | <u>5,302,953</u>                   | <u>2,258,269</u>                    | <u>7,561,222</u>    |
| <b>Deferred Outflows of Resources:</b>               |                                    |                                     |                     |
| Contributions to pension plan in current fiscal year | <u>45,387</u>                      | <u>-</u>                            | <u>45,387</u>       |
| <b>Liabilities:</b>                                  |                                    |                                     |                     |
| Current liabilities:                                 |                                    |                                     |                     |
| Accounts payable                                     | 54,622                             | 30,358                              | 84,980              |
| Liabilities payable from restricted assets           | -                                  | 3,660                               | 3,660               |
| Current portion of long-term liabilities             | -                                  | 69,466                              | 69,466              |
| Current portion of compensated absences              | <u>10,495</u>                      | <u>-</u>                            | <u>10,495</u>       |
| Total current liabilities                            | <u>65,117</u>                      | <u>103,484</u>                      | <u>168,601</u>      |
| Long-term liabilities:                               |                                    |                                     |                     |
| Unfunded LEO   | 137,998                            | -                                   | 137,998             |
| Due in more than one year                            | <u>94,456</u>                      | <u>582,287</u>                      | <u>676,743</u>      |
| Total liabilities                                    | <u>297,571</u>                     | <u>685,771</u>                      | <u>983,342</u>      |
| <b>Deferred Inflows of Resources:</b>                |                                    |                                     |                     |
| Pension deferrals                                    | 139,440                            | -                                   | 139,440             |
| Prepaid taxes  | <u>1,500</u>                       | <u>-</u>                            | <u>1,500</u>        |
| Total deferred inflows of resources                  | <u>140,940</u>                     | <u>-</u>                            | <u>140,940</u>      |
| <b>Net Position:</b>                                 |                                    |                                     |                     |
| Net investment in capital assets                     | 3,731,572                          | 1,180,864                           | 4,912,436           |
| Restricted for:                                      |                                    |                                     |                     |
| Stabilization for State statute                      | 69,299                             | -                                   | 69,299              |
| Streets  | 198,443                            | -                                   | 198,443             |
| Unrestricted   | <u>910,515</u>                     | <u>391,634</u>                      | <u>1,302,149</u>    |
| Total net position, as restated                      | <u>\$ 4,909,829</u>                | <u>\$ 1,572,498</u>                 | <u>\$ 6,482,327</u> |

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

**TOWN OF MONTREAT, NORTH CAROLINA**

**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2015**

|                                  | <b>Program Revenues</b> |                             |   |   |
|----------------------------------|-------------------------|-----------------------------|---|---|
|                                  | <b>Expenses</b>         | <b>Charges for Services</b> | <b>Operating Grants and Contributions</b> | <b>Capital Grants and Contributions</b> |
| <b>Functions/Programs:</b>       |                         |                             |   |   |
| <b>Primary Government:</b>       |                         |                             |   |   |
| <b>Governmental Activities:</b>  |                         |                             |   |   |
| General government               | \$ 551,016              | \$ 79,484                   | \$ 86,884                                 | \$ 36,418                               |
| Public safety                    | 415,119                 | 3,090                       | -   | -                                       |
| Transportation                   | 107,255                 | -                           | 39,442                                    | -                                       |
| Environmental protection         | 1,587                   | 447                         | 9,053                                     | 559                                     |
| Cultural and recreation          | 109,206                 | -                           | -   | -                                       |
| Total governmental activities    | <u>1,184,183</u>        | <u>83,021</u>               | <u>135,379</u>                            | <u>36,977</u>                           |
| <b>Business-Type Activities:</b> |                         |                             |   |   |
| Water                            | <u>382,375</u>          | <u>320,392</u>              | -   | -                                       |
| Total business-type activities   | <u>382,375</u>          | <u>320,392</u>              | -   | -                                       |
| Total primary government         | <u>\$ 1,566,558</u>     | <u>\$ 403,413</u>           | <u>\$ 135,379</u>                         | <u>\$ 36,977</u>                        |

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

**TOWN OF MONTREAT, NORTH CAROLINA**

**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2015**

|   | <b>Net (Expense) Revenue and Changes in Net Position</b> |                                     |              |
|---|--|-------------------------------------|--------------|
|   | <b>Primary Government</b>                                |                                     |              |
|   | <b>Governmental<br/>Activities</b>                       | <b>Business-Type<br/>Activities</b> | <b>Total</b> |
| <b>Functions/Programs:</b>                  |  |                                     |              |
| <b>Primary Government:</b>                  |  |                                     |              |
| <b>Governmental Activities:</b>             |  |                                     |              |
| General government                          | \$ (348,230)   | \$ -                                | \$ (348,230) |
| Public safety                               | (412,029)  | -                                   | (412,029)    |
| Transportation                              | (67,813)   | -                                   | (67,813)     |
| Environmental protection                    | 8,472  | -                                   | 8,472        |
| Cultural and recreation                     | (109,206)  | -                                   | (109,206)    |
| Total governmental activities               | (928,806)  | -                                   | (928,806)    |
| <b>Business-Type Activities:</b>            |  |                                     |              |
| Water                                       | -  | (61,983)                            | (61,983)     |
| Total business-type activities              | -  | (61,983)                            | (61,983)     |
| Total primary government                    | (928,806)  | (61,983)                            | (990,789)    |
| <b>General Revenues:</b>                    |  |                                     |              |
| Taxes:                                      |  |                                     |              |
| Property taxes, levied for general purposes | 968,042  | -                                   | 968,042      |
| Local option sales tax                      | 356,952  | -                                   | 356,952      |
| Investment earnings, unrestricted           | 1,073  | 75                                  | 1,148        |
| Miscellaneous                               | 10,362   | -                                   | 10,362       |
| Total general revenues                      | 1,336,429  | 75                                  | 1,336,504    |
| Change in net position                      | 407,623  | (61,908)                            | 345,715      |
| <b>Net Position:</b>                        |  |                                     |              |
| Beginning of year - July 1                  | 4,665,842  | 1,634,406                           | 6,300,248    |
| Restatement                                 | (163,636)  | -                                   | (163,636)    |
| Beginning of year - July 1, as restated     | 4,502,206  | 1,634,406                           | 6,136,612    |
| End of year - June 30                       | \$ 4,909,829   | \$ 1,572,498                        | \$ 6,482,327 |

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

**TOWN OF MONTREAT, NORTH CAROLINA**

**BALANCE SHEET - GOVERNMENTAL FUND**  
**JUNE 30, 2015**

|  | <u><b>General<br/>Fund</b></u> |
|--|--------------------------------|
| <b>Assets:</b>   |                                |
| Cash and cash equivalents  | \$ 1,235,410                   |
| Taxes receivable, net  | 3,161                          |
| Accounts receivable, net   | 69,299                         |
| Prepaid items  | 9,986                          |
| Restricted cash  | <u>198,443</u>                 |
| <br>Total assets   | <br><u><u>\$ 1,516,299</u></u> |
| <b>Liabilities, Deferred Inflows of Resources, and Fund Balance:</b>   |                                |
| <b>Liabilities:</b>  |                                |
| Accounts payable   | <u>\$ 54,622</u>               |
| <br><b>Deferred Inflows of Resources:</b>                              |                                |
| Property tax receivable  | 3,161                          |
| Prepaid taxes  | <u>1,500</u>                   |
| Total deferred inflows of resources                                    | <u>4,661</u>                   |
| <br><b>Fund Balance:</b>   |                                |
| Non-spendable:   |                                |
| Prepays  | 9,986                          |
| Restricted:  |                                |
| Stabilization by State statute   | 69,299                         |
| Streets  | 198,443                        |
| Committed:   |                                |
| Open space   | 34,710                         |
| Assigned:  |                                |
| Public safety  | 57,372                         |
| Subsequent year's expenditures   | 324,950                        |
| Unassigned   | <u>762,256</u>                 |
| Total fund balance   | <u>1,457,016</u>               |
| <br>Total liabilities, deferred inflows of resources, and fund balance | <br><u><u>\$ 1,516,299</u></u> |

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

**TOWN OF MONTREAT, NORTH CAROLINA**

**BALANCE SHEET - GOVERNMENTAL FUND**  
**JUNE 30, 2015**

|   | <u><b>General<br/>Fund</b></u> |
|---|--------------------------------|
| Amounts reported for governmental activities in the Statement of Net Position (Exhibit A) are different because:  |                                |
| Total fund balance - total governmental fund  | \$ 1,457,016                   |
| Gross capital assets at historical cost less accumulated depreciation   | 3,731,572                      |
| Net pension asset   | 55,082                         |
| Contributions to the pension plan in the current fiscal year are deferred outflows of resources on the Statement of Net Position.   | 45,387                         |
| Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.  |                                |
| Compensated absences  | (104,951)                      |
| Pension related deferrals   | (139,440)                      |
| Net pension obligations are not due and payable in the current period and, therefore, are not reported in the funds.  | (137,998)                      |
| Deferred inflows in the governmental funds are used to offset accounts receivable not expected to be received within 90 days of year-end. These receivables are a component of net position in the Statement of Net Position. | <u>3,161</u>                   |
| Net position of governmental activities   | <u>\$ 4,909,829</u>            |

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

## TOWN OF MONTREAT, NORTH CAROLINA

STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE - GOVERNMENTAL FUND  
FOR THE YEAR ENDED JUNE 30, 2015

|   | <u>General<br/>Fund</u> |
|---|-------------------------|
| <b>Revenues:</b>                        |                         |
| Ad valorem taxes                        | \$ 968,685              |
| Other taxes and licenses                | 356,952                 |
| Unrestricted intergovernmental revenues | 86,869                  |
| Restricted intergovernmental revenues   | 76,307                  |
| Permits and fees                        | 79,467                  |
| Sales and services                      | 12,158                  |
| Investment earnings                     | 1,073                   |
| Miscellaneous                           | 10,939                  |
| Total revenues                          | <u>1,592,450</u>        |
| <b>Expenditures:</b>                    |                         |
| Current:                                |                         |
| General government                      | 560,520                 |
| Public safety                           | 432,969                 |
| Transportation                          | 452,875                 |
| Environmental protection                | 96,431                  |
| Cultural and recreation                 | 188                     |
| Total expenditures                      | <u>1,542,983</u>        |
| Net change in fund balance              | 49,467                  |
| <b>Fund Balance:</b>                    |                         |
| Beginning of year - July 1              | <u>1,407,549</u>        |
| End of year - June 30                   | <u>\$ 1,457,016</u>     |

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

**TOWN OF MONTREAT, NORTH CAROLINA**

**RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCE -  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2015**

Amounts reported for governmental activities in the Statement of Activities (Exhibit B) are different due to the following items:

|   |                   |
|---|-------------------|
| Net change in fund balances - total governmental funds (Exhibit D)  | \$ 49,467         |
| Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities.   | 45,387            |
| Property tax revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds statement.                                  | (644)             |
| Capital outlays are reported as expenditures in the governmental fund statement. However, in the Statement of Activities, capital outlay is not an expense, rather it is an increase in capital assets. | 444,594           |
| Expenses that do not require current financial resources are not reported in expenditures in the governmental funds statement.  |                   |
| Compensated absences  | (14,602)          |
| LEO expense   | (7,019)           |
| Pension expense   | (2,152)           |
| Depreciation expense allocates the costs of capital assets over their useful lives. It is not reported as an expenditure in the governmental funds statement.   | <u>(107,408)</u>  |
| Change in net position of governmental activities per Exhibit B   | <u>\$ 407,623</u> |

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

**TOWN OF MONTREAT, NORTH CAROLINA**

**GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2015**

|   | <u>Budgeted Amounts</u> |                  | <u>Actual<br/>Amounts</u> | <u>Variance<br/>Over/Under</u> |
|---|-------------------------|------------------|---------------------------|--------------------------------|
|   | <u>Original</u>         | <u>Final</u>     |                           |                                |
| <b>Revenues:</b>                        |                         |                  |                           |                                |
| Ad valorem taxes                        | \$ 960,700              | \$ 960,700       | \$ 968,685                | \$ 7,985                       |
| Other taxes and licenses                | 346,500                 | 346,500          | 356,952                   | 10,452                         |
| Unrestricted intergovernmental revenues | 59,000                  | 59,000           | 86,869                    | 27,869                         |
| Restricted intergovernmental revenues   | 39,500                  | 39,500           | 76,307                    | 36,807                         |
| Permits and fees                        | 95,000                  | 95,000           | 79,467                    | (15,533)                       |
| Sales and services                      | 15,000                  | 15,000           | 12,158                    | (2,842)                        |
| Investment earnings                     | 3,000                   | 3,000            | 1,073                     | (1,927)                        |
| Miscellaneous                           | 817,000                 | 817,000          | 10,939                    | (806,061)                      |
| Total revenues                          | <u>2,335,700</u>        | <u>2,335,700</u> | <u>1,592,450</u>          | <u>(743,250)</u>               |
| <b>Expenditures:</b>                    |                         |                  |                           |                                |
| General government                      | 612,100                 | 595,042          | 560,520                   | 34,522                         |
| Public safety                           | 458,800                 | 445,828          | 432,969                   | 12,859                         |
| Transportation                          | 1,588,700               | 1,550,130        | 452,875                   | 1,097,255                      |
| Environmental protection                | 101,200                 | 101,200          | 96,431                    | 4,769                          |
| Cultural and recreation                 | 8,500                   | 8,500            | 188                       | 8,312                          |
| Total expenditures                      | <u>2,769,300</u>        | <u>2,700,700</u> | <u>1,542,983</u>          | <u>1,157,717</u>               |
| Revenues over (under) expenditures      | <u>(433,600)</u>        | <u>(365,000)</u> | <u>49,467</u>             | <u>414,467</u>                 |
| <b>Other Financing Sources (Uses):</b>  |                         |                  |                           |                                |
| Fund balance appropriated               | 365,000                 | 365,000          | -                         | (365,000)                      |
| Transfer from Enterprise Fund           | 68,600                  | -                | -                         | -                              |
| Total other financing sources (uses)    | <u>433,600</u>          | <u>365,000</u>   | <u>-</u>                  | <u>(365,000)</u>               |
| Net change in fund balance              | <u>\$ -</u>             | <u>\$ -</u>      | <u>49,467</u>             | <u>\$ 49,467</u>               |
| <b>Fund Balance:</b>                    |                         |                  |                           |                                |
| Beginning of year - July 1              |                         |                  | <u>1,407,549</u>          |                                |
| End of year - June 30                   |                         |                  | <u>\$ 1,457,016</u>       |                                |

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

## TOWN OF MONTREAT, NORTH CAROLINA

STATEMENT OF NET POSITION  
PROPRIETARY FUND  
JUNE 30, 2015

|   | <u>Water Fund</u>   |
|---|---------------------|
| <b>Assets:</b>                              |                     |
| Current assets:                             |                     |
| Cash and cash equivalents                   | \$ 326,104          |
| Accounts receivable, net                    | 77,054              |
| Inventory                                   | 17,974              |
| Prepays                                     | 860                 |
| Restricted cash and cash equivalents        | <u>3,660</u>        |
| Total current assets                        | <u>425,652</u>      |
| Non-current assets:                         |                     |
| Land and construction in process            | 367,968             |
| Other capital assets, net                   | <u>1,464,649</u>    |
| Total capital assets                        | <u>1,832,617</u>    |
| Total assets                                | <u>2,258,269</u>    |
| <b>Liabilities:</b>                         |                     |
| Current liabilities:                        |                     |
| Accounts payable and accrued liabilities    | 30,358              |
| Bonds payable, current                      | 28,000              |
| ARRA debt, current                          | 26,523              |
| Note payable, current                       | 14,943              |
| Liabilities payable from restricted assets: |                     |
| Customer deposits                           | <u>3,660</u>        |
| Total current liabilities                   | <u>103,484</u>      |
| Non-current liabilities:                    |                     |
| Bonds payable                               | 146,000             |
| ARRA debt                                   | 405,412             |
| Note payable                                | <u>30,875</u>       |
| Total non-current liabilities               | <u>582,287</u>      |
| Total liabilities                           | <u>685,771</u>      |
| <b>Net Position:</b>                        |                     |
| Net investment in capital assets            | 1,180,864           |
| Unrestricted                                | <u>391,634</u>      |
| Total net position                          | <u>\$ 1,572,498</u> |

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

## TOWN OF MONTREAT, NORTH CAROLINA

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN  
NET POSITION - PROPRIETARY FUND  
FOR THE YEAR ENDED JUNE 30, 2015

|   | <u>Water Fund</u>   |
|---|---------------------|
| <b>Operating Revenues:</b>                |                     |
| Charges for services                      | \$ 297,257          |
| Other                                     | <u>23,135</u>       |
| Total operating revenues                  | <u>320,392</u>      |
| <b>Operating Expenses:</b>                |                     |
| Water operations                          | 144,735             |
| Depreciation                              | 88,828              |
| Other expenses                            | <u>131,365</u>      |
| Total operating expenses                  | <u>364,928</u>      |
| Operating income (loss)                   | <u>(44,536)</u>     |
| <b>Non-Operating Revenues (Expenses):</b> |                     |
| Investment earnings                       | 75                  |
| Interest expense                          | <u>(17,447)</u>     |
| Total non-operating revenues (expenses)   | <u>(17,372)</u>     |
| Change in net position                    | (61,908)            |
| <b>Net Position:</b>                      |                     |
| Beginning of year - July 1                | <u>1,634,406</u>    |
| End of year - June 30                     | <u>\$ 1,572,498</u> |

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

## TOWN OF MONTREAT, NORTH CAROLINA

STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
FOR THE YEAR ENDED JUNE 30, 2015

|   | <u>Water Fund</u> |
|---|-------------------|
| <b>Cash Flows from Operating Activities:</b>  |                   |
| Cash received from customers  | \$ 315,824        |
| Cash paid for goods and services  | (237,380)         |
| Cash paid to employees for services   | <u>(29,452)</u>   |
| Net cash provided (used) by operating activities  | <u>48,992</u>     |
| <b>Cash Flows from Capital and Related Financing Activities:</b>  |                   |
| Acquisition and construction of capital assets  | (165,136)         |
| Principal payment on long-term debt   | (68,146)          |
| Interest payment on long-term debt  | <u>(17,555)</u>   |
| Net cash provided (used) by capital and related financing activities                                      | <u>(250,837)</u>  |
| <b>Cash Flows from Investing Activities:</b>  |                   |
| Interest received   | <u>75</u>         |
| Net increase (decrease) in cash, cash equivalents, and investments  | (201,770)         |
| <b>Cash and Cash Equivalents:</b>   |                   |
| Beginning of year - July 1  | <u>531,534</u>    |
| End of year - June 30   | <u>\$ 329,764</u> |
| <b>Reconciliation of Operating Income (Loss) to<br/>Net Cash Provided (Used) By Operating Activities:</b> |                   |
| Operating income (loss)   | \$ (44,536)       |
| Depreciation  | 88,828            |
| Change in assets and liabilities:   |                   |
| Accounts receivables  | (6,704)           |
| Inventories   | 1,436             |
| Accounts payable and accrued liabilities  | 7,832             |
| Customer deposits   | <u>2,136</u>      |
| Net cash provided (used) by operating activities  | <u>\$ 48,992</u>  |

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

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# TOWN OF MONTREAT, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

### I. Summary of Significant Accounting Policies

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

#### A. Reporting Entity

The Town is a municipal corporation that is governed by an elected mayor and a five-member Board of Commissioners.

#### B. Basis of Presentation

*Government-Wide Statements:* The statement of net position and the statement of activities display information about the primary government. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the governmental and business-type activities of the Town. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

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

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

# TOWN OF MONTREAT, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

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

The Town reports the following major governmental fund:

**General Fund.** The General Fund is the general operating fund of the Town. The General Fund accounts for all financial resources except those that are required to be accounted for in another fund. The primary revenue sources are ad valorem taxes, State grants, and various other taxes and licenses. The primary expenditures are for administration, public safety, and street maintenance.

The Town reports the following major enterprise fund:

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

### C. Measurement Focus and Basis of Accounting

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

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

## TOWN OF MONTREAT, NORTH CAROLINA

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

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

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

The Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable for property other than motor vehicles are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of September 1, 2013, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, the State of North Carolina is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts. Property taxes are due when the vehicles are registered. The billed taxes are applicable to the fiscal year in which they are received. Uncollected taxes that were billed in periods prior to September 1, 2013 and for limited registration plates are shown as a receivable in these financial statements and are offset by deferred inflows of resources.

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

# TOWN OF MONTREAT, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

### 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 Fund. All annual appropriations lapse at the fiscal year-end. Project ordinances are adopted for the Enterprise Capital Projects Fund. 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 level for all annually budgeted funds and at the project level for the multi-year funds. Amendments are required for any revisions that alter total expenditures of any fund or that change functional appropriations by more than \$2,500. All amendments must be approved by the governing board and the Board must adopt an interim budget that covers that time until the annual ordinance can be adopted. During the year, several amendments to the original budget were necessary.

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

#### 1. Deposits and Investments

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

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

#### 2. Cash and Cash Equivalents

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

# TOWN OF MONTREAT, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

### 3. Restricted Assets

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

Restricted cash at June 30, 2015, consists of the following:

#### **Governmental Activities:**

General Fund:

|                               |                |
|-------------------------------|----------------|
| Powell Bill                   | \$ 198,443     |
| Total governmental activities | <u>198,443</u> |

#### **Business-Type Activities:**

Water Fund:

|                                |              |
|--------------------------------|--------------|
| Customer deposits              | <u>3,660</u> |
| Total business-type activities | <u>3,660</u> |

|                       |                   |
|-----------------------|-------------------|
| Total restricted cash | <u>\$ 202,103</u> |
|-----------------------|-------------------|

### 4. Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad valorem taxes on property other than motor vehicles on July 1<sup>st</sup> (lien date); however, interest does not accrue until the following January 6<sup>th</sup>. These taxes are based on the assessed values as of January 1, 2014. As allowed by State law, the Town has established a schedule of discounts that apply to taxes that are paid prior to the due date. In the Town's General Fund, ad valorem tax revenues are reported net of such discounts.

### 5. Allowances for Doubtful Accounts

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

### 6. Inventory and Prepaid Items

The inventories of the Town are valued at cost (first-in, first-out), which approximates market.

# TOWN OF MONTREAT, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

The inventories of the Town's enterprise fund consist of materials and supplies held for subsequent use. The cost of these inventories is expensed when consumed rather than when purchased.

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

### 7. Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. Minimum capitalization costs are as follows: land, \$10,000; building and improvements, \$5,000; infrastructure, \$20,000; equipment and furniture, \$5,000; vehicles and motorized equipment, \$10,000; \$5,000 computer software and computer equipment \$500. 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 roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems that were acquired or that received substantial improvements subsequent to July 1, 1980, and are reported at estimated historical cost using deflated replacement cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

| <u>Asset Class</u>      | <u>Estimated Useful Lives</u> |
|-------------------------|-------------------------------|
| Infrastructure          | 30 years                      |
| Buildings               | 50 years                      |
| Improvements            | 25 years                      |
| Furniture and equipment | 10 years                      |
| Vehicles                | 6 years                       |
| Computer equipment      | 3 years                       |

### 8. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Town has one item that meets this criterion; contributions made to the pension plan in the 2015 fiscal year. In addition to liabilities, the Statement of Financial Position will sometimes

## TOWN OF MONTREAT, NORTH CAROLINA

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized until then. The Town has three items that meet the criterion for this category - prepaid taxes, property taxes receivable, and deferrals of pension expense that result from the implementation of GASB Statement 68.

#### 9. Long-Term Obligations

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

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

#### 10. Compensated Absences

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

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

# TOWN OF MONTREAT, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

### 11. Net Position/Fund Balances

#### Net Position

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

#### Fund Balances

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

The governmental fund types classify fund balances as follows:

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

*Prepays* – portion of fund balance that is not an available resource because it represents the year-end balance of prepaid items, which are not spendable resources.

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

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

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

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

*Committed for Open Space* – portion of fund balance that the Board of Commissioners has assigned for conservation efforts.

# TOWN OF MONTREAT, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

Assigned Fund Balance - portion of fund balance that the Town of Montreat intends to use for specific purposes.

*Assigned for Public Safety* – portion of total fund balance that the Board of Commissioners has budgeted for employee benefits.

*Subsequent Year's Expenditures* – portion of fund balance that is appropriated in the next year's budget that is not already classified in restricted or committed. The governing body approves the appropriation; however the budget ordinance authorizes the manager to modify the appropriations by resources or appropriation within funds up to \$100,000.

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

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

The Town of Montreat has adopted a minimum fund balance policy for the General Fund which instructs management to conduct the business of the Town in such a manner that available fund balance is at least equal to or greater than 10% of budgeted expenditures.

### **Fund Balance Available for Appropriation**

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

|  |                     |
|--|---------------------|
| Total fund balance - General Fund        | \$ 1,457,016        |
| Less:                                    |                     |
| Stabilization by State statute           | (69,299)            |
| Non-spendable                            | <u>(9,986)</u>      |
| Fund balance available for appropriation | <u>\$ 1,377,731</u> |

# TOWN OF MONTREAT, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

### 12. Pensions

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

## II. Detail Notes On All Funds

### A. Assets

#### 1. Deposits

All of the deposits of the Town are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the Town's agents in the Town's name. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town, these deposits are considered to be held by the Town's agents in 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 escrow agent. Because of the inability to measure the exact amount of collateral pledged for the Town under the Pooling Method, the potential exists for under-collateralization. This risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Town has no formal policy regarding custodial credit risk for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The Town complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2015, the Town's deposits had a carrying amount of \$1,750,232 and a bank balance of \$1,825,183. Of the bank balance, \$500,000 was covered by Federal depository insurance and the remainder was covered by collateral held under the Pooling Method. The Town also had cash on hand of \$250 at June 30, 2015.

# TOWN OF MONTREAT, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

### 2. Investments

At June 30, 2015, the Town of Montreat had \$13,135 invested with the North Carolina Capital Management Trust's Cash Portfolio which carried a credit rating of AAAM by Standard & Poor's. The Town has no policy regarding credit risk.

At June 30, 2015, the Town's investment balances were as follows:

| <u>Investment Type</u>                       | <u>Fair Value</u> | <u>Maturity</u> | <u>Rating</u> |
|--|-------------------|-----------------|---------------|
| NC Capital Management Trust - Cash Portfolio | \$ <u>13,135</u>  | N/A             | AAAM          |

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

*Credit Risk.* The Town has no formal policy regarding credit risk, but has internal management procedures that limit the Town's investments to the provisions of G.S. 159-30 and restricts the purchase of securities to the highest possible ratings whenever particular types of securities are rated. The Town's investment in NC Capital Management Trust Cash Portfolio carried a credit rating of AAAM by Standard & Poor's as of June 30, 2015.

### 3. Receivables – Allowance for Doubtful Accounts

The amount of taxes receivable presented in the Balance Sheet and the Statement of Net Position includes penalties levied and outstanding in the amount of \$12.

The amounts presented in the Balance Sheet and the Statement of Net Position for the year ended June 30, 2015 are net of the following allowances for doubtful accounts:

|                                  |                 |
|----------------------------------|-----------------|
| Enterprise Fund:                 |                 |
| Water Fund - accounts receivable | \$ <u>2,808</u> |
| Total                            | \$ <u>2,808</u> |

# TOWN OF MONTREAT, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

### 4. Capital Assets

#### **Primary Government**

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

|  | <u>July 1, 2014</u> | <u>Increases</u>  | <u>Decreases</u> | <u>June 30, 2015</u> |
|--|---------------------|-------------------|------------------|----------------------|
| <b>Governmental Activities:</b>              |                     |                   |                  |                      |
| <b>Capital Assets Not Being Depreciated:</b> |                     |                   |                  |                      |
| Land   | \$ 1,355,224        | \$ -              | \$ -             | \$ 1,355,224         |
| Construction in progress                     | <u>548,337</u>      | <u>407,597</u>    | <u>(533,822)</u> | <u>422,112</u>       |
| Total capital assets not being depreciated   | <u>1,903,561</u>    | <u>407,597</u>    | <u>(533,822)</u> | <u>1,777,336</u>     |
| <b>Capital Assets Being Depreciated:</b>     |                     |                   |                  |                      |
| Buildings                                    | -                   | 1,921             | -                | 1,921                |
| Building improvements                        | 59,507              | -                 | -                | 59,507               |
| Infrastructure                               | 856,555             | 533,822           | -                | 1,390,377            |
| Equipment                                    | 771,145             | 6,712             | -                | 777,857              |
| IT equipment                                 | 81,402              | -                 | -                | 81,402               |
| Vehicles                                     | <u>469,903</u>      | <u>28,364</u>     | -                | <u>498,267</u>       |
| Total capital assets being depreciated       | <u>2,238,512</u>    | <u>570,819</u>    | -                | <u>2,809,331</u>     |
| <b>Less Accumulated Depreciation:</b>        |                     |                   |                  |                      |
| Building improvements                        | 30,074              | 3,972             | -                | 34,046               |
| Infrastructure                               | 206,457             | 69,027            | -                | 275,484              |
| Equipment                                    | 63,073              | 2,513             | -                | 65,586               |
| IT equipment                                 | 62,125              | 8,858             | -                | 70,983               |
| Vehicles                                     | <u>385,958</u>      | <u>23,038</u>     | -                | <u>408,996</u>       |
| Total accumulated depreciation               | <u>747,687</u>      | <u>\$ 107,408</u> | <u>\$ -</u>      | <u>855,095</u>       |
| Total capital assets being depreciated       | <u>1,490,825</u>    |                   |                  | <u>1,954,236</u>     |
| Governmental activity capital assets, net    | <u>\$ 3,394,386</u> |                   |                  | <u>\$ 3,731,572</u>  |

# TOWN OF MONTREAT, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

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

|                            |    |                |
|----------------------------|----|----------------|
| General government         | \$ | 9,209          |
| Public safety              |    | 18,557         |
| Transportation             |    | 65,468         |
| Environmental protection   |    | 1,399          |
| Cultural and recreation    |    | <u>12,775</u>  |
| Total depreciation expense | \$ | <u>107,408</u> |

### Proprietary Capital Assets

The capital asset activity of the Proprietary Fund for the year ended June 30, 2015 was as follows:

|  | <u>July 1, 2014</u> | <u>Increases</u> | <u>Decreases</u> | <u>June 30, 2015</u> |
|--|---------------------|------------------|------------------|----------------------|
| <b>Business-Type Activities:</b>             |                     |                  |                  |                      |
| <b>Capital Assets Not Being Depreciated:</b> |                     |                  |                  |                      |
| Land   | \$ 367,968          | \$ -             | \$ -             | \$ 367,968           |
| Construction in progress                     | <u>8,678</u>        | <u>165,136</u>   | <u>(173,814)</u> | <u>-</u>             |
| Total capital assets not being depreciated   | <u>376,646</u>      | <u>165,136</u>   | <u>(173,814)</u> | <u>367,968</u>       |
| <b>Capital Assets Being Depreciated:</b>     |                     |                  |                  |                      |
| Buildings                                    | 142,110             | -                | -                | 142,110              |
| Improvements                                 | 601,155             | -                | -                | 601,155              |
| Infrastructure                               | 1,807,704           | 173,814          | -                | 1,981,518            |
| Equipment                                    | 98,938              | -                | -                | 98,938               |
| IT equipment                                 | 23,776              | -                | -                | 23,776               |
| Vehicles                                     | <u>67,675</u>       | <u>-</u>         | <u>-</u>         | <u>67,675</u>        |
| Total capital assets being depreciated       | <u>2,741,358</u>    | <u>173,814</u>   | <u>-</u>         | <u>2,915,172</u>     |
| <b>Less Accumulated Depreciation:</b>        |                     |                  |                  |                      |
| Buildings                                    | 53,272              | 3,553            | -                | 56,825               |
| Improvements                                 | 23,800              | 19,909           | -                | 43,709               |
| Infrastructure                               | 1,155,418           | 49,031           | -                | 1,204,449            |
| Equipment                                    | 39,139              | 14,950           | -                | 54,089               |
| IT equipment                                 | 22,391              | 1,385            | -                | 23,776               |
| Vehicles                                     | <u>67,675</u>       | <u>-</u>         | <u>-</u>         | <u>67,675</u>        |
| Total accumulated depreciation               | <u>1,361,695</u>    | <u>\$ 88,828</u> | <u>\$ -</u>      | <u>1,450,523</u>     |
| Total capital assets being depreciated, net  | <u>1,379,663</u>    |                  |                  | <u>1,464,649</u>     |
| Business-type activities capital assets, net | <u>\$ 1,756,309</u> |                  |                  | <u>\$ 1,832,617</u>  |

**TOWN OF MONTREAT, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015**

**Construction Commitments**

| <b>Project</b>       | <b>Remaining<br/>Construction<br/>Commitment</b> |
|----------------------|--|
| Texas Bridge Project | \$ 45,850  |
| Total                | \$ 45,850  |

80% of the Texas Bridge Project will be reimbursed by NCDOT.

**B. Liabilities**

Payables

Payables at the government-wide level at June 30, 2015 were as follows:

|                                  | <b>Salaries and<br/>Benefits</b> | <b>Vendors</b> | <b>Total</b> |
|----------------------------------|----------------------------------|----------------|--------------|
| <b>Governmental Activities:</b>  |                                  |                |              |
| General                          | \$ 27,295                        | \$ 27,327      | \$ 54,622    |
| Total                            | \$ 27,295                        | \$ 27,327      | \$ 54,622    |
| <b>Business-Type Activities:</b> |                                  |                |              |
| Water                            | \$ -                             | \$ 30,358      | \$ 30,358    |
| Total                            | \$ -                             | \$ 30,358      | \$ 30,358    |

# TOWN OF MONTREAT, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

### 1. Pension Plan and Postemployment Obligations

#### a. Local Government Employees' Retirement System

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

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

## TOWN OF MONTREAT, NORTH CAROLINA

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

*Contributions.* Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. The Town of Montreat employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Town of Montreat's contractually required contribution rate for the year ended June 30, 2015, was 7.41% of compensation for law enforcement officers and 7.07% for general employees and firefighters, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Town of Montreat were \$45,387 for the year ended June 30, 2015.

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

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

At June 30, 2015, the Town reported an asset of \$55,082 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2014. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2013. The total pension liability was then rolled forward to the measurement date of June 30, 2014 utilizing update procedures incorporating the actuarial assumptions. The Town's proportion of the net pension asset was based on a projection of the Town's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2014, the Town's proportion was 0.00009%, which was a decrease of 0.00001% from its proportion measured as of June 30, 2013.

## TOWN OF MONTREAT, NORTH CAROLINA

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

For the year ended June 30, 2015, the City recognized pension expense of \$2,152. At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|   | <b>Deferred<br/>Outflows of<br/>Resources</b> | <b>Deferred<br/>Inflows of<br/>Resources</b> |
|---|---|--|
| Differences between expected and actual experience  | \$ -  | \$ 6,019                                     |
| Changes of assumptions  | -   | -  |
| Net difference between projected and actual earnings on pension plan investments                          | -   | 128,230                                      |
| Changes in proportion and differences between Town contributions and proportionate share of contributions | -   | 5,191  |
| Town contributions subsequent to the measurement date   | 45,387  | -  |
| Total   | \$ 45,387                                     | \$ 139,440                                   |

\$45,387 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as an increase of the net pension asset in the year ended June 30, 2016. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| <b>Year Ended June 30</b> | <b>Amount</b> |
|---------------------------|---------------|
| 2016                      | \$ (34,867)   |
| 2017                      | \$ (34,867)   |
| 2018                      | \$ (34,867)   |
| 2019                      | \$ (34,839)   |
| 2020                      | -             |
| Thereafter                | -             |

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

|                           |   |
|---------------------------|---|
| Inflation                 | 3.0 percent   |
| Salary increases          | 4.25 to 8.55 percent, including inflation and productivity factor         |
| Investment rate of return | 7.25 percent, net of pension plan investment expense, including inflation |

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

## TOWN OF MONTREAT, NORTH CAROLINA

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

The actuarial assumptions used in the December 31, 2013 valuation were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

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

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2014 are summarized in the following table:

| <u>Asset Class</u>   | <u>Target Allocation</u> | <u>Long-Term Expected<br/>Real Rate of Return</u> |
|----------------------|--------------------------|---|
| Fixed Income         | 36.0%                    | 2.5%  |
| Global Equity        | 40.5%                    | 6.1%  |
| Real Estate          | 8.0%                     | 5.7%  |
| Alternatives         | 6.5%                     | 10.5%   |
| Credit               | 4.5%                     | 6.8%  |
| Inflation Protection | 4.5%                     | 3.7%  |
| Total                | <u>100%</u>              |   |

The information above is based on 30-year expectations developed with the consulting actuary for the 2013 asset liability and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.19%. All rates of return and inflation are annualized.

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

**TOWN OF MONTREAT, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015**

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

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

|   | <b>1% Decrease<br/>(6.25%)</b> | <b>Discount<br/>Rate (7.25%)</b> | <b>1% Increase<br/>(8.25%)</b> |
|---|--------------------------------|----------------------------------|--------------------------------|
| Town's proportionate share of the net pension liability (asset) | <u>\$ 186,973</u>              | <u>\$ (55,082)</u>               | <u>\$ (258,885)</u>            |

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

**b. Law Enforcement Officers’ Special Separation Allowance**

*1. Plan Description*

The Town administers a public employee retirement system (the “Separation Allowance”), a single-employer defined benefit pension plan that provides retirement benefits to the Town’s qualified sworn law enforcement officers. The Separation Allowance is equal to .85 percent of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

# TOWN OF MONTREAT, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

All full-time law enforcement officers of the Town are covered by the Separation Allowance. At December 31, 2014, the Separation Allowance's membership consisted of:

|   |                 |
|---|-----------------|
| Retirees receiving benefits   | -               |
| Terminated plan members entitled to,<br>but not yet receiving, benefits | -               |
| Active plan members   | <u>5</u>        |
| Total   | <u><u>5</u></u> |

A separate report was not issued for the Plan.

### 2. Summary of Significant Accounting Policies:

*Basis of Accounting.* The Town has chosen to fund the Separation Allowance on a pay as you go basis. Pension expenditures are made from the General Fund, which is maintained on the modified accrual basis of accounting. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

The Separation Allowance has no assets accumulated in a trust that meets the following criteria which are outlined in GASB Statements 67 and 68:

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

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

### 3. Contributions

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

The annual required contribution for the current year was determined as part of the December 31, 2013 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 5.0% investment rate of return (net of administrative expenses) and (b) projected salary increases of 4.25%-7.85% per year. Both (a) and (b) included an inflation component of 3.0%. The assumptions did not include post-employment benefit increases.

**TOWN OF MONTREAT, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015**

*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               | \$ 11,534         |
| Interest on net pension obligation         | 6,549             |
| Adjustment to annual required contribution | <u>(11,064)</u>   |
| Annual pension cost                        | 7,019             |
| Contributions made                         | <u>-</u>          |
| Increase in net pension obligation         | 7,019             |
| Net pension obligation beginning of year   | <u>130,979</u>    |
| Net pension obligation end of year         | <u>\$ 137,998</u> |

3 Year Trend Information

| Fiscal Year Ended<br><u>June 30</u> | Annual Pension Cost<br><u>(APC)</u> | Percentage of<br><u>APC Contributed</u> | Net Pension<br><u>Obligation</u> |
|-------------------------------------|-------------------------------------|---|----------------------------------|
| 2013                                | \$ 7,764                            | 0.00%                                   | \$ 126,064                       |
| 2014                                | 4,915                               | 0.00%                                   | 130,979                          |
| 2015                                | 7,019                               | 0.00%                                   | 137,998                          |

4. *Funding Status and Funding Progress.*

As of December 31, 2014, the most recent actuarial valuation date, the Plan was not funded. The actuarial accrued liability for benefits and the unfunded actuarial accrued liability (UAAL) was \$89,439. The covered payroll (annual payroll of active employees covered by the plan) was \$218,628, and the ratio of the UAAL to the covered payroll was 40.91 percent.

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

c. Supplemental Retirement Income Plan 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

## TOWN OF MONTREAT, NORTH CAROLINA

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

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, 2015 were \$20,012, which consisted of \$10,690 from the Town and \$9,322 from the law enforcement officers.

#### d. Supplemental Retirement Income Plan for Employees Not Engaged in Law Enforcement

*Funding Policy.* The Town also contributes each month an amount equal to five percent of each non-law enforcement employee's salary, and all amounts contributed are vested immediately. Also, the employees may make voluntary contributions to the Plan. Contributions for the year ended June 30, 2015 were \$28,618, which consisted of \$20,915 from the Town and \$7,703 from the employees.

#### 2. Other Employment Benefits

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

#### 3. Deferred Inflows/Unavailable Revenues

The Town has one deferred outflow of resources consisting of \$45,387 of contributions to pension plan in the current fiscal year.

# TOWN OF MONTREAT, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

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

**General Fund:**

|                              |                   |
|------------------------------|-------------------|
| Pension deferrals            | \$ 139,440        |
| Prepaid taxes not yet earned | 1,500             |
| Taxes receivable, net        | <u>3,161</u>      |
| Total                        | <u>\$ 144,101</u> |

#### 4. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town participates in three self-funded risk-financing pools administered by the North Carolina League of Municipalities. Through these pools, the Town obtains general liability and auto liability coverage of \$1 million per occurrence, property coverage up to the total insured values of the property policy, workers' compensation coverage up to statutory limits, and employee health coverage. The liability of property exposures are reinsured through commercial carriers for claims in excess of retentions as selected by the Board of Trustees each year. Stop loss insurance is purchased by the Board of Trustees to protect against large medical claims that exceed certain dollar cost levels. Specific information on the limits of the reinsurance, excess and stop loss policies purchased by the Board of Trustees can be obtained by contacting the Risk Management Services Department of the NC League of Municipalities. The pools are audited annually by certified public accountants, and the audited financial statements are available to the Town upon request.

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

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 Town Administration and the Finance Officer are each individually bonded for \$50,000. The Town Clerk is bonded for \$10,000.

#### 5. Claims, Judgments, and Contingent Liabilities

At June 30, 2015, the Town was a defendant to various lawsuits. In the opinion of the Town's management and the Town Attorneys, the ultimate effect of these legal matters will not have a material adverse effect on the Town's financial position.

**TOWN OF MONTREAT, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015**

6. Long-Term Obligations

a. Installment Purchase

The Town's installment purchases at June 30, 2015 are comprised of the following individual issues:

In March 2013, the Town entered into \$74,750 in certificates of participation to finance the purchase of equipment. The financing contract required principal payments beginning in March 2014 with an interest rate of 2.19 percent. \$ 45,818

ARRA principal forgiveness loan for the construction of two water-related projects. The loan has a maximum amount of \$492,995, of which \$246,947 could be debt. The loan is payable in 20 annual installments beginning at the time the project is completed. The H-ARRA-09-1289 and H-ARRA-09-1290A are interest free. The H-LRXF-08-1290A is at a 2.2% interest rate. 431,935

Total installment debt - Water Fund \$ 477,753

Annual debt service payments of the installment purchases as of June 30, 2015, including \$46,563 of interest, are as follows:

| <b>Year Ending</b> | <b>Business-Type Activities</b> |                 |
|--------------------|---------------------------------|-----------------|
| <b>June 30</b>     | <b>Principal</b>                | <b>Interest</b> |
| 2016               | \$ 41,466                       | \$ 5,948        |
| 2017               | 41,793                          | 5,330           |
| 2018               | 42,128                          | 4,739           |
| 2019               | 26,523                          | 4,073           |
| 2020               | 26,523                          | 3,782           |
| 2021-2025          | 132,615                         | 14,545          |
| 2026-2030          | 132,606                         | 7,273           |
| 2031-2032          | 34,099                          | 873             |
| Total              | \$ 477,753                      | \$ 46,563       |

**TOWN OF MONTREAT, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015**

b. General Obligation Indebtedness

The Town's general obligation bond was issued to finance the construction of facilities utilized in the operations of the water and sewer system and which are being retired by its resources are reported as long-term debt in the Water Fund. All general obligation bonds are collateralized by the full faith, credit, and taxing power of the Town. Principal and interest requirements are appropriated when due.

The Town's bond payable at June 30, 2015 is as follows:

|   |            |
|---|------------|
| Water bond, Series A general obligation bond, for \$609,000 was issued on August 22, 1983 to finance the purchase and construction of facilities utilized in the operations of the water system. The bond is due in annual payments, with accelerating principal maturities, plus interest at 5%. | \$ 174,000 |
| Total general obligation debt - Water Fund  | \$ 174,000 |

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

| <b>Year Ending<br/>June 30</b> | <b>Business-Type Activities</b> |                 |
|--------------------------------|---------------------------------|-----------------|
|                                | <b>Principal</b>                | <b>Interest</b> |
| 2016                           | \$ 28,000                       | \$ 8,700        |
| 2017                           | 28,000                          | 7,300           |
| 2018                           | 28,000                          | 5,900           |
| 2019                           | 28,000                          | 4,500           |
| 2020                           | 28,000                          | 3,100           |
| 2021-2022                      | 34,000                          | 2,000           |
| Total                          | \$ 174,000                      | \$ 31,500       |

# TOWN OF MONTREAT, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

### c. Changes in Long-Term Liabilities

|   | <u>July 1, 2014</u> | <u>Prior<br/>Period<br/>Adjustment</u> | <u>July 1, 2014<br/>As Restated</u> | <u>Increases</u> | <u>Decreases</u>  | <u>June 30, 2015</u> | <u>Current<br/>Portion</u> |
|---|---------------------|--|-------------------------------------|------------------|-------------------|----------------------|----------------------------|
| <b>Governmental Activities:</b>                 |                     |  |                                     |                  |                   |                      |                            |
| Unfunded pension obligation                     | \$ 130,979          | \$ -                                   | \$ 130,979                          | \$ 7,019         | \$ -              | \$ 137,998           | \$ -                       |
| Net pension liability                           | 124,155             | -                                      | 124,155                             | -                | 124,155           | -                    | -                          |
| Compensated absences                            | <u>8,918</u>        | <u>81,430</u>                          | <u>90,348</u>                       | <u>60,938</u>    | <u>46,335</u>     | <u>104,951</u>       | <u>10,495</u>              |
| Governmental activity<br>long-term liabilities  | <u>\$ 264,052</u>   | <u>\$ 81,430</u>                       | <u>\$ 345,482</u>                   | <u>\$ 67,957</u> | <u>\$ 170,490</u> | <u>\$ 242,949</u>    | <u>\$ 10,495</u>           |
| <b>Business-Type Activities:</b>                |                     |  |                                     |                  |                   |                      |                            |
| Bonds payable                                   | \$ 201,000          | \$ -                                   | \$ 201,000                          | \$ -             | \$ 27,000         | \$ 174,000           | \$ 28,000                  |
| Installment purchase                            | <u>518,899</u>      | <u>-</u>                               | <u>518,899</u>                      | <u>-</u>         | <u>41,146</u>     | <u>477,753</u>       | <u>41,466</u>              |
| Business-type activity<br>long-term liabilities | <u>\$ 719,899</u>   | <u>\$ -</u>                            | <u>\$ 719,899</u>                   | <u>\$ -</u>      | <u>\$ 68,146</u>  | <u>\$ 651,753</u>    | <u>\$ 69,466</u>           |

The LEGRS plan had a net pension asset as of June 30, 2015; however, the plan had a net pension liability at the beginning of the year.

At June 30, 2015, the Town had a legal debt margin of \$18,599,892.

### d. Prior Period Adjustment

During the fiscal year ended June 30, 2015, the Town determined that accrued compensated absences as of June 30, 2014, were incorrectly stated. Therefore, an adjustment to beginning fund balance has been recorded to account for this error, the net effect of which decreased beginning net position by \$81,429.

## III. Summary of 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 monies.

# TOWN OF MONTREAT, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

### IV. Change in Accounting Principles/Restatement

The Town implemented Governmental Accounting Standards Board (GASB) Statement 68, *Accounting and Financial Reporting for Pensions (an amendment of GASB Statement No. 27)*, in the fiscal year ending June 30, 2015. The implementation of the statement required the Town to record beginning net pension liability and the effects on net position of contributions made by the Town during the measurement period (fiscal year ending June 30, 2014). As a result, net position for the governmental activities decreased by \$82,207.

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**REQUIRED SUPPLEMENTARY  
INFORMATION**

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## TOWN OF MONTREAT, NORTH CAROLINA

**LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE  
 REQUIRED SUPPLEMENTARY INFORMATION  
 FOR THE YEAR ENDED JUNE 30, 2015**

**Schedule of Funding Progress**

| <b>Actuarial<br/>Valuation<br/>Date</b> | <b>Actuarial<br/>Value of<br/>Assets<br/>(A)</b> | <b>Actuarial Accrued<br/>Liability (AAL) -<br/>Projected Unit<br/>Credit<br/>(B)</b> | <b>Unfunded<br/>AAL (UAAL)<br/>(B-A)</b> | <b>Funded<br/>Ratio<br/>(A/B)</b> | <b>Covered<br/>Payroll<br/>(C)</b> | <b>UAAL as a<br/>% of Covered<br/>Payroll<br/>(B-A)/C)</b> |
|---|--|--|--|-----------------------------------|------------------------------------|--|
| 12/31/2009                              | \$ -   | \$ 73,567  | \$ 73,567                                | 0.00%                             | \$ 198,095                         | 37.14%   |
| 12/31/2010                              | -  | 69,957   | 69,957                                   | 0.00%                             | 206,060                            | 33.95%   |
| 12/31/2011                              | -  | 89,036   | 89,036                                   | 0.00%                             | 211,478                            | 42.10%   |
| 12/31/2012                              | -  | 84,552   | 84,552                                   | 0.00%                             | 220,211                            | 38.40%   |
| 12/31/2013                              | -  | 95,353   | 95,353                                   | 0.00%                             | 176,646                            | 55.23%   |
| 12/31/2014                              | -  | 89,439   | 89,439                                   | 0.00%                             | 218,628                            | 40.91%   |

## TOWN OF MONTREAT, NORTH CAROLINA

**LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE  
REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2015**

**Schedule of Employer Contributions**

| <b>Year Ended<br/>June 30</b> | <b>Annual<br/>Required<br/>Contribution</b> | <b>Percentage<br/>of ARC<br/>Contributed</b> |
|-------------------------------|---|--|
| 2012                          | \$ 7,897                                    | 0.00%  |
| 2013                          | 9,211                                       | 0.00%  |
| 2014                          | 8,883                                       | 0.00%  |
| 2015                          | 11,534                                      | 0.00%  |

**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                | 12/31/2014                 |
| Actuarial cost method         | Projected unit credit      |
| Amortization method           | Level dollar closed        |
| Remaining amortization period | 16 years                   |
| Asset valuation method        | Market value               |
| Actuarial assumptions:        |                            |
| Investment rate of return*    | 5.00%                      |
| Projected salary increases*   | Ranges from 4.25% to 7.85% |
| *Includes inflation at        | 3.00%                      |
| Cost-of-living adjustments    | N/A                        |

**TOWN OF MONTREAT, NORTH CAROLINA****PROPORTIONATE SHARE OF NET PENSION LIABILITY (ASSET)  
REQUIRED SUPPLEMENTARY INFORMATION  
LAST TWO FISCAL YEARS \*****LOCAL GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM**

|   | <u>2015</u> | <u>2014</u> |
|---|-------------|-------------|
| Town's proportion of the net pension liability (asset) (%)  | 0.00009%    | 0.00010%    |
| Town's proportion of the net pension liability (asset) (\$)   | \$ (55,082) | \$ 124,155  |
| Town's covered-employee payroll   | \$ 587,628  | \$ 614,739  |
| Town's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll | ( 9.37%)    | 20.20%      |
| Plan fiduciary net position as a percentage of the total pension liability                                      | 102.64%     | 94.35%      |

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

**TOWN OF MONTREAT, NORTH CAROLINA****CONTRIBUTIONS  
REQUIRED SUPPLEMENTARY INFORMATION  
LAST TWO FISCAL YEARS****LOCAL GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM**

|  | <u>2015</u>   | <u>2014</u>   |
|--|---------------|---------------|
| Contractually required contribution                                  | \$ 45,387     | \$ 41,947     |
| Contributions in relation to the contractually required contribution | <u>45,387</u> | <u>41,947</u> |
| Contribution deficiency (excess)                                     | <u>\$ -</u>   | <u>\$ -</u>   |
| Covered-employee payroll   | \$ 631,711    | \$ 587,628    |
| Contributions as a percentage of covered-employee payroll            | 7.18%         | 7.14%         |

# **GENERAL FUND**

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TOWN OF MONTREAT, NORTH CAROLINA

GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2015

|   | 2015            |            |                        |
|---|-----------------|------------|------------------------|
|   | Final<br>Budget | Actual     | Variance<br>Over/Under |
| <b>Revenues:</b>                                |                 |            |                        |
| <b>Ad Valorem Taxes:</b>                        |                 |            |                        |
| Taxes   |                 | \$ 968,685 |                        |
| Total   | \$ 960,700      | 968,685    | \$ 7,985               |
| <b>Other Taxes and Licenses:</b>                |                 |            |                        |
| Local option sales taxes                        |                 | 355,621    |                        |
| Penalties and interest                          |                 | 1,331      |                        |
| Total   | 346,500         | 356,952    | 10,452                 |
| <b>Unrestricted Intergovernmental Revenues:</b> |                 |            |                        |
| Utility franchise tax                           |                 | 81,525     |                        |
| Beer and wine tax                               |                 | 3,344      |                        |
| Payments in lieu of taxes - outside sources     |                 | 2,000      |                        |
| Total   | 59,000          | 86,869     | 27,869                 |
| <b>Restricted Intergovernmental Revenues:</b>   |                 |            |                        |
| Solid waste disposal tax                        |                 | 447        |                        |
| Powell Bill allocation                          |                 | 39,442     |                        |
| State grant                                     |                 | 36,418     |                        |
| Total   | 39,500          | 76,307     | 36,807                 |
| <b>Permits and Fees:</b>                        |                 |            |                        |
| Community service fees                          |                 | 48,158     |                        |
| Building permits                                |                 | 31,309     |                        |
| Total   | 95,000          | 79,467     | (15,533)               |
| <b>Sales and Services:</b>                      |                 |            |                        |
| Public safety charges                           |                 | 3,090      |                        |
| Sanitation fees                                 |                 | 9,053      |                        |
| Other   |                 | 15         |                        |
| Total   | 15,000          | 12,158     | (2,842)                |
| <b>Other:</b>                                   |                 |            |                        |
| Investment earnings                             |                 | 1,073      |                        |
| Miscellaneous                                   |                 | 10,380     |                        |
| Contributions                                   |                 | 559        |                        |
| Total   | 820,000         | 12,012     | (807,988)              |
| Total revenues                                  | 2,335,700       | 1,592,450  | (743,250)              |

TOWN OF MONTREAT, NORTH CAROLINA

GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2015

|                                | 2015            |         |                        |
|--------------------------------|-----------------|---------|------------------------|
|                                | Final<br>Budget | Actual  | Variance<br>Over/Under |
| <b>Expenditures:</b>           |                 |         |                        |
| <b>General Government:</b>     |                 |         |                        |
| <b>Governing Body:</b>         |                 |         |                        |
| Salaries and employee benefits |                 | 9,800   |                        |
| Operating expenses             |                 | 73,136  |                        |
| Total                          | 86,908          | 82,936  | 3,972                  |
| <b>Administration:</b>         |                 |         |                        |
| Salaries and employee benefits |                 | 178,515 |                        |
| Operating expenses             |                 | 99,964  |                        |
| Capital outlay                 |                 | 6,712   |                        |
| Total                          | 282,619         | 285,191 | (2,572)                |
| <b>Public Buildings:</b>       |                 |         |                        |
| Operating expenses             |                 | 45,548  |                        |
| Capital outlay                 |                 | 146,845 |                        |
| Total                          | 225,515         | 192,393 | 33,122                 |
| Total general government       | 595,042         | 560,520 | 34,522                 |
| <b>Public Safety:</b>          |                 |         |                        |
| <b>Police Department:</b>      |                 |         |                        |
| Salaries and employee benefits |                 | 227,294 |                        |
| Operating expenses             |                 | 101,862 |                        |
| Capital outlay                 |                 | 29,520  |                        |
| Total                          | 369,928         | 358,676 | 11,252                 |
| <b>Planning and Zoning:</b>    |                 |         |                        |
| Salaries and employee benefits |                 | 46,654  |                        |
| Operating expenses             |                 | 27,639  |                        |
| Total                          | 75,900          | 74,293  | 1,607                  |
| Total public safety            | 445,828         | 432,969 | 12,859                 |
| <b>Transportation:</b>         |                 |         |                        |
| <b>Public Works:</b>           |                 |         |                        |
| Salaries and employee benefits |                 | 52,674  |                        |
| Operating expenses             |                 | 14,490  |                        |
| Total                          | 73,130          | 67,164  | 5,966                  |

TOWN OF MONTREAT, NORTH CAROLINA

GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2015

|  | 2015                    |                     |                                |
|--|-------------------------|---------------------|--------------------------------|
|  | <u>Final<br/>Budget</u> | <u>Actual</u>       | <u>Variance<br/>Over/Under</u> |
| <b>Street:</b>                         |                         |                     |                                |
| Salaries and employee benefits         |                         | 105,339             |                                |
| Operating expenses                     |                         | 84,700              |                                |
| Capital outlay                         |                         | 161,871             |                                |
| Total                                  | <u>1,433,500</u>        | <u>351,910</u>      | <u>1,081,590</u>               |
| <b>Powell Bill:</b>                    |                         |                     |                                |
| Operating expenses                     |                         | 33,801              |                                |
| Total                                  | <u>43,500</u>           | <u>33,801</u>       | <u>9,699</u>                   |
| Total transportation                   | <u>1,550,130</u>        | <u>452,875</u>      | <u>1,097,255</u>               |
| <b>Environmental Protection:</b>       |                         |                     |                                |
| <b>Sanitation:</b>                     |                         |                     |                                |
| Salaries and employee benefits         |                         | 32,164              |                                |
| Operating expenses                     |                         | 64,267              |                                |
| Total                                  | <u>101,200</u>          | <u>96,431</u>       | <u>4,769</u>                   |
| Total environmental protection         | <u>101,200</u>          | <u>96,431</u>       | <u>4,769</u>                   |
| <b>Cultural and Recreation:</b>        |                         |                     |                                |
| <b>Recreation Commission:</b>          |                         |                     |                                |
| Operating expenses                     |                         | 188                 |                                |
| Total cultural and recreation          | <u>8,500</u>            | <u>188</u>          | <u>8,312</u>                   |
| Total expenditures                     | <u>2,700,700</u>        | <u>1,542,983</u>    | <u>1,157,717</u>               |
| Revenues over (under) expenditures     | <u>(365,000)</u>        | <u>49,467</u>       | <u>414,467</u>                 |
| <b>Other Financing Sources (Uses):</b> |                         |                     |                                |
| Fund balance appropriated              | <u>365,000</u>          | -                   |                                |
| Total other financing sources (uses)   | <u>365,000</u>          | -                   | <u>(365,000)</u>               |
| Net change in fund balance             | <u>\$ -</u>             | <u>49,467</u>       | <u>\$ 49,467</u>               |
| <b>Fund Balance:</b>                   |                         |                     |                                |
| Beginning of year - July 1             |                         | <u>1,407,549</u>    |                                |
| End of year - June 30                  |                         | <u>\$ 1,457,016</u> |                                |

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# **MAJOR ENTERPRISE FUND**

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## TOWN OF MONTREAT, NORTH CAROLINA

**ENTERPRISE FUND - WATER FUND**  
**SCHEDULE OF REVENUES AND EXPENDITURES**  
**BUDGET AND ACTUAL (NON-GAAP)**  
**FOR THE YEAR ENDED JUNE 30, 2015**

|  | <u>Budget</u>  | <u>Actual</u>       | <u>Variance<br/>Over/Under</u> |
|--|----------------|---------------------|--------------------------------|
| <b>Revenues:</b>   |                |                     |                                |
| Operating revenues:  |                |                     |                                |
| Charges for services   | \$ 309,000     | \$ 283,495          | \$ (25,505)                    |
| Other  | 148,500        | 23,135              | (125,365)                      |
| Total operating revenues   | <u>457,500</u> | <u>306,630</u>      | <u>(150,870)</u>               |
| Non-operating revenues:  |                |                     |                                |
| Investment earnings  | 500            | 75                  | (425)                          |
| Restricted intergovernmental   | 81,000         | -                   | (81,000)                       |
| Total non-operating revenues   | <u>81,500</u>  | <u>75</u>           | <u>(81,425)</u>                |
| Total revenues   | <u>539,000</u> | <u>306,705</u>      | <u>(232,295)</u>               |
| <b>Expenditures:</b>   |                |                     |                                |
| Operating expenditures:  |                |                     |                                |
| Repairs and maintenance  |                | 29,452              |                                |
| Operating expenditures   |                | 115,283             |                                |
| Capital outlay   |                | 296,501             |                                |
| Total operating expenditures   | <u>453,400</u> | <u>441,236</u>      | <u>12,164</u>                  |
| <b>Debt Service:</b>   |                |                     |                                |
| Interest and fees  |                | 17,447              |                                |
| Principal retirement   |                | 68,146              |                                |
| Total debt service   | <u>85,600</u>  | <u>85,593</u>       | <u>7</u>                       |
| Total expenditures   | <u>539,000</u> | <u>526,829</u>      | <u>12,171</u>                  |
| Revenues over (under) expenditures   | <u>\$ -</u>    | <u>\$ (220,124)</u> | <u>\$ (220,124)</u>            |
| <b>Reconciliation from Modified Accrual<br/>Basis to Full Accrual Basis:</b> |                |                     |                                |
| Revenues over (under) expenditures   |                | \$ (220,124)        |                                |
| Reconciling items:   |                |                     |                                |
| Payment of debt principal  |                | 68,146              |                                |
| Change in unbilled revenues receivable                                       |                | 13,762              |                                |
| Capital outlay   |                | 165,136             |                                |
| Depreciation   |                | <u>(88,828)</u>     |                                |
| Change in net position   |                | <u>\$ (61,908)</u>  |                                |

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# **SUPPLEMENTAL FINANCIAL DATA**

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## TOWN OF MONTREAT, NORTH CAROLINA

SCHEDULE OF AD VALOREM TAXES RECEIVABLE  
JUNE 30, 2015

| <u>Fiscal Year</u> | <u>Uncollected<br/>Balance<br/>July 1, 2014</u> | <u>Additions</u>  | <u>Collections<br/>and Credits</u> | <u>Uncollected<br/>Balance<br/>June 30, 2015</u> |
|--------------------|---|-------------------|------------------------------------|--|
| 2014-2015          | \$ -  | \$ 963,203        | \$ 961,143                         | \$ 2,060   |
| 2013-2014          | 2,940   | -                 | 2,159                              | 781  |
| 2012-2013          | 428   | -                 | 427                                | 1  |
| 2011-2012          | 430   | -                 | 117                                | 313  |
| 2010-2011          | -   | -                 | (6)                                | 6  |
| 2009-2010          | 6   | -                 | 6                                  | -  |
| 2008-2009          | -   | -                 | -                                  | -  |
| 2007-2008          | -   | -                 | -                                  | -  |
| 2006-2007          | -   | -                 | -                                  | -  |
| 2005-2006          | -   | -                 | -                                  | -  |
| Total              | <u>\$ 3,804</u>                                 | <u>\$ 963,203</u> | <u>\$ 963,846</u>                  | <u>3,161</u>                                     |

Ad valorem taxes receivable - net

\$ 3,161**Reconciliation with Revenues:**

Ad valorem taxes

\$ 968,685

Interest and penalties

1,331

Miscellaneous

(6,170)

Total collections and credit

\$ 963,846

## TOWN OF MONTREAT, NORTH CAROLINA

ANALYSIS OF CURRENT YEAR LEVY  
TOWN-WIDE LEVY  
FOR THE YEAR ENDED JUNE 30, 2015

|   | Town-Wide             |         |                   | Total Levy   |                                 |
|---|-----------------------|---------|-------------------|--|---------------------------------|
|   | Property<br>Valuation | Rate    | Amount<br>of Levy | Property<br>Excluding<br>Registered<br>Motor<br>Vehicles | Registered<br>Motor<br>Vehicles |
| <b>Original Levy:</b>                     |                       |         |                   |  |                                 |
| Property taxed at current year's rate     | \$ 234,924,634        | \$ 0.41 | \$ 963,191        | \$ 951,181   | \$ 12,010                       |
| Penalties                                 | <u>2,927</u>          | 0.41    | <u>12</u>         | <u>12</u>  | <u>-</u>                        |
| Total                                     | <u>234,927,561</u>    |         | <u>963,203</u>    | <u>951,193</u>   | <u>12,010</u>                   |
| Total property valuation                  | <u>\$ 234,927,561</u> |         |                   |  |                                 |
| <b>Net Levy</b>                           |                       |         | 963,203           | 951,193  | 12,010                          |
| Uncollected taxes as of June 30, 2015     |                       |         | <u>(2,060)</u>    | <u>(2,060)</u>   | <u>-</u>                        |
| <b>Current Year's Taxes Collected</b>     |                       |         | <u>\$ 961,143</u> | <u>\$ 949,133</u>  | <u>\$ 12,010</u>                |
| <b>Current Levy Collection Percentage</b> |                       |         | <u>99.79%</u>     | <u>99.78%</u>  | <u>100.00%</u>                  |

**STATISTICAL  
SECTION**

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# Statistical Section

This part of the Town of Montreat’s Comprehensive Annual Financial Report presents detailed and historical information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information say about the Town’s overall financial health.

| <b><u>Contents</u></b>   | <b><u>Page</u></b> |
|--|--------------------|
| <b>Financial Trends Information</b>  | 63                 |
| These tables contain trend information to help the reader understand how the Town’s financial performance and well-being have changed over time.   |                    |
| <b>Revenue Capacity Information</b>  | 70                 |
| These tables contain information to help the reader assess the Town’s most significant local revenue source, the property tax.   |                    |
| <b>Debt Capacity Information</b>   | 74                 |
| These tables present information to help the reader assess the affordability of the Town’s current levels of outstanding debt and the Town’s ability to issue additional debt in the future.                       |                    |
| <b>Demographic and Economic Information</b>  | 77                 |
| These tables offer demographic and economic indicators to help the reader understand the environment within which the Town’s financial activities take place.  |                    |
| <b>Operating Information</b>   | 80                 |
| These schedules contain service and infrastructure data to help the reader understand how the information in the Town’s financial report relates to the services the Town provides and the activities it performs. |                    |

*Sources: Unless otherwise noted, the information in these tables is derived from the financial reports for the relevant year.*

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Table 1

**Town of Montreat  
Net Position by Activity  
Governmental and Business Type Functions**

|                                      | FYE 2015     | FYE 2014     | FYE 2013     | FYE 2012     | FYE 2011     | FYE 2010     | FYE 2009     | FYE 2008     | FYE 2007     | FYE 2006     |
|--------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| <b>Governmental Activities</b>       |              |              |              |              |              |              |              |              |              |              |
| Net Position:                        |              |              |              |              |              |              |              |              |              |              |
| Net Investment in Capital Assets     | \$ 3,731,572 | \$ 3,394,389 | \$ 2,794,719 | \$ 1,887,129 | \$ 1,144,711 | \$ 878,624   | \$ 676,603   | \$ 526,091   | \$ 272,858   | \$ 252,566   |
| Restricted                           | 267,742      | 255,216      | 249,671      | 269,501      | 283,792      | 180,577      | 192,666      | 191,284      | 159,627      | 117,632      |
| Unrestricted                         | 910,515      | 1,016,240    | 990,917      | 1,132,305    | 1,332,931    | 1,470,348    | 1,450,376    | 1,322,521    | 1,249,071    | 1,146,378    |
| Subtotal, Governmental Net Position  | \$ 4,909,829 | \$ 4,665,845 | \$ 4,035,307 | \$ 3,288,935 | \$ 2,761,434 | \$ 2,529,549 | \$ 2,319,645 | \$ 2,039,896 | \$ 1,681,556 | \$ 1,516,576 |
| <b>Business Type Activities</b>      |              |              |              |              |              |              |              |              |              |              |
| Net Position:                        |              |              |              |              |              |              |              |              |              |              |
| Net Investment in Capital Assets     | \$ 1,180,864 | \$ 1,036,410 | \$ 982,912   | \$ 959,327   | \$ 1,089,073 | \$ 772,709   | \$ 575,217   | \$ 532,318   | \$ 552,704   | \$ 494,357   |
| Restricted                           | 391,634      | 597,996      | 595,469      | 866,473      | 583,502      | 505,627      | 531,157      | 526,367      | 483,797      | 548,052      |
| Unrestricted                         | 1,572,498    | 1,634,406    | 1,578,381    | 1,825,800    | 1,672,575    | 1,278,336    | 1,106,374    | 1,058,685    | 1,036,501    | 1,042,409    |
| Subtotal, Business Type Net Position | \$ 1,572,498 | \$ 1,634,406 | \$ 1,578,381 | \$ 1,825,800 | \$ 1,672,575 | \$ 1,278,336 | \$ 1,106,374 | \$ 1,058,685 | \$ 1,036,501 | \$ 1,042,409 |
| <b>Total Primary Government</b>      |              |              |              |              |              |              |              |              |              |              |
| Net Position:                        |              |              |              |              |              |              |              |              |              |              |
| Net Investment in Capital Assets     | \$ 4,912,436 | \$ 4,430,799 | \$ 3,777,631 | \$ 2,846,456 | \$ 2,233,784 | \$ 1,651,333 | \$ 1,251,820 | \$ 1,058,409 | \$ 825,562   | \$ 746,923   |
| Restricted                           | 267,742      | 255,216      | 249,671      | 269,501      | 283,792      | 180,577      | 192,666      | 191,284      | 159,627      | 117,632      |
| Unrestricted                         | 1,302,149    | 1,614,236    | 1,586,386    | 1,998,778    | 1,916,433    | 1,975,975    | 1,981,533    | 1,848,888    | 1,732,868    | 1,694,430    |
| Total Net Position                   | \$ 6,482,327 | \$ 6,300,251 | \$ 5,613,688 | \$ 5,114,735 | \$ 4,434,009 | \$ 3,807,885 | \$ 3,426,019 | \$ 3,098,581 | \$ 2,718,057 | \$ 2,558,985 |

Table 2

**Town of Montreat  
Change in Net Position  
Governmental Functions**

|  | FYE 2015     | FYE 2014     | FYE 2013     | FYE 2012     | FYE 2011     | FYE 2010     | FYE 2009     | FYE 2008     | FYE 2007     | FYE 2006     |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| <b>Revenues:</b>                                     |              |              |              |              |              |              |              |              |              |              |
| <b>Program Revenues:</b>                             |              |              |              |              |              |              |              |              |              |              |
| Charges for Services:                                |              |              |              |              |              |              |              |              |              |              |
| General Government                                   | \$ 79,484    | \$ 102,254   | \$ 94,897    | \$ -         | \$ -         | \$ 1,390     | \$ -         | \$ -         | \$ -         | \$ -         |
| Public Safety  | 3,090        | 3,846        | 3,396        | 39,701       | 47,610       | 41,793       | 49,806       | 51,510       | 54,973       | 53,827       |
| Transportation                                       | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            |
| Environmental Protection                             | 447          | 388          | 325          | 494          | 473          | 498          | 41,278       | 42,325       | 26,867       | -            |
| Cultural & Recreation                                | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            |
| Total Charges for Services                           | \$ 83,021    | \$ 106,488   | \$ 98,618    | \$ 40,195    | \$ 48,083    | \$ 43,681    | \$ 91,084    | \$ 93,835    | \$ 81,840    | \$ 53,827    |
| Operating Grants and Contributions                   | 135,379      | 108,380      | 105,034      | 134,045      | 132,343      | 139,196      | 48,276       | 46,394       | 190,775      | 41,838       |
| Capital Grants and Contributions                     | 36,977       | 360,088      | 584,932      | 385,151      | 5,550        | 60,272       | 12,800       | -            | -            | -            |
| <b>General Revenues:</b>                             |              |              |              |              |              |              |              |              |              |              |
| Taxes:   |              |              |              |              |              |              |              |              |              |              |
| Property Taxes                                       | 968,042      | 970,716      | 892,839      | 886,345      | 873,863      | 875,331      | 868,213      | 857,051      | 810,549      | 632,033      |
| Other Taxes & Licenses                               | 356,952      | 332,403      | 313,951      | 307,211      | 280,616      | 277,467      | 300,486      | 334,775      | 316,204      | 294,897      |
| Grants & Contributions, non-program                  | -            | -            | -            | -            | -            | -            | 146,242      | 58,489       | 57,058       | 42,617       |
| Investment earnings, unrestricted                    | 1,073        | 1,629        | 1,850        | 5,915        | 7,921        | 14,591       | 21,996       | 55,594       | 74,474       | 42,263       |
| Miscellaneous  | 10,362       | 194          | 20           | 15,931       | 1,134        | 1,891        | 7,628        | 13,253       | 18,387       | 5,166        |
| <b>Total Revenues</b>                                | \$ 1,591,806 | \$ 1,879,898 | \$ 1,997,244 | \$ 1,774,793 | \$ 1,349,510 | \$ 1,412,429 | \$ 1,496,725 | \$ 1,459,391 | \$ 1,549,287 | \$ 1,112,641 |
| <b>Expenses:</b>                                     |              |              |              |              |              |              |              |              |              |              |
| General Government                                   | \$ 551,016   | \$ 347,272   | \$ 403,785   | \$ 411,493   | \$ 348,601   | \$ 400,771   | \$ 372,544   | \$ 399,433   | \$ 442,914   | \$ 304,947   |
| Public Safety  | 415,119      | 418,288      | 417,698      | 450,064      | 418,103      | 398,889      | 400,467      | 339,693      | 305,020      | 285,396      |
| Transportation                                       | 107,255      | 214,513      | 137,836      | 338,622      | 317,661      | 374,792      | 333,633      | 341,160      | 645,048      | 347,453      |
| Environmental Protection                             | 1,587        | 162,683      | 203,889      | 17,779       | 27,743       | 63,120       | 105,353      | 110,613      | 90,637       | 81,355       |
| Cultural & Recreation                                | 109,206      | 60,993       | 102,532      | 96,161       | 90,850       | 54,052       | 2,340        | -            | 1,239        | 710          |
| Interest on Long Term Debt                           | -            | -            | -            | -            | 467          | 2,201        | 2,266        | 3,252        | 2,949        | -            |
| <b>Total Expenses</b>                                | \$ 1,184,183 | \$ 1,203,749 | \$ 1,265,740 | \$ 1,314,119 | \$ 1,203,425 | \$ 1,293,825 | \$ 1,216,603 | \$ 1,194,151 | \$ 1,487,807 | \$ 1,019,861 |
| Increase/(decrease) in net position before transfers | \$ 407,623   | \$ 676,149   | \$ 731,504   | \$ 460,674   | \$ 146,085   | \$ 118,604   | \$ 280,122   | \$ 265,240   | \$ 61,480    | \$ 92,780    |
| Transfers  | -            | (45,614)     | 14,868       | 66,827       | 85,800       | 91,300       | 87,600       | 93,100       | 103,500      | 85,362       |
| <b>Increase/(decrease) in net position</b>           | \$ 407,623   | \$ 630,535   | \$ 746,372   | \$ 527,501   | \$ 231,885   | \$ 209,904   | \$ 367,722   | \$ 358,340   | \$ 164,980   | \$ 178,142   |

**Town of Montreat  
Change in Net Position  
Business Type Functions**

**Table 3**

|  | FYE 2015           | FYE 2014          | FYE 2013          | FYE 2012           | FYE 2011          | FYE 2010          | FYE 2009          | FYE 2008          | FYE 2007          | FYE 2006          |
|--|--------------------|-------------------|-------------------|--------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| <b>Revenues:</b>                                     |                    |                   |                   |                    |                   |                   |                   |                   |                   |                   |
| Program Revenues:                                    |                    |                   |                   |                    |                   |                   |                   |                   |                   |                   |
| Charges for Services:                                |                    |                   |                   |                    |                   |                   |                   |                   |                   |                   |
| Water  | \$ 320,392         | \$ 346,006        | \$ 281,712        | \$ 270,153         | \$ 348,989        | \$ 289,188        | \$ 288,512        | \$ 274,496        | \$ 226,356        | \$ 243,303        |
| Operating Grants and Contributions                   |                    |                   |                   |                    |                   |                   |                   |                   |                   |                   |
| Capital Grants and Contributions                     |                    |                   |                   |                    | 281,797           | 158,309           |                   |                   |                   |                   |
| General Revenues:                                    |                    |                   |                   |                    |                   |                   |                   |                   |                   |                   |
| Taxes:   |                    |                   |                   |                    |                   |                   |                   |                   |                   |                   |
| Property Taxes                                       |                    |                   |                   |                    |                   |                   |                   |                   |                   |                   |
| Other Taxes & Licenses                               |                    |                   |                   |                    |                   |                   |                   |                   |                   |                   |
| Grants & Contributions, non-program                  |                    |                   |                   |                    |                   |                   |                   |                   |                   |                   |
| Investment earnings, unrestricted                    | 75                 | 102               | 231               | 1,324              | 1,081             | 1,128             | 2,916             | 6,771             | 7,809             | 5,926             |
| Miscellaneous  |                    |                   |                   |                    |                   |                   | 8,213             |                   |                   |                   |
| <b>Total Revenues</b>                                | <b>\$ 320,467</b>  | <b>\$ 346,108</b> | <b>\$ 281,943</b> | <b>\$ 271,477</b>  | <b>\$ 631,867</b> | <b>\$ 448,625</b> | <b>\$ 299,641</b> | <b>\$ 281,267</b> | <b>\$ 234,165</b> | <b>\$ 249,229</b> |
| <b>Expenses:</b>                                     |                    |                   |                   |                    |                   |                   |                   |                   |                   |                   |
| Water  | \$ 382,375         | \$ 335,697        | \$ 171,006        | \$ 223,169         | \$ 151,828        | \$ 185,363        | \$ 164,352        | \$ 165,983        | \$ 136,573        | \$ 140,644        |
| <b>Total Expenses</b>                                | <b>\$ 382,375</b>  | <b>\$ 335,697</b> | <b>\$ 171,006</b> | <b>\$ 223,169</b>  | <b>\$ 151,828</b> | <b>\$ 185,363</b> | <b>\$ 164,352</b> | <b>\$ 165,983</b> | <b>\$ 136,573</b> | <b>\$ 140,644</b> |
| Increase/(decrease) in net position before transfers | \$ (61,908)        | \$ 10,411         | \$ 110,937        | \$ 48,308          | \$ 480,039        | \$ 263,262        | \$ 135,289        | \$ 115,284        | \$ 97,592         | \$ 108,585        |
| Transfers  | -                  | 45,614            | (14,868)          | (66,827)           | (85,800)          | (91,300)          | (87,600)          | (93,100)          | (103,500)         | (85,362)          |
| <b>Increase/(decrease) in net position</b>           | <b>\$ (61,908)</b> | <b>\$ 56,025</b>  | <b>\$ 96,069</b>  | <b>\$ (18,519)</b> | <b>\$ 394,239</b> | <b>\$ 171,962</b> | <b>\$ 47,689</b>  | <b>\$ 22,184</b>  | <b>\$ (5,908)</b> | <b>\$ 23,223</b>  |

Table 4

**Town of Montreat  
Change in Net Position  
Total Primary Government**

|  | FYE 2015            | FYE 2014            | FYE 2013            | FYE 2012            | FYE 2011            | FYE 2010            | FYE 2009            | FYE 2008            | FYE 2007            | FYE 2006            |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| <b>Revenues:</b>                                     |                     |                     |                     |                     |                     |                     |                     |                     |                     |                     |
| <b>Program Revenues:</b>                             |                     |                     |                     |                     |                     |                     |                     |                     |                     |                     |
| Charges for Services:                                |                     |                     |                     |                     |                     |                     |                     |                     |                     |                     |
| General Government                                   | \$ 79,484           | \$ 102,254          | \$ 94,897           | \$ -                | \$ -                | \$ 1,390            | \$ -                | \$ -                | \$ -                | \$ -                |
| Public Safety  | 3,090               | 3,846               | 3,396               | 39,701              | 47,610              | 41,793              | 49,806              | 51,510              | 54,973              | 53,827              |
| Transportation                                       | -                   | -                   | -                   | -                   | -                   | -                   | -                   | -                   | -                   | -                   |
| Environmental Protection                             | 447                 | 388                 | 325                 | 494                 | 473                 | 498                 | 41,278              | 42,325              | 26,867              | -                   |
| Landcare   | -                   | -                   | -                   | -                   | -                   | -                   | -                   | -                   | -                   | -                   |
| Water  | 320,392             | 346,006             | 281,712             | 270,153             | 348,989             | 289,188             | 288,512             | 274,496             | 226,356             | 243,303             |
| Operating Grants and Contributions                   | 135,379             | 108,380             | 105,034             | 134,045             | 132,343             | 139,196             | 48,276              | 46,394              | 190,775             | 41,838              |
| Capital Grants and Contributions                     | 36,977              | 360,088             | 584,932             | 385,151             | 287,347             | 218,581             | 12,800              | -                   | -                   | -                   |
| <b>General Revenues:</b>                             |                     |                     |                     |                     |                     |                     |                     |                     |                     |                     |
| Taxes:   |                     |                     |                     |                     |                     |                     |                     |                     |                     |                     |
| Property Taxes                                       | 968,042             | 970,716             | 892,839             | 886,345             | 873,863             | 875,331             | 868,213             | 857,051             | 810,549             | 632,033             |
| Other Taxes & Licenses                               | 356,952             | 332,403             | 313,951             | 307,211             | 280,616             | 277,467             | 300,486             | 334,775             | 316,204             | 294,897             |
| Grants & Contributions, non-program                  | -                   | -                   | -                   | -                   | -                   | -                   | 146,242             | 58,489              | 57,058              | 42,617              |
| Investment earnings, unrestricted                    | 1,148               | 1,731               | 2,081               | 7,239               | 9,002               | 15,719              | 24,912              | 62,365              | 82,283              | 48,189              |
| Miscellaneous  | 10,362              | 194                 | 20                  | 15,931              | 1,134               | 1,891               | 15,841              | 13,253              | 18,387              | 5,166               |
| <b>Total Revenues</b>                                | <b>\$ 1,912,273</b> | <b>\$ 2,226,006</b> | <b>\$ 2,279,187</b> | <b>\$ 2,046,270</b> | <b>\$ 1,981,377</b> | <b>\$ 1,861,054</b> | <b>\$ 1,796,366</b> | <b>\$ 1,740,658</b> | <b>\$ 1,783,452</b> | <b>\$ 1,361,870</b> |
| <b>Expenses:</b>                                     |                     |                     |                     |                     |                     |                     |                     |                     |                     |                     |
| General Government                                   | \$ 551,016          | \$ 347,272          | \$ 403,785          | \$ 411,493          | \$ 348,601          | \$ 400,771          | \$ 372,544          | \$ 399,433          | \$ 442,914          | \$ 304,947          |
| Public Safety  | 415,119             | 418,288             | 417,698             | 450,064             | 418,103             | 398,889             | 400,467             | 339,693             | 305,020             | 285,396             |
| Transportation                                       | 107,255             | 214,513             | 137,836             | 338,622             | 317,661             | 374,792             | 333,633             | 341,160             | 645,048             | 347,453             |
| Environmental Protection                             | 1,587               | 162,683             | 203,889             | 17,779              | 27,743              | 63,120              | 105,353             | 110,613             | 90,637              | 81,355              |
| Landcare   | 109,206             | 60,993              | 102,532             | 96,161              | 90,850              | 54,052              | 2,340               | -                   | 1,239               | 710                 |
| Interest on Long Term Debt                           | -                   | -                   | -                   | -                   | 467                 | 2,201               | 2,266               | 3,252               | 2,949               | -                   |
| Water  | 382,375             | 335,697             | 171,006             | 223,169             | 151,828             | 185,363             | 164,352             | 165,983             | 136,573             | 140,644             |
| <b>Total Expenses</b>                                | <b>\$ 1,566,558</b> | <b>\$ 1,539,446</b> | <b>\$ 1,436,746</b> | <b>\$ 1,537,288</b> | <b>\$ 1,355,253</b> | <b>\$ 1,479,188</b> | <b>\$ 1,380,955</b> | <b>\$ 1,360,134</b> | <b>\$ 1,624,380</b> | <b>\$ 1,160,505</b> |
| Increase/(decrease) in net position before transfers | \$ 345,715          | \$ 686,560          | \$ 842,441          | \$ 508,982          | \$ 626,124          | \$ 381,866          | \$ 415,411          | \$ 380,524          | \$ 159,072          | \$ 201,365          |
| Transfers  | -                   | -                   | -                   | -                   | -                   | -                   | -                   | -                   | -                   | -                   |
| Increase/(decrease) in net position                  | \$ 345,715          | \$ 686,560          | \$ 842,441          | \$ 508,982          | \$ 626,124          | \$ 381,866          | \$ 415,411          | \$ 380,524          | \$ 159,072          | \$ 201,365          |

**Table 5**

**Town of Montreat**  
**Fund Balances/Net Position**  
**All Funds**

|   | FYE 2015     | FYE 2014     | FYE 2013     | FYE 2012     | FYE 2011     | FYE 2010     | FYE 2009     | FYE 2008     | FYE 2007     | FYE 2006     |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| <b>Governmental Activities</b>          |              |              |              |              |              |              |              |              |              |              |
| Nonspendable                            | \$ 9,986     | \$ 4,872     |              | \$           | 9,300        |              |              |              |              |              |
| Restricted                              | 267,742      | 255,216      | 249,671      | 269,501      | 283,792      | 280,575      | 312,119      | 319,247      | 287,156      | 214,142      |
| Committed                               | 34,710       | 30,193       | 26,854       | 52,675       | 24,005       |              |              |              |              |              |
| Assigned (Designated pre-2011)          | 382,322      | 419,290      | 54,177       | 53,923       | 683,744      | 717,435      | 667,435      | 480,183      | 328,710      | 327,272      |
| Unassigned                              | 762,256      | 697,978      | 1,115,891    | 1,222,858    | 810,104      | 834,992      | 820,455      | 775,623      | 844,486      | 723,411      |
| Total General Fund Balance              | \$ 1,457,016 | \$ 1,407,549 | \$ 1,446,593 | \$ 1,598,957 | \$ 1,810,945 | \$ 1,833,002 | \$ 1,800,009 | \$ 1,575,053 | \$ 1,460,352 | \$ 1,264,825 |
| <b>Reconcile to Net Position</b>        |              |              |              |              |              |              |              |              |              |              |
| Governmental Net Position               | \$ 3,452,813 | \$ 3,258,293 | \$ 2,588,714 | \$ 1,689,978 | \$ 950,489   | \$ 696,547   | \$ 519,636   | \$ 464,843   | \$ 221,204   | \$ 251,751   |
| Business-Type Activities                | \$ 4,909,829 | \$ 4,665,842 | \$ 4,035,307 | \$ 3,288,935 | \$ 2,761,434 | \$ 2,529,549 | \$ 2,319,645 | \$ 2,039,896 | \$ 1,681,556 | \$ 1,516,576 |
| <b>Business-Type Activities</b>         |              |              |              |              |              |              |              |              |              |              |
| Unrestricted                            | \$ 391,634   | \$ 597,996   | \$ 595,469   | \$ 522,985   | \$ 583,502   | \$ 505,627   | \$ 531,157   | \$ 526,367   | \$ 483,797   | \$ 548,052   |
| Total Water Fund Balance                | \$ 391,634   | \$ 597,996   | \$ 595,469   | \$ 522,985   | \$ 583,502   | \$ 505,627   | \$ 531,157   | \$ 526,367   | \$ 483,797   | \$ 548,052   |
| <b>Net investment in capital assets</b> |              |              |              |              |              |              |              |              |              |              |
| Business-Type Net Position              | \$ 1,180,864 | \$ 1,036,410 | \$ 982,912   | \$ 959,327   | \$ 1,089,073 | \$ 772,709   | \$ 575,217   | \$ 532,318   | \$ 552,704   | \$ 494,357   |
| Total                                   | \$ 1,572,498 | \$ 1,634,406 | \$ 1,578,381 | \$ 1,482,312 | \$ 1,672,575 | \$ 1,278,336 | \$ 1,106,374 | \$ 1,058,685 | \$ 1,036,501 | \$ 1,042,409 |

Table 6

**Town of Montreat  
Changes in Fund Balance  
General Fund**

|   | FYE 2015            | FYE 2014            | FYE 2013            | FYE 2012            | FYE 2011            | FYE 2010            | FYE 2009            | FYE 2008            | FYE 2007            | FYE 2006            |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| <b>Revenues</b>                         |                     |                     |                     |                     |                     |                     |                     |                     |                     |                     |
| Ad valorem taxes                        | \$ 968,685          | \$ 973,858          | \$ 895,333          | \$ 879,659          | \$ 873,310          | \$ 877,564          | \$ 865,993          | \$ 858,966          | \$ 843,074          | \$ 634,727          |
| Other taxes and licenses                | 356,952             | 332,403             | 313,951             | 307,211             | 280,616             | 277,467             | 298,781             | 330,010             | 302,903             | 283,491             |
| Unrestricted intergovernmental revenues | 86,869              | 59,392              | 41,756              | 55,856              | 56,934              | 60,802              | 71,242              | 58,489              | 57,058              | 42,617              |
| Restricted intergovernmental revenues   | 76,307              | 300,024             | 97,902              | 49,160              | 37,609              | 45,907              | 60,945              | 45,980              | 190,347             | 41,243              |
| Permits and fees                        | 79,467              | 102,255             | 94,898              | 36,003              | 35,626              | 39,412              | 39,884              | 34,849              | 44,102              | 42,058              |
| Sales and services                      | 12,158              | 13,784              | 28,129              | 43,518              | 50,257              | 45,028              | 52,685              | 63,751              | 51,039              | 23,175              |
| Investment earnings                     | 1,073               | 1,629               | 1,850               | 5,915               | 7,921               | 14,591              | 22,347              | 56,008              | 74,902              | 42,858              |
| Miscellaneous                           | 10,939              | 1,396               | 2,020               | 21,772              | 7,592               | 53,891              | 7,628               | 13,253              | 18,387              | 5,166               |
| <b>Total revenues</b>                   | <b>\$ 1,592,450</b> | <b>\$ 1,784,741</b> | <b>\$ 1,475,839</b> | <b>\$ 1,399,094</b> | <b>\$ 1,349,865</b> | <b>\$ 1,414,662</b> | <b>\$ 1,419,505</b> | <b>\$ 1,461,306</b> | <b>\$ 1,581,812</b> | <b>\$ 1,115,335</b> |
| <b>Expenditures</b>                     |                     |                     |                     |                     |                     |                     |                     |                     |                     |                     |
| General government                      | \$ 560,520          | \$ 652,473          | \$ 393,828          | \$ 391,258          | \$ 343,836          | \$ 379,835          | \$ 390,142          | \$ 404,951          | \$ 445,853          | \$ 300,948          |
| Public Safety                           | 432,969             | 390,135             | 468,435             | 424,235             | 391,460             | 393,707             | 397,414             | 346,352             | 317,928             | 270,104             |
| Transportation                          | 452,875             | 478,599             | 477,526             | 750,075             | 603,850             | 535,851             | 367,653             | 563,975             | 658,042             | 396,912             |
| Environmental protection                | 96,431              | 95,994              | 101,260             | 96,161              | 90,044              | 89,127              | 90,520              | 97,307              | 81,613              | 153,772             |
| Cultural and recreation                 | 188                 | 160,970             | 202,022             | 16,177              | 12,910              | 48,287              | 9,300               |                     | 1,239               | 710                 |
| Debt Service:                           |                     |                     |                     |                     |                     |                     |                     |                     |                     |                     |
| Principal                               | -                   | -                   | -                   | -                   | 15,156              | 23,961              | 24,854              | 23,868              | 14,590              |                     |
| Interest                                | -                   | -                   | -                   | -                   | 466                 | 2,201               | 2,266               | 3,252               | 2,949               |                     |
| <b>Total expenditures</b>               | <b>\$ 1,542,983</b> | <b>\$ 1,778,171</b> | <b>\$ 1,643,071</b> | <b>\$ 1,677,906</b> | <b>\$ 1,457,722</b> | <b>\$ 1,472,969</b> | <b>\$ 1,282,149</b> | <b>\$ 1,439,705</b> | <b>\$ 1,522,214</b> | <b>\$ 1,122,446</b> |
| <b>Other Financing Sources (Uses)</b>   |                     |                     |                     |                     |                     |                     |                     |                     |                     |                     |
| Transfers from Enterprise Fund          | \$ -                | \$ -                | \$ 66,000           | \$ 82,100           | \$ 85,800           | \$ 91,300           | \$ 87,600           | \$ 93,100           | \$ 103,500          | \$ 85,362           |
| Transfers to Enterprise Fund            | -                   | (45,614)            | (51,132)            | (15,273)            | -                   | -                   | -                   | -                   | -                   | -                   |
| Installment purchase obligations issued | -                   | -                   | -                   | -                   | -                   | -                   | -                   | -                   | -                   | 70,000              |
| <b>Total other financing uses</b>       | <b>\$ -</b>         | <b>\$ (45,614)</b>  | <b>\$ 14,868</b>    | <b>\$ 66,827</b>    | <b>\$ 85,800</b>    | <b>\$ 91,300</b>    | <b>\$ 87,600</b>    | <b>\$ 93,100</b>    | <b>\$ 135,929</b>   | <b>\$ 155,362</b>   |
| <b>Net Change in Fund Balance</b>       | <b>\$ 49,467</b>    | <b>\$ (39,044)</b>  | <b>\$ (152,364)</b> | <b>\$ (211,985)</b> | <b>\$ (22,057)</b>  | <b>\$ 32,993</b>    | <b>\$ 224,956</b>   | <b>\$ 114,701</b>   | <b>\$ 195,527</b>   | <b>\$ 148,251</b>   |
| Prior Period Adjustment                 |                     |                     |                     | \$ (3)              |                     |                     |                     |                     |                     |                     |
| <b>Fund Balance:</b>                    |                     |                     |                     |                     |                     |                     |                     |                     |                     |                     |
| Beginning of Year - July 1              | \$ 1,407,549        | \$ 1,446,593        | \$ 1,598,957        | \$ 1,810,945        | \$ 1,833,002        | \$ 1,800,009        | \$ 1,575,053        | \$ 1,460,352        | \$ 1,264,825        | \$ 1,116,574        |
| End of Year - June 30                   | \$ 1,457,016        | \$ 1,407,549        | \$ 1,446,593        | \$ 1,598,957        | \$ 1,810,945        | \$ 1,833,002        | \$ 1,800,009        | \$ 1,575,053        | \$ 1,460,352        | \$ 1,264,825        |

Add: Changes in Fund Balance, General Fund, past 10 yrs  
Breakdown by Rev, Exp, other fin sources/uses, other changes, & total change in fb

Town of Montreat  
 General Governmental Expenditure by Function  
 (GAAP basis, Table 2)

| Fiscal Year Ended June 30 | General Government | Public Safety | Transportation | Environmental Protection | Cultural & Recreation | Interest on Long Term Debt | Total     |
|---------------------------|--------------------|---------------|----------------|--------------------------|-----------------------|----------------------------|-----------|
| 2015                      | 551,016            | 415,119       | 107,255        | 1,587                    | 109,206               | -                          | 1,184,183 |
| 2014                      | 347,272            | 418,288       | 214,513        | 162,683                  | 60,993                | -                          | 1,203,749 |
| 2013                      | 403,785            | 417,698       | 137,836        | 203,889                  | 102,532               | -                          | 1,265,740 |
| 2012                      | 411,493            | 450,064       | 338,622        | 17,779                   | 96,161                | -                          | 1,314,119 |
| 2011                      | 348,601            | 418,103       | 317,661        | 27,743                   | 90,850                | 467                        | 1,203,425 |
| 2010                      | 400,771            | 398,889       | 374,792        | 63,120                   | 54,052                | 2,201                      | 1,293,825 |
| 2009                      | 372,544            | 400,467       | 333,633        | 105,353                  | 2,340                 | 2,266                      | 1,216,603 |
| 2008                      | 399,433            | 339,693       | 341,160        | 110,613                  | -                     | 3,252                      | 1,194,151 |
| 2007                      | 442,914            | 305,020       | 645,048        | 90,637                   | 1,239                 | 2,949                      | 1,487,807 |
| 2006                      | 304,947            | 285,396       | 347,453        | 81,355                   | 710                   | -                          | 1,019,861 |

Table 8

Town of Montreat  
 General Governmental Revenue by Source  
 (GAAP basis, Table 2)

| Fiscal Year Ended June 30 | Ad Valorem Taxes | Other Taxes & Licenses | Charges for Services | Operating Grants & Contributions | Capital Grants & Contributions | Non-Program Grants & Contributions | Investment Earnings | Miscellaneous | Total     |
|---------------------------|------------------|------------------------|----------------------|----------------------------------|--------------------------------|------------------------------------|---------------------|---------------|-----------|
| 2015                      | 968,042          | 356,952                | 83,021               | 135,379                          | 36,977                         | -                                  | 1,073               | 10,362        | 1,591,806 |
| 2014                      | 970,716          | 332,403                | 106,488              | 108,380                          | 360,088                        | -                                  | 1,629               | 194           | 1,879,898 |
| 2013                      | 892,839          | 313,951                | 98,618               | 105,034                          | 584,932                        | -                                  | 1,850               | 20            | 1,997,244 |
| 2012                      | 886,345          | 307,211                | 40,195               | 134,045                          | 385,151                        | -                                  | 5,915               | 15,931        | 1,774,793 |
| 2011                      | 873,863          | 280,616                | 48,083               | 132,343                          | 5,550                          | -                                  | 7,921               | 1,134         | 1,349,510 |
| 2010                      | 875,331          | 277,467                | 43,681               | 139,196                          | 60,272                         | -                                  | 14,591              | 1,891         | 1,412,429 |
| 2009                      | 868,213          | 300,486                | 91,084               | 48,276                           | 12,800                         | 146,242                            | 21,996              | 7,628         | 1,496,725 |
| 2008                      | 857,051          | 334,775                | 93,835               | 46,394                           | -                              | 58,489                             | 55,594              | 13,253        | 1,459,391 |
| 2007                      | 810,549          | 316,204                | 81,840               | 190,775                          | -                              | 57,058                             | 74,474              | 18,387        | 1,549,287 |
| 2006                      | 632,033          | 294,897                | 53,827               | 41,838                           | -                              | 42,617                             | 42,263              | 5,166         | 1,112,641 |

**Town of Montreat  
Property Tax Levies & Collections - General Fund**

**Table 9**

| Fiscal<br>Year<br>Ended | Total Tax Levy | Current Tax<br>Collections | Percent of<br>Levy<br>Collected | Delinquent Tax<br>Collections,<br>Credits & Write-<br>offs | Total Tax<br>Collections | Ratio of Total Tax         |                          |
|-------------------------|----------------|----------------------------|---------------------------------|--|--------------------------|----------------------------|--------------------------|
|                         |                |                            |                                 |  |                          | Collections to Tax<br>Levy | Total Direct Tax<br>Rate |
| June 30                 |                |                            |                                 |  |                          |                            |                          |
| 2015                    | \$ 963,203     | \$ 961,143                 | 99.79%                          | \$ 2,703   | \$ 963,846               | 100.07%                    | 0.41                     |
| 2014                    | 972,675        | 969,735                    | 99.70%                          | 6,083  | 975,818                  | 100.32%                    | 0.41                     |
| 2013                    | 905,262        | 898,808                    | 99.29%                          | 2,262  | 901,070                  | 99.54%                     | 0.37                     |
| 2012                    | 905,282        | 896,135                    | 98.99%                          | 2,461  | 898,596                  | 99.26%                     | 0.37                     |
| 2011                    | 875,507        | 874,635                    | 99.90%                          | 319  | 874,954                  | 99.94%                     | 0.37                     |
| 2010                    | 872,786        | 871,997                    | 99.91%                          | (38,433)   | 833,564                  | 95.51%                     | 0.37                     |
| 2009                    | 867,101        | 863,797                    | 99.62%                          | 234  | 864,031                  | 99.65%                     | 0.37                     |
| 2008                    | 857,049        | 856,390                    | 99.92%                          | 2,574  | 858,964                  | 100.22%                    | 0.37                     |
| 2007                    | 842,420        | 840,204                    | 99.74%                          | 181  | 840,385                  | 99.76%                     | 0.37                     |
| 2006                    | 629,804        | 629,620                    | 99.97%                          | 2,878  | 632,498                  | 100.43%                    | 0.37                     |

Note: Ratio of Total Collections to Levy sometimes exceeds 100% due to receipt of delinquent prior year taxes.

**Town of Montreat**  
**Assessed Value of Taxable Property**

**Table 10**

| <b>Fiscal Year<br/>Ended June 30</b> | <b>TR-2<br/>Calendar<br/>Tax Year</b> |                      |                          |                             | <b>Public Service</b> | <b>Total Assessed<br/>Value</b> |
|--------------------------------------|---------------------------------------|----------------------|--------------------------|-----------------------------|-----------------------|---------------------------------|
|                                      |                                       | <b>Real Property</b> | <b>Personal Property</b> | <b>Company<br/>Property</b> |                       |                                 |
| <b>2015</b>                          | <b>2014</b>                           | \$ 230,269,600       | \$ 1,289,222             | \$ 939,831                  | \$ 232,498,653        |                                 |
| 2014                                 | 2013                                  | 230,421,550          | 1,082,225                | 932,493                     | 232,436,268           |                                 |
| 2013                                 | 2012                                  | 236,135,700          | 898,184                  | 955,716                     | 237,989,600           |                                 |
| 2012                                 | 2011                                  | 233,103,700          | 689,425                  | 982,902                     | 234,776,027           |                                 |
| 2011                                 | 2010                                  | 231,794,950          | 621,110                  | 1,009,996                   | 233,426,056           |                                 |
| 2010                                 | 2009                                  | 230,968,650          | 698,437                  | 977,045                     | 232,644,132           |                                 |
| 2009                                 | 2008                                  | 228,962,700          | 776,315                  | 854,451                     | 230,593,466           |                                 |
| 2008                                 | 2007                                  | 228,365,500          | 814,900                  | 845,103                     | 230,025,503           |                                 |
| 2007                                 | 2006                                  | 221,916,950          | 1,018,870                | 840,468                     | 223,776,288           |                                 |
| 2006                                 | 2005                                  | 164,673,217          | 683,765                  | 725,675                     | 166,082,657           |                                 |

N/A = Data not available

Town of Montreat

Table 11

Property Tax Rates - Town of Montreat and Overlapping Jurisdictions  
(Per \$100.00 of Assessed Value)

| Fiscal Year Ended<br>June 30 | Black Mountain   |               |                 | Total Tax Rate |
|------------------------------|------------------|---------------|-----------------|----------------|
|                              | Town of Montreat | Fire District | Buncombe County |                |
| 2015                         | 0.4100           | 0.0990        | 0.6040          | 1.1130         |
| 2014                         | 0.4100           | 0.0990        | 0.6040          | 1.1130         |
| 2013                         | 0.3700           | 0.0900        | 0.5250          | 0.9850         |
| 2012                         | 0.3700           | 0.0900        | 0.5250          | 0.9850         |
| 2011                         | 0.3700           | 0.0900        | 0.5250          | 0.9850         |
| 2010                         | 0.3700           | 0.0900        | 0.5250          | 0.9850         |
| 2009                         | 0.3700           | 0.0900        | 0.5250          | 0.9850         |
| 2008                         | 0.3700           | 0.0900        | 0.5250          | 0.9850         |
| 2007                         | 0.3700           | 0.0900        | 0.5300          | 0.9900         |
| 2006                         | 0.3700           | 0.0900        | 0.5900          | 1.0500         |

Source: Buncombe County Tax Department.

**Ratio of Net General Obligation Bonded Debt to Assessed Value and  
Net General Obligation Bonded Debt per Capita**

| <b>Fiscal<br/>Year<br/>Ended<br/>June 30</b> | <b>Assessed Value</b> | <b>General<br/>Obligation<br/>Bonded Debt</b> | <b>Ratio of Net<br/>General<br/>Obligation<br/>Bonded Debt to<br/>Assessed Value</b> | <b>Population</b> | <b>Net General<br/>Obligation<br/>Bonded Debt per<br/>Capita</b> |
|--|-----------------------|---|--|-------------------|--|
| <b>2015</b>                                  | 232,498,653           | \$ -  | 0.00%  | 728               | 0.00%  |
| 2014   | 232,436,268           | -   | 0.00%  | 704               | 0.00%  |
| 2013   | 237,989,600           | -   | 0.00%  | 690               | 0.00%  |
| 2012   | 234,776,027           | -   | 0.00%  | 688               | 0.00%  |
| 2011   | 233,426,056           | -   | 0.00%  | 723               | 0.00%  |
| 2010   | 232,644,132           | -   | 0.00%  | 701               | 0.00%  |
| 2009   | 230,593,466           | -   | 0.00%  | 714               | 0.00%  |
| 2008   | 230,025,503           | -   | 0.00%  | 730               | 0.00%  |
| 2007   | 223,776,288           | -   | 0.00%  | 703               | 0.00%  |
| 2006   | 166,082,657           | -   | 0.00%  | 697               | 0.00%  |

**Town of Montreat  
 Computation of Legal Debt Margin  
 June 30, 2015**

**Table 13**

|   |                             |
|---|-----------------------------|
| Assessed value of taxable property            | \$ 232,498,653              |
| times   | <u>0.08</u>                 |
| Debt limit (8% of assessed value)             | 18,599,892                  |
|   |                             |
| Gross debt:                                   |                             |
| Bonds Payable                                 | 174,000                     |
| Authorized & unissued bonds                   | -                           |
| Installment Purchase                          | <u>431,935</u>              |
| Gross Debt                                    | <u>605,935</u>              |
| Less: Water Fund debts                        | <u>605,935</u>              |
|   |                             |
| Total amount of debt applicable to debt limit | <u>-</u>                    |
|   |                             |
| Legal debt margin                             | <u><u>\$ 18,599,892</u></u> |

**Ratio of Annual Debt Service Expenditures for General Obligation Bonded Debt to Total General Governmental Expenditures**

| <b>Fiscal Year Ended June 30</b> | <b>Principal</b> | <b>Interest on Bonds</b> | <b>Total Debt Service</b> | <b>Total General Governmental Expenditures</b> | <b>Ratio, Debt Service to Total General Governmental Expenditures</b> |
|----------------------------------|------------------|--------------------------|---------------------------|--|---|
| <b>2015</b>                      | \$ -             | \$ -                     | \$ -                      | \$ 1,184,183                                   | 0.00%   |
| 2014                             | -                | -                        | -                         | 1,203,749                                      | 0.00%   |
| 2013                             | -                | -                        | -                         | 1,265,740                                      | 0.00%   |
| 2012                             | -                | -                        | -                         | 1,314,119                                      | 0.00%   |
| 2011                             | -                | -                        | -                         | 1,203,425                                      | 0.00%   |
| 2010                             | -                | -                        | -                         | 1,293,825                                      | 0.00%   |
| 2009                             | -                | -                        | -                         | 1,216,603                                      | 0.00%   |
| 2008                             | -                | -                        | -                         | 1,194,151                                      | 0.00%   |
| 2007                             | -                | -                        | -                         | 1,487,807                                      | 0.00%   |
| 2006                             | -                | -                        | -                         | 1,019,861                                      | 0.00%   |

**Town of Montreat  
Demographic Statistics**

**Table 15**

| <b>Fiscal<br/>Year<br/>Ended<br/>June 30</b> | <b>Population</b> | <b>Per Capita Income</b> | <b>Median Age</b> | <b>School Enrollment</b> | <b>Unemployment<br/>Rate % (June)*</b> |
|--|-------------------|--------------------------|-------------------|--------------------------|--|
| 2015   | 728               | N/A                      | N/A               | 6                        | 5.0                                    |
| 2014   | 704               | N/A                      | N/A               | 6                        | 5.3                                    |
| 2013   | 690               | N/A                      | N/A               | 6                        | 6.7                                    |
| 2012   | 688               | N/A                      | N/A               | 10                       | 9.4                                    |
| 2011   | 723               | N/A                      | 24.2              | N/A                      | 10.6                                   |
| 2010   | 701               | N/A                      | N/A               | N/A                      | 10.8                                   |
| 2009   | 714               | N/A                      | N/A               | N/A                      | 10.6                                   |
| 2008   | 730               | N/A                      | N/A               | N/A                      | 6.0                                    |
| 2007   | 703               | N/A                      | N/A               | N/A                      | 4.7                                    |
| 2006   | 697               | N/A                      | N/A               | N/A                      | 4.8                                    |
| 2000   | 630               | \$ 16,669                | 22.8              | N/A                      | 3.6                                    |

N/A = Data not available

\* Unemployment rate data is for all of Buncombe County, Montreat-only data not available

Source: NC Office of State Budget and Management, State Data Center,  
Buncombe County Schools, Employment Security Commission

**Town of Montreat**  
**Ten Largest Taxpayers**  
**June 30, 2015**

**Table 16**

| Taxpayer                     | 2015           |                         |  | 2014*          |                         |  |
|------------------------------|----------------|-------------------------|--|----------------|-------------------------|--|
|                              | Classification | 2014 Assessed Valuation | Percentage of Total Assessed Valuation | Classification | 2013 Assessed Valuation | Percentage of Total Assessed Valuation |
|                              |                |                         |  |                |                         |  |
| MOUNTAIN RETREAT ASSOC       | Institutional  | 3,105,090               | 1.34%                                  | Institutional  | 3,105,090               | 1.30%                                  |
| NEALE, HENRY W & MARGARET C  | Residential    | 1,109,800               | 0.48%                                  | Residential    | 1,109,800               | 0.47%                                  |
| SLOOP GROUP LLC              | Residential    | 1,078,100               | 0.46%                                  | Residential    | 1,078,100               | 0.45%                                  |
| BES-LU LLC                   | Residential    | 936,800                 | 0.40%                                  | Residential    | 936,800                 | 0.39%                                  |
| MANDEVILLE, LLC              | Residential    | 882,800                 | 0.38%                                  | Residential    | 882,800                 | 0.37%                                  |
| EVANS, E. CRAIG              | Residential    | 886,100                 | 0.38%                                  | Residential    | 888,200                 | 0.37%                                  |
| GETTYS JR. JOSEPH M.         | Residential    | 817,000                 | 0.35%                                  | Residential    | 817,000                 | 0.34%                                  |
| MING REAL ESTATE COMPANY LLC | Residential    | 812,000                 | 0.35%                                  | Residential    | 812,000                 | 0.34%                                  |
| BOYD, DOROTHY COE            | Residential    | 787,700                 | 0.34%                                  | Residential    | 787,700                 | 0.33%                                  |
| DUKE ENERGY PROGRESS         | Utility        | 769,294                 | 0.33%                                  | Utility        | 769,294                 | 0.32%                                  |

\* Note: Comparative data from ten years ago not available

Source: Buncombe County Tax Department.

**Town of Montreat  
Largest Employers  
June 30, 2015**

**Table 17**

Montreat is a predominantly residential community. There are only two major employers, the Town of Montreat, and a few smaller organizations. The following is the data that is available:

| <b>Year</b> | <b>Montreat<br/>College</b> | <b>Montreat<br/>Conference<br/>Center</b> | <b>Town of<br/>Montreat</b> | <b>Total</b> |
|-------------|-----------------------------|---|-----------------------------|--------------|
| <b>2015</b> | 127                         | 60  | 13                          | 200          |
| 2014        | 187                         | 60  | 14                          | 261          |
| 2013        | 194                         | 70  | 14                          | 278          |
| 2012        | 149                         | 70  | 14                          | 233          |
| 2011        | 202                         | 70  | 14                          | 286          |
| 2010        | 233                         | 70  | 15                          | 318          |
| 2009        | 221                         | 70  | 15                          | 306          |
| 2008        | 231                         | 70  | 15                          | 316          |
| 2007        | 226                         | 96  | 15                          | 337          |
| 2006        | 231                         | 96  | 15                          | 342          |

Source: Montreat College, Montreat Conference Center

**Town of Montreat  
Miscellaneous Statistics  
June 30, 2015**

**Table 18**

|  |                |
|--|----------------|
| Date of establishment  | 1966           |
| Form of Government   | Mayor-Council  |
| Employees  |                |
| Full-time permanent  | 13             |
| Vacancies  | 1              |
| Other (Police Reserve)   | 2              |
| Area   | 2.78 sq. miles |
| Town Facilities & Services   |                |
| Miles of Streets   | 15.6           |
| Number of Street Lights  | 0              |
| Police Protection:   |                |
| Number of full-time officers   | 5              |
| Number of reserve officers   | 2              |
| Inspections:   |                |
| Building permits issued  | 106            |
| Water Service:   |                |
| Number of customers  | 674            |
| Average daily consumption  | 73,995 gal     |
| Miles of water mains   | 19             |
| Number of wells  | 11             |
| Facilities and Services provided by other entities:                                  |                |
| Fire Protection:   |                |
| Provided by Black Mountain/East Buncombe Fire District                               |                |
| Education:   |                |
| Public K-12 school system operated by<br>Buncombe County Schools                     |                |
| Cultural and Recreational:   |                |
| All recreational facilities owned and operated by<br>Montreat Conference Center      |                |
| Sewers:  |                |
| Sanitary sewer system operated by the<br>Municipal Sewer District of Buncombe County |                |

# **COMPLIANCE SECTION**

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# MARTIN ♦ STARNES & ASSOCIATES, CPAs, P.A.

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*"A Professional Association of Certified Public Accountants and Management Consultants"*

## **Report On Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed In Accordance With *Government Auditing Standards***

### **Independent Auditor's Report**

To The Honorable Mayor and  
Members of the Board of Commissioners  
Town of Montreat  
Montreat, North Carolina

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Montreat, North Carolina, as of and for the year ended June 30, 2015, and the related notes to the financial statements which collectively comprise the Town's basic financial statements, and have issued our report thereon dated October 9, 2015.

### **Internal Control Over Financial Reporting**

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies; and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies, 2015-001 and 2015-003 described in the accompanying Schedule of Findings and Responses to be material weaknesses.

A significant deficiency is a deficiency or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency, 2005-002 described in the accompanying Schedule of Findings and Responses to be a significant deficiency.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Town of Montreat's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Town of Montreat's Responses to Findings**

The Town of Montreat's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The Town's responses were not subjected to the auditing procedures applied in the audit of the financial statements; and accordingly, we express no opinion on them.

### **Purpose of this Report**

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

*Martin Starnes & Associates, CPAs, P.A.*

Martin Starnes & Associates, CPAs, P.A.  
Hickory, North Carolina  
October 9, 2015

**TOWN OF MONTREAT, NORTH CAROLINA**

**SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2015**

**1. Summary of Auditor's Results**

**Financial Statements**

|   |            |
|---|------------|
| Type of auditor's report issued   | Unmodified |
| Internal control over financial reporting:  |            |
| • Material weakness(es) identified?   | Yes        |
| • Significant deficiency identified not considered<br>to be a material weakness(es) | Yes        |
| Non-compliance material to financial statements noted?                              | No         |

# TOWN OF MONTREAT, NORTH CAROLINA

## SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED JUNE 30, 2015

### 2. Findings Related to the Audit of the Basic Financial Statements

#### Finding 2015-001

**Criteria:** Management should have a system in place to reduce the likelihood of errors in financial reporting.

**Condition:** Due to the limited number of personnel in the Town office, there are inherent limitations to the segregation of duties among Town personnel.

**Context:** We noted during walk-throughs that the Finance Officer has access to both the payroll function and financial systems operations. Other Town functions are affected due to limited number of personnel as well.

**Effect:** Errors in financial reporting could occur and not be detected.

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

**Recommendation:** Access to the books and records of the Town should be separated from access to the assets of the Town as much as possible. Alternative controls should be used to compensate for any lack of segregation of duties. The Town Commissioners should provide some of these controls.

**Name of Contact Person:** Stefan Stackhouse

**Management Response:** Management is aware of the weakness, but due to the cost benefit analysis, hiring additional personnel does not appear feasible. It should be noted that management has instituted some compensating controls to limit risk associated with segregation of duties; however, these controls are not sufficient to mitigate the entire segregation of duties weakness.

## TOWN OF MONTREAT, NORTH CAROLINA

### SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED JUNE 30, 2015

#### 2. Findings Related to the Audit of the Basic Financial Statements (continued)

##### Finding 2015-002

**Criteria:** Management should have a system in place to reduce the likelihood of errors in financial reporting.

**Condition:** Financial reporting under the accounting standards promulgated by the Financial Accounting Standards Board and the Governmental Accounting Standards Board (GAAP) requires a level of technical expertise not typically required to perform normal day-to-day operations. The Town's personnel does not prepare full accrual, full disclosure GAAP financial statements.

**Context:** Full accrual, full disclosure financial statements were prepared by the external auditor.

**Effect:** Errors in financial reporting could occur.

**Cause:** There are limited Town resources as it relates to the preparation of full accrual, full disclosure, and year-end financial statements.

**Recommendation:** The cost of acquiring the technical expertise to comply with the financial reporting requirements discussed above appears prohibitive. Therefore, the Town should exercise due care in reviewing the financial statements drafted by the external auditor as the Town is responsible for the accuracy of the audited financial statements.

**Name of Contact Person:** Stefan Stackhouse

**Management Response:** Management is aware that drafting full disclosure GAAP financial statements is not a typical requirement for day-to-day financial operations of the Town and that most smaller governmental units do not typically possess the required expertise to comply with this requirement. Management has and will continue to exercise due care in reviewing the financial statements drafted by the external auditor, as the Town is responsible for the accuracy of the audited financial statements.

## TOWN OF MONTREAT, NORTH CAROLINA

### SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED JUNE 30, 2015

#### 2. Findings Related to the Audit of the Basic Financial Statements (continued)

##### **Finding 2015-003:**

**Criteria:** Management should have a system in place to reduce the likelihood of errors in financial reporting.

**Condition:** Audit and accounting standards require errors in prior periods that are detected in a subsequent year be reported as prior period adjustments, resulting in a restatement of net assets and/or fund balance. The prior period adjustment indicates that the systems of internal control are not operating as intended. A material error due to a miscalculation was not detected by the Town's system of internal controls. In the current year, a restatement was required to compensated absences.

**Context:** While performing testing on the financial statements for adherence to generally accepted accounting principles, we noted the condition described above.

**Effect:** Net assets were overstated.

**Cause:** Management oversight in recording of compensated absences.

**Recommendation:** As part of the internal control structure, management should evaluate the cause of the error and implement control procedures to prevent prior period adjustments in the future.

**Name of Contact Person:** Stefan Stackhouse

**Corrective Action:** Management concurs and will examine the adjustments required as a result of our audit.

**TOWN OF MONTREAT, NORTH CAROLINA**  
**SUMMARY SCHEDULE OF PRIOR YEAR'S AUDIT FINDINGS**  
**FOR THE YEAR ENDED JUNE 30, 2015**

Finding 2014-001 was repeated as 2015-001.

Finding 2014-002 was repeated as 2015-002.

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