

**TOWN OF MONTREAT
NORTH CAROLINA**

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2016

TOWN OF MONTREAT NORTH CAROLINA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2016

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

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FOR THE YEAR ENDED JUNE 30, 2016

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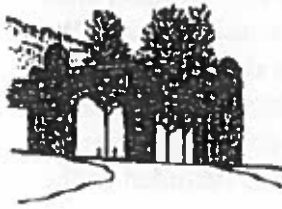
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INTRODUCTORY SECTION

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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

October 14, 2016

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, 2016 is hereby submitted. This is our fifth 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 unmodified 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 4.1% vs. 4.9. Regional employment continues the same national trend of a slow recovery.

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 2014 was \$44,820 vs. a national median of \$53,713, 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 10.5% from 2000 to 2014, 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 56.0% from 2000-2014); leisure and hospitality (with an increase of 41.0% from 2000-2014); and professional and business services (with an increase of 38.2% from 2000-2014). In contrast, the area has experienced sustained declines in the construction (-50.7%) and manufacturing (-45.8%) sectors between 2000 and 2014.

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 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, but is recovering. 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 rate of increase in housing values for Asheville MSA for the year ended June 30, 2015 was 8.18% (as indicated by the All-transactions Housing Price Index, per the Federal Housing Finance Agency). This exceeds the national average of 5.63%, indicating strong recent progress toward recovery.

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 reduced employment by 5.2%

over the past year (according to the US Bureau of Labor Statistics), the Town of Montreat was able to hold its staffing steady at fourteen full-time employees.

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).

The Town also maintains a multi-year Capital Improvement Plan as a part of its annual budget process. Two large projects were under consideration throughout FYE 16 but remain in a preliminary planning stage: the building of a new town hall, and the replacement of a bridge on Texas Road. Further progress on each is pending decisions to be made by the Board of Commissioners and the local community.

Awards and Acknowledgements

The previous fiscal year that ended on June 30, 2015 was our fourth 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.

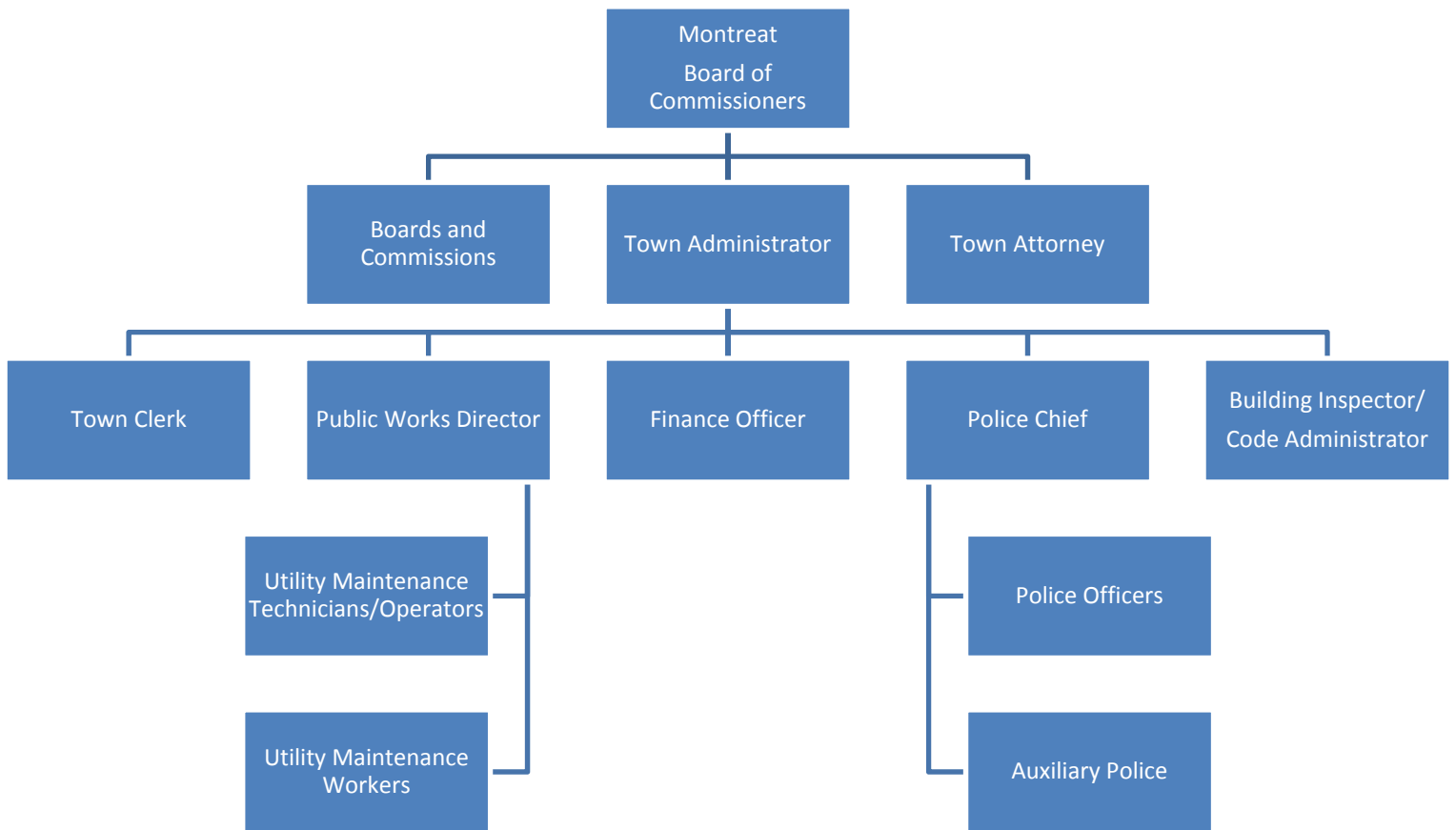


Al Richardson
Interim Town Administrator



Stefan Stackhouse
Finance Officer

TOWN OF MONTREAT ORGANIZATIONAL CHART





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, 2015

Executive Director/CEO

Town of Montreat, North Carolina
List of Principal Officials
June 30, 2016

TOWN COUNCIL

Honorable Tim Helms, Mayor
Kathryn Fouche, Mayor Pro Tem
Mary Standaert
Ann Vinson
William Gilliland
Kent Otto

ADMINISTRATION

Ron Nalley, Town Administrator
(Replaced by Al Richardson, Interim Town Administrator, July 2016)
Stefan Stackhouse, Finance Officer
Angela Murphy, Town Clerk
Jack Staggs, Chief of Police
David Currie, Building Inspector/Code Administrator
Stephen Freeman, Director of Public Works

AUDIT COMMITTEE

Ann Vinson, Chair
Mary Standaert, Vice Chair
Phillip Arnold, Secretary
William Gilliland
(Note: Hugh Alexander was appointed July, 2016)

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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
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, 2016, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Town of Montreat, North Carolina, as of June 30, 2016, and the respective changes in financial position and cash flows, where appropriate, thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 15, the Law Enforcement Officers' Special Separation Allowance's Schedule of Funding Progress, on page 54, and the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Asset (Liability) and Contributions, on pages 55 and 56, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the Town of Montreat, North Carolina. 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 14, 2016 on our consideration of the Town of Montreat's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of the report is to describe the scope of 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 14, 2016

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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, 2016. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

Financial Highlights

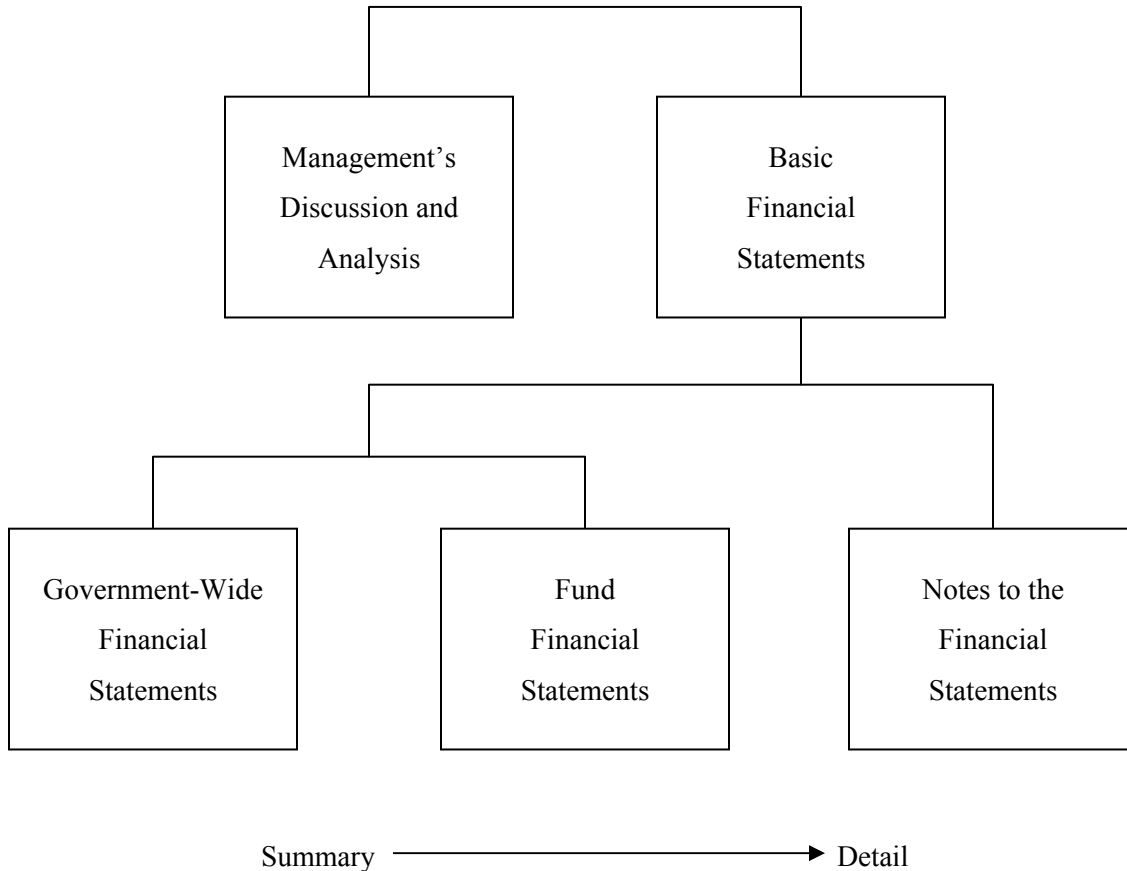
- The assets and deferred outflows of resources of the Town of Montreat exceed its liabilities and deferred inflows of resources at the close of the fiscal year by \$7,044,457 (*net position*).
- The government's total net position increased by \$562,130, primarily due to diligent cost-saving measures.
- At the close of the current fiscal year, the Town of Montreat's General Fund reported ending fund balance of \$1,831,434 with a net increase of \$374,418 in fund balance. Approximately 71.5% of this total amount, or \$1,309,516, is classified as unassigned.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$1,309,516, or 81.2%, of total General Fund expenditures for the fiscal year.
- The Town of Montreat's total debt increased by \$263,981 (41%) during the current fiscal year. The key factor in this increase was the issuance of notes of \$300,000 for sewer and road expansions and \$39,875 for vehicles.

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 on page 28 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 54 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

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Assets:						
Current and other assets	\$ 1,866,710	\$ 1,516,299	\$ 782,436	\$ 425,652	\$ 2,649,146	\$ 1,941,951
Net pension asset	-	55,082	-	-	-	55,082
Capital assets	3,903,219	3,731,572	1,740,829	1,832,617	5,644,048	5,564,189
Total assets	<u>5,769,929</u>	<u>5,302,953</u>	<u>2,523,265</u>	<u>2,258,269</u>	<u>8,293,194</u>	<u>7,561,222</u>
Deferred Outflows of Resources:						
Pension deferrals	10,728	-	-	-	10,728	-
Contributions to pension plan in current fiscal year	<u>43,897</u>	<u>45,387</u>	<u>-</u>	<u>-</u>	<u>43,897</u>	<u>45,387</u>
Total deferred outflows of resources	<u>54,625</u>	<u>45,387</u>	<u>-</u>	<u>-</u>	<u>54,625</u>	<u>45,387</u>
Liabilities:						
Current liabilities	67,005	65,117	111,308	103,484	178,313	168,601
Long-term liabilities	<u>451,612.10</u>	<u>232,454</u>	<u>636,695</u>	<u>582,287</u>	<u>1,088,307</u>	<u>814,741</u>
Total liabilities	<u>518,617</u>	<u>297,571</u>	<u>748,003</u>	<u>685,771</u>	<u>1,266,620</u>	<u>983,342</u>
Deferred Inflows of Resources:						
Pension deferrals	28,779	139,440	-	-	28,779	139,440
Prepaid taxes	<u>7,963</u>	<u>1,500</u>	<u>-</u>	<u>-</u>	<u>7,963</u>	<u>1,500</u>
Total deferred inflows of resources	<u>36,742</u>	<u>140,940</u>	<u>-</u>	<u>-</u>	<u>36,742</u>	<u>140,940</u>
Net Position:						
Net investment in capital assets	3,707,773	3,731,572	1,020,541	1,180,864	4,728,314	4,912,436
Restricted	294,400	267,742	-	-	294,400	267,742
Unrestricted	<u>1,267,022</u>	<u>910,515</u>	<u>754,721</u>	<u>391,634</u>	<u>2,021,743</u>	<u>1,302,149</u>
Total net position	<u>\$ 5,269,195</u>	<u>\$ 4,909,829</u>	<u>\$ 1,775,262</u>	<u>\$ 1,572,498</u>	<u>\$ 7,044,457</u>	<u>\$ 6,482,327</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 \$7,044,457 as of June 30, 2016. The Town's net position increased by \$562,130 for the fiscal year ended June 30, 2016. However, the largest portion (67%) 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, \$294,400, or 4.2%, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$2,021,743 is unrestricted.

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 \$359,366, primarily due to an excess of general revenues over operating deficits.
- The net position in business-type activities increased by \$202,764, primarily due to an incline in operating revenues and a decrease in operating expenditures.

Town of Montreat Changes in Net Position

Figure 3

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Revenues:						
Program revenues:						
Charges for services	\$ 103,996	\$ 83,021	\$ 450,882	\$ 320,392	\$ 554,878	\$ 403,413
Operating grants	164,985	135,379	-	-	164,985	135,379
Capital grants	155,346	36,977	-	-	155,346	36,977
General revenues:						
Property taxes	962,972	968,042	-	-	962,972	968,042
Other taxes	390,699	356,952	-	-	390,699	356,952
Investment earnings	1,709	1,073	152	75	1,861	1,148
Other	2,116	10,362	3,075	-	5,191	10,362
Total revenues	<u>1,781,823</u>	<u>1,591,806</u>	<u>454,109</u>	<u>320,467</u>	<u>2,235,932</u>	<u>1,912,273</u>
Expenses:						
General government	479,543	551,016	-	-	479,543	551,016
Public safety	450,926	415,119	-	-	450,926	415,119
Transportation	362,962	107,255	-	-	362,962	107,255
Environmental protection	12,343	1,587	-	-	12,343	1,587
Culture and recreation	116,083	109,206	-	-	116,083	109,206
Interest on long-term debt	600	-	-	-	600	-
Water and sewer	-	-	251,345	382,375	251,345	382,375
Total expenses	<u>1,422,457</u>	<u>1,184,183</u>	<u>251,345</u>	<u>382,375</u>	<u>1,673,802</u>	<u>1,566,558</u>
Change in net position	<u>359,366</u>	<u>407,623</u>	<u>202,764</u>	<u>(61,908)</u>	<u>562,130</u>	<u>345,715</u>
Net Position:						
Beginning of year - July 1	4,909,829	4,665,842	1,572,498	1,634,406	6,482,327	6,300,248
Restatement	-	(163,636)	-	-	-	(163,636)
Beginning of year - July 1 as restated	<u>4,909,829</u>	<u>4,502,206</u>	<u>1,572,498</u>	<u>1,634,406</u>	<u>6,482,327</u>	<u>6,136,612</u>
End of year - June 30	<u>\$ 5,269,195</u>	<u>\$ 4,909,829</u>	<u>\$ 1,775,262</u>	<u>\$ 1,572,498</u>	<u>\$ 7,044,457</u>	<u>\$ 6,482,327</u>

Governmental Activities. Governmental activities increased the Town's net position by \$359,366, thereby accounting for of 64% of the total growth in the net position of \$562,130 for the Town of Montreat. This compares to an increase of \$407,623 in the previous fiscal year, a difference of \$48,257.

Key elements of this increase are as follows:

- Program revenues increased by about \$168,950 over the prior year. In addition to the increase in operating and capital grant revenues, there was an increase in permits and fees.
- Government activity revenues increased by \$190,017, or 11.9%, from the previous year. This was due to an increase in the amount of capital grant revenues received.
- Governmental activity expenses increased by \$238,274, or 20.1%, compared to the previous fiscal year. This was due mainly to capital outlay in transportation.

Business-Type Activities. Business-type activities in the Water Fund increased the Town of Montreat's net position by \$202,764. This compares to a decrease in net position of \$61,908 in the previous fiscal year, for an overall change of \$264,672.

Key elements of this increase are as follows:

- Business-type revenues increased by \$133,642 from the previous year. As the Town's water rates did not change, this increase was driven by a combination of an increase in the amount of water used and billed and an influx of special assessment revenue.
- Business-type activity expenses decreased by \$131,030 over the prior year. This was due entirely to a decrease 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 \$1,309,516; available fund balance was \$1,712,309, while total fund balance reached \$1,831,434. 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 106.2% of total General Fund expenditures, while total fund balance represents 113.6% 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.

The Town ended the fiscal year with actual revenues in most categories having exceeded the final budgeted amounts. However, due to a delay in a major capital project (Texas Road Bridge), we did not receive the grant funds that had been budgeted for that purpose, resulting in our total actual revenues being \$486, 143 less than budgeted. Our actual general fund expenditures in all departments

(appropriation is by departmental level) were below budget by a total of \$1,104,661. Again, the delay in the Texas Road Bridge project was a significant contributor to this result. Overall, the Town realized a budget surplus for the year of \$374,418 over the legally required balanced budget.

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 \$754,721. The total change in net position for the Water Fund was \$202,764.

The Town's Proprietary (Water) Fund brought in actual revenues in excess of budget of \$265,109. This was due to special tax revenue projects (Upper Kentucky Phase I area) being completed after the adoption of the FYE 2016 budget, and the first round of the ten-year payment schedule being received from the relevant taxpayers. We also expended \$97,779 less than budgeted due to some projects being deferred. Overall, the Water Fund ended with a surplus over the original balanced budget of \$363,087.

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, 2016 totals \$5,644,048 (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

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land	\$ 1,355,224	\$ 1,355,224	\$ 367,968	\$ 367,968	\$ 1,723,192	\$ 1,723,192
Construction in progress	490,430	422,112	-	-	490,430	422,112
Buildings	1,873	1,921	81,732	85,285	83,605	87,206
Building improvements	21,489	25,461	537,537	557,446	559,026	582,907
Equipment	708,519	712,271	29,899	44,849	738,418	757,120
Infrastructure	1,219,578	1,114,893	723,693	777,069	1,943,271	1,891,962
Vehicles	103,254	89,271	-	-	103,254	89,271
IT equipment	2,852	10,419	-	-	2,852	10,419
Total	<u>\$ 3,903,219</u>	<u>\$ 3,731,572</u>	<u>\$ 1,740,829</u>	<u>\$ 1,832,617</u>	<u>\$ 5,644,048</u>	<u>\$ 5,564,189</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, 2016, the Town of Montreat had long-term debt obligations of \$915,734.

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Bonds payable	\$ -	\$ -	\$ 146,000	\$ 174,000	\$ 146,000	\$ 174,000
Installment debt	195,446	-	574,288	477,753	769,734	477,753
Total	<u>\$ 195,446</u>	<u>\$ -</u>	<u>\$ 720,288</u>	<u>\$ 651,753</u>	<u>\$ 915,734</u>	<u>\$ 651,753</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 \$18,574,271.

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 last 10 year census period, from 630 in 2000 to 724 in 2010. The most recent estimate for 2015 is 792. 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 increased from 10,690 in 2015 to 12,200 in 2016. 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 \$6.7 million in 2015 to \$7.0 million in 2016. The total headcount enrollment of full and part-time students on the Montreat College main campus increased from 461 in fall 2015 to 477 in fall 2016. The number of employees at the Montreat campuses decreased from 127 in fall 2015 to 125 in 2016. The operating budget for Montreat College increased from \$17.4 million in 2015 to \$20.2 million in 2016. (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 \$234,621,463. (Source: Buncombe County)
- A total of 97 building permits were issued by the Town. This is a decrease of 9 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 38,507,260 gallons through fiscal year ended 2015, an increase of 42%. (Adjustments for several major leaks reduced the amount of billable water.) (Source: Town of Montreat)

Budget Highlights for the Fiscal Year Ending June 30, 2017

Governmental Activities:

- Budgeted General Fund revenues for the fiscal year ending June 30, 2017 have been estimated at \$1,756,200. This represents a decrease of \$28,775, or 1.6%, from the final actual revenues of \$1,784,975 for the fiscal year ended June 30, 2015. This increase is mostly due to minor changes in the expected amounts to be received in several revenue accounts.
- Budgeted expenditures in the General Fund for the fiscal year ending June 30, 2017 equal \$1,879,000. This represents an increase of \$266,568, or 16.5%, from the final actual expenditures of \$1,612,432 for fiscal year ended June 30, 2015. Most of the increase is due to anticipated expenditures funded by federal grants.
- Other financing sources (appropriated fund balance) for the General Fund for fiscal year ending 2017 are budgeted at \$122,800. This compares with actual other financing sources (debt issued) for the fiscal year ended 2016 of 201,875, which is a decrease of \$79,075. Note that the Town routinely budgets an appropriation of fund balance in excess of what it ultimately uses. In the fiscal year ended 2016, an appropriation of fund balance of \$445,975 was left entirely unused.

Business–Type Activities:

- Budgeted Water Fund revenues for the fiscal year ending June 30, 2017 have been estimated at \$336,500. This represents a decrease of \$255,609, or 43%, from the final actual revenues of \$592,109 for the fiscal year ended June 30, 2016. This is due to the unpredictable variability in the repayment of special assessment taxes.
- Budgeted Water Fund expenditures and debt service for the fiscal year ending June 30, 2017 equal \$336,500. This is a decrease of \$26,587, or 7%, from the final actual expenditures of \$363,087 for fiscal year ended June 30, 2016. This is due to the completion of some remaining 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 Al Richardson, Town Administrator, P.O. Box 423, Montreat, North Carolina 28757, or call (828) 669-8002.

BASIC FINANCIAL STATEMENTS

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TOWN OF MONTREAT, NORTH CAROLINA

STATEMENT OF NET POSITION
JUNE 30, 2016

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets:			
Current assets:			
Cash and cash equivalents	\$ 1,556,907	\$ 663,981	\$ 2,220,888
Taxes receivable, net	9	-	9
Accounts receivable, net	103,731	95,609	199,340
Inventories	-	19,410	19,410
Prepaid items	15,394	860	16,254
Restricted cash and cash equivalents	190,669	2,576	193,245
Total current assets	1,866,710	782,436	2,649,146
Non-current assets:			
Capital assets:			
Land and construction in progress	1,845,654	367,968	2,213,622
Other capital assets, net of depreciation	2,057,565	1,372,861	3,430,426
Total non-current assets	3,903,219	1,740,829	5,644,048
Total assets	5,769,929	2,523,265	8,293,194
Deferred Outflows of Resources:			
Pension deferrals	10,728	-	10,728
Contributions to pension plan in current fiscal year	43,897	-	43,897
Total deferred outflows of resources	54,625	-	54,625
Liabilities:			
Current liabilities:			
Accounts payable	27,304	25,139	52,443
Liabilities payable from restricted assets	-	2,576	2,576
Current portion of long-term liabilities	29,320	83,593	112,913
Current portion of compensated absences	10,381	-	10,381
Total current liabilities	67,005	111,308	178,313
Long-term liabilities:			
Unfunded LEO	144,172	-	144,172
Net pension liability	47,886	-	47,886
Due in more than one year	259,554	636,695	896,249
Total long-term liabilities	451,612	636,695	1,088,307
Total liabilities	518,617	748,003	1,266,620
Deferred Inflows of Resources:			
Pension deferrals	28,779	-	28,779
Prepaid taxes	7,963	-	7,963
Total deferred inflows of resources	36,742	-	36,742
Net Position:			
Net investment in capital assets	3,707,773	1,020,541	4,728,314
Restricted for:			
Stabilization for State statute	103,731	-	103,731
Streets	190,669	-	190,669
Unrestricted	1,267,022	754,721	2,021,743
Total net position	\$ 5,269,195	\$ 1,775,262	\$ 7,044,457

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, 2016

		Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Expenses				
Functions/Programs:				
Primary Government:				
Governmental Activities:				
General government	\$ 479,543	\$ 86,153	\$ 114,328	\$ 150,646
Public safety	450,926	3,371	-	-
Transportation	362,962	-	40,141	-
Environmental protection	12,343	14,472	10,516	4,700
Cultural and recreation	116,083	-	-	-
Interest on long-term debt	600	-	-	-
Total governmental activities	1,422,457	103,996	164,985	155,346
Business-Type Activities:				
Water	251,345	450,882	-	-
Total business-type activities	251,345	450,882	-	-
Total primary government	\$ 1,673,802	\$ 554,878	\$ 164,985	\$ 155,346

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, 2016

	Net (Expense) Revenue and Changes in Net Position		
	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Functions/Programs:			
Primary Government:			
Governmental Activities:			
General government	\$ (128,416)	\$ -	\$ (128,416)
Public safety	(447,555)	-	(447,555)
Transportation	(322,821)	-	(322,821)
Environmental protection	17,345	-	17,345
Cultural and recreation	(116,083)	-	(116,083)
Interest on long-term debt	(600)	-	(600)
Total governmental activities	<u>(998,130)</u>	<u>-</u>	<u>(998,130)</u>
Business-Type Activities:			
Water	<u>-</u>	<u>199,537</u>	<u>199,537</u>
Total business-type activities	<u>-</u>	<u>199,537</u>	<u>199,537</u>
Total primary government	<u>(998,130)</u>	<u>199,537</u>	<u>(798,593)</u>
General Revenues:			
Taxes:			
Property taxes, levied for general purposes	962,972	-	962,972
Local option sales tax	390,699	-	390,699
Investment earnings, unrestricted	1,709	152	1,861
Miscellaneous	2,116	3,075	5,191
Total general revenues	<u>1,357,496</u>	<u>3,227</u>	<u>1,360,723</u>
Change in net position	359,366	202,764	562,130
Net Position:			
Beginning of year - July 1	<u>4,909,829</u>	<u>1,572,498</u>	<u>6,482,327</u>
End of year - June 30	<u>\$ 5,269,195</u>	<u>\$ 1,775,262</u>	<u>\$ 7,044,457</u>

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

TOWN OF MONTREAT, NORTH CAROLINA

BALANCE SHEET - GOVERNMENTAL FUND

JUNE 30, 2016

	General Fund
Assets:	
Cash and cash equivalents	\$ 1,556,907
Taxes receivable, net	9
Accounts receivable, net	103,731
Prepaid items	15,394
Restricted cash	<u>190,669</u>
Total assets	<u>\$ 1,866,710</u>
Liabilities, Deferred Inflows of Resources, and Fund Balance:	
Liabilities:	
Accounts payable	<u>\$ 27,304</u>
Deferred Inflows of Resources:	
Property tax receivable	9
Prepaid taxes	<u>7,963</u>
Total deferred inflows of resources	<u>7,972</u>
Fund Balance:	
Non-spendable:	
Prepays	15,394
Restricted:	
Stabilization by State statute	103,731
Streets	190,669
Committed:	
Open space	34,932
Assigned:	
Public safety	54,392
Subsequent year's expenditures	122,800
Unassigned	<u>1,309,516</u>
Total fund balance	<u>1,831,434</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 1,866,710</u>

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

TOWN OF MONTREAT, NORTH CAROLINA

BALANCE SHEET - GOVERNMENTAL FUND

JUNE 30, 2016

	<u>General Fund</u>
Amounts reported for governmental activities in the Statement of Net Position (Exhibit A) are different because:	
Total fund balance	\$ 1,831,434
Capital assets, net of accumulated depreciation, used in governmental activities are not current financial resources and, therefore, are not reported in the funds.	3,903,219
Net pension liability	(47,886)
Contributions to the pension plan in the current fiscal year are deferred outflows of resources on the Statement of Net Position.	43,897
Pension related deferrals	10,728
Long-term liabilities and compensated absences are not due and payable in the current period and, therefore, are not reported in the funds.	(299,255)
Net pension obligations are not due and payable in the current period and, therefore, are not reported in the funds.	(144,172)
Pension related deferrals	(28,779)
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>9</u>
Net position of governmental activities	<u><u>\$ 5,269,195</u></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, 2016

	General Fund
Revenues:	
Ad valorem taxes	\$ 966,124
Other taxes and licenses	390,699
Unrestricted intergovernmental revenues	98,336
Restricted intergovernmental revenues	205,259
Permits and fees	86,153
Sales and services	29,879
Investment earnings	1,709
Miscellaneous	6,816
Total revenues	<u>1,784,975</u>
Expenditures:	
Current:	
General government	479,832
Public safety	434,507
Transportation	576,811
Environmental protection	103,308
Cultural and recreation	10,945
Debt service:	
Principal	6,429
Interest	600
Total expenditures	<u>1,612,432</u>
Revenues over (under) expenditures	<u>172,543</u>
Other Financing Sources (Uses):	
Debt issued	<u>201,875</u>
Total other financing sources (uses)	<u>201,875</u>
Net change in fund balance	374,418
Fund Balance:	
Beginning of year - July 1	<u>1,457,016</u>
End of year - June 30	<u><u>\$ 1,831,434</u></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, 2016

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)	\$	374,418
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Exhibit D reports revenues using a current financial resources basis, which generally means revenue is recognized when collected, or is expected to be collected, within 90 days of year-end. Exhibit B reports revenues when the earning process is complete, regardless of when it is collected. This measurement difference causes timing of revenue recognition differences for the following revenue types:

Property taxes		(3,152)
----------------	--	---------

Change in deferred outflow - pension		(1,490)
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Change in deferred inflows - pension		110,661
--------------------------------------	--	---------

Change in net pension liability		(102,968)
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Change in pension deferral		10,728
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Expenses related to compensated absences that do not require current financial resources are not reported as expenditures in the governmental funds statement.		1,142
--	--	-------

Capital outlays are reported as expenditures in the governmental funds statement. However, in the Statement of Activities, capital outlay is not an expense, rather it is an increase in capital assets.		286,747
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Depreciation expense allocates the costs of capital assets over their useful lives. It is not reported as an expenditure in the governmental funds statement.		(115,100)
---	--	-----------

Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities.		43,897
---	--	--------

Expenses related to pensions that do not require current financial resources are not reported as expenditures in the governmental funds statement.		(43,897)
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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, 2016

Principal repayments are reported as expenditures in the governmental funds statement. However, in the Statement of Activities, these transactions are not an expense, rather they are a decrease in liabilities.

6,429

Proceeds from issuance of debt are reported as revenues in the governmental funds statement. However, in the Statement of Activities, it is not a revenue, rather it is an increase in liabilities.

(201,875)

Expenses that do not require current financial resources are not reported in expenditures in the governmental funds statement.

LEO expense

(6,174)

Change in net position of governmental activities per Exhibit B

\$ 359,366

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, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Over/Under</u>
Revenues:				
Ad valorem taxes	\$ 963,900	\$ 963,900	\$ 966,124	\$ 2,224
Other taxes and licenses	346,000	346,000	390,699	44,699
Unrestricted intergovernmental revenues	60,000	60,000	98,336	38,336
Restricted intergovernmental revenues	56,300	66,300	205,259	138,959
Permits and fees	95,000	95,000	86,153	(8,847)
Sales and services	14,700	24,718	29,879	5,161
Investment earnings	2,200	2,200	1,709	(491)
Miscellaneous	703,000	713,000	6,816	(706,184)
Total revenues	<u>2,241,100</u>	<u>2,271,118</u>	<u>1,784,975</u>	<u>(486,143)</u>
Expenditures:				
General government	527,450	693,850	479,832	214,018
Public safety	424,500	447,343	434,507	12,836
Transportation	1,429,600	1,424,200	576,811	847,389
Environmental protection	113,600	116,100	103,308	12,792
Cultural and recreation	8,500	28,500	10,945	17,555
Debt service:				
Principal	6,500	6,500	6,429	71
Interest	600	600	600	-
Total debt service	<u>7,100</u>	<u>7,100</u>	<u>7,029</u>	<u>71</u>
Total expenditures	<u>2,510,750</u>	<u>2,717,093</u>	<u>1,612,432</u>	<u>1,104,661</u>
Revenues over (under) expenditures	<u>(269,650)</u>	<u>(445,975)</u>	<u>172,543</u>	<u>618,518</u>
Other Financing Sources (Uses):				
Fund balance appropriated	269,650	445,975	-	(445,975)
Debt issued	-	-	201,875	201,875
Total other financing sources (uses)	<u>269,650</u>	<u>445,975</u>	<u>201,875</u>	<u>(244,100)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	374,418	<u>\$ 374,418</u>
Fund Balance:				
Beginning of year - July 1			<u>1,457,016</u>	
End of year - June 30			<u>\$ 1,831,434</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, 2016

	<u>Water Fund</u>
Assets:	
Current assets:	
Cash and cash equivalents	\$ 663,981
Accounts receivable, net	95,609
Inventory	19,410
Prepays	860
Restricted cash and cash equivalents	<u>2,576</u>
Total current assets	<u>782,436</u>
Non-current assets:	
Land and construction in process	367,968
Other capital assets, net	<u>1,372,861</u>
Total capital assets	<u>1,740,829</u>
Total assets	<u>2,523,265</u>
Liabilities:	
Current liabilities:	
Accounts payable and accrued liabilities	25,139
Bonds payable, current	28,000
ARRA debt, current	26,523
Note payable, current	29,070
Liabilities payable from restricted assets:	
Customer deposits	<u>2,576</u>
Total current liabilities	<u>111,308</u>
Non-current liabilities:	
Bonds payable	118,000
ARRA debt	378,890
Note payable	<u>139,805</u>
Total non-current liabilities	<u>636,695</u>
Total liabilities	<u>748,003</u>
Net Position:	
Net investment in capital assets	1,020,541
Unrestricted	<u>754,721</u>
Total net position	<u>\$ 1,775,262</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, 2016

	<u>Water Fund</u>
Operating Revenues:	
Charges for services	\$ 301,982
Other	<u>148,900</u>
Total operating revenues	<u>450,882</u>
Operating Expenses:	
Water operations	145,021
Depreciation	<u>91,788</u>
Total operating expenses	<u>236,809</u>
Operating income (loss)	<u>214,073</u>
Non-Operating Revenues (Expenses):	
Investment earnings	152
Insurance reimbursement	3,075
Interest expense	<u>(14,536)</u>
Total non-operating revenues (expenses)	<u>(11,309)</u>
Change in net position	202,764
Net Position:	
Beginning of year - July 1	<u>1,572,498</u>
End of year - June 30	<u>\$ 1,775,262</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, 2016

	<u>Water Fund</u>
Cash Flows from Operating Activities:	
Cash received from customers	\$ 431,243
Cash paid for goods and services	(126,050)
Cash paid to employees for services	(22,438)
Net cash provided (used) by operating activities	<u>282,755</u>
Cash Flows from Capital and Related Financing Activities:	
Proceeds from debt issuance	138,000
Principal payment on long-term debt	(69,465)
Interest payment on long-term debt	(14,649)
Net cash provided (used) by capital and related financing activities	<u>53,886</u>
Cash Flows from Investing Activities:	
Interest received	<u>152</u>
Net increase (decrease) in cash, cash equivalents, and investments	336,793
Cash and Cash Equivalents:	
Beginning of year - July 1	<u>329,764</u>
End of year - June 30	<u>\$ 666,557</u>
Reconciliation of Operating Income (Loss) to	
Net Cash Provided (Used) By Operating Activities:	
Operating income (loss)	\$ 214,073
Depreciation	91,788
Insurance reimbursement	3,075
Change in assets and liabilities:	
Accounts receivables	(18,555)
Inventories	(1,436)
Accounts payable and accrued liabilities	(5,106)
Customer deposits	<u>(1,084)</u>
Net cash provided (used) by operating activities	<u>\$ 282,755</u>

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

TOWN OF MONTREAT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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 nonmajor funds.

TOWN OF MONTREAT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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.

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

TOWN OF MONTREAT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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, 2016

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, an SEC-registered (2a-7) external investment pool, is measured at amortized cost, which is the NCCMT's share price. The NCCMT-Term Portfolio's securities are valued at fair value.

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, 2016

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, 2016 consists of the following:

Governmental Activities:

General Fund:

Powell Bill	\$ 190,669
Total governmental activities	<u>190,669</u>

Business-Type Activities:

Water Fund:

Customer deposits	<u>2,576</u>
Total business-type activities	<u>2,576</u>

Total restricted cash	<u><u>\$ 193,245</u></u>
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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 1st (lien date); however, interest does not accrue until the following January 6th. These taxes are based on the assessed values as of January 1, 2015. As allowed by State law, the Town has established a schedule of discounts that apply to taxes that are paid prior to the due date. In the Town's General Fund, ad valorem tax revenues are reported net of such discounts.

5. Allowances for Doubtful Accounts

All receivables that historically experience uncollectible accounts are shown net of an allowance for doubtful accounts. 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, 2016

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 received prior to June 15, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 15, 2015 are recorded at acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical cost. General infrastructure assets acquired prior to July 1, 2003, consist of 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 Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Town has two items that meet this criterion; pension related deferrals and contributions made to the pension plan in the 2016 fiscal year. In addition to liabilities, the Statement of Net Position

TOWN OF MONTREAT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized 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, 2016

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.

TOWN OF MONTREAT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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

Committed for Open Space:

Donor contribution	\$ 14,868
Town contribution	<u>20,064</u>
Total	<u>\$ 34,932</u>

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.

Assigned Fund Balance:

Public safety	\$ 54,392
Subsequent year's expenditures	<u>122,800</u>
Total	<u>\$ 177,192</u>

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. Any portion of the general fund balance in excess of 10% of budgeted expenditures may be appropriated for one-time expenditures and may not be used for any purpose that would obligate the Town in a future budget.

TOWN OF MONTREAT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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	\$ 1,831,434
Less:	
Stabilization by State statute	(103,731)
Non-spendable	<u>(15,394)</u>
Fund balance available for appropriation	<u>\$ 1,712,309</u>

12. Pensions

For purposes of measuring the net pension liability, 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 (LERS) and additions to/deductions from LERS' fiduciary net position have been determined on the same basis as they are reported by LERS. 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 LERS. 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

TOWN OF MONTREAT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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, 2016, the Town's deposits had a carrying amount of \$2,400,720 and a bank balance of \$2,623,538. Of the bank balance, \$500,000 was covered by Federal depository insurance and the remainder was covered by collateral held under the Pooling Method. At June 30, 2016, the Town's petty cash fund totaled \$250.

2. Investments

At June 30, 2016, the Town of Montreat had \$13,163 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, 2016, the Town's investment balances were as follows:

<u>Investment Type</u>	<u>Amortized</u>	<u>Maturity</u>	<u>Rating</u>
	<u>Cost</u>		
NC Capital Management Trust - Cash Portfolio	<u>\$ 13,163</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, 2016.

3. Receivables – Allowance for Doubtful Accounts

The amounts presented in the Balance Sheet and the Statement of Net Position for the year ended June 30, 2016 are net of the following allowances for doubtful accounts:

Enterprise Fund:	
Water Fund - accounts receivable	<u>\$ 3,497</u>
Total	<u>\$ 3,497</u>

The Town of Montreat has no allowance for doubtful accounts for its governmental fund.

TOWN OF MONTREAT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

4. Capital Assets

Primary Government

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

	<u>July 1, 2015</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2016</u>
Governmental Activities:				
Capital Assets Not Being Depreciated:				
Land	\$ 1,355,224	\$ -	\$ -	\$ 1,355,224
Construction in progress	<u>422,112</u>	<u>242,030</u>	<u>(173,712)</u>	<u>490,430</u>
Total capital assets not being depreciated	<u>1,777,336</u>	<u>242,030</u>	<u>(173,712)</u>	<u>1,845,654</u>
Capital Assets Being Depreciated:				
Buildings	1,921	-	-	1,921
Building improvements	59,507	-	-	59,507
Infrastructure	1,390,377	173,712	-	1,564,089
Equipment	777,857	-	-	777,857
IT equipment	81,402	762	-	82,164
Vehicles	<u>498,267</u>	<u>43,955</u>	<u>-</u>	<u>542,222</u>
Total capital assets being depreciated	<u>2,809,331</u>	<u>218,429</u>	<u>-</u>	<u>3,027,760</u>
Less Accumulated Depreciation:				
Buildings	-	48	-	48
Building improvements	34,046	3,972	-	38,018
Infrastructure	275,484	69,027	-	344,511
Equipment	65,586	3,752	-	69,338
IT equipment	70,983	8,329	-	79,312
Vehicles	<u>408,996</u>	<u>29,972</u>	<u>-</u>	<u>438,968</u>
Total accumulated depreciation	<u>855,095</u>	<u>\$ 115,100</u>	<u>\$ -</u>	<u>970,195</u>
Total capital assets being depreciated	<u>1,954,236</u>			<u>2,057,565</u>
Governmental activity capital assets, net	<u>\$ 3,731,572</u>			<u>\$ 3,903,219</u>

TOWN OF MONTREAT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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

General government	\$ 10,332
Public safety	21,139
Transportation	69,456
Environmental protection	1,398
Cultural and recreation	12,775
Total depreciation expense	<u>\$ 115,100</u>

Proprietary Capital Assets

The capital asset activity of the Proprietary Fund for the year ended June 30, 2016 was as follows:

	<u>July 1, 2015</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2016</u>
Business-Type Activities:				
Capital Assets Not Being Depreciated:				
Land	\$ 367,968	\$ -	\$ -	\$ 367,968
Total capital assets not being depreciated	<u>367,968</u>	<u>-</u>	<u>-</u>	<u>367,968</u>
Capital Assets Being Depreciated:				
Buildings	142,110	-	-	142,110
Improvements	601,155	-	-	601,155
Infrastructure	1,981,518	-	-	1,981,518
Equipment	98,938	-	-	98,938
IT equipment	23,776	-	-	23,776
Vehicles	67,675	-	-	67,675
Total capital assets being depreciated	<u>2,915,172</u>	<u>-</u>	<u>-</u>	<u>2,915,172</u>
Less Accumulated Depreciation:				
Buildings	56,825	3,553	-	60,378
Improvements	43,709	19,909	-	63,618
Infrastructure	1,204,449	53,376	-	1,257,825
Equipment	54,089	14,950	-	69,039
IT equipment	23,776	-	-	23,776
Vehicles	67,675	-	-	67,675
Total accumulated depreciation	<u>1,450,523</u>	<u>\$ 91,788</u>	<u>\$ -</u>	<u>1,542,311</u>
Total capital assets being depreciated, net	<u>1,464,649</u>			<u>1,372,861</u>
Business-type activities capital assets, net	<u>\$ 1,832,617</u>			<u>\$ 1,740,829</u>

TOWN OF MONTREAT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

B. Liabilities

Payables

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

	<u>Salaries and</u> <u>Benefits</u>	<u>Vendors</u>	<u>Total</u>
Governmental Activities:			
General	\$ 12,545	\$ 14,759	\$ 27,304
Total	<u>\$ 12,545</u>	<u>\$ 14,759</u>	<u>\$ 27,304</u>
Business-Type Activities:			
Water	\$ -	\$ 25,139	\$ 25,139
Total	<u>\$ -</u>	<u>\$ 25,139</u>	<u>\$ 25,139</u>

1. Pension Plan and Postemployment Obligations

a. Local Government Employees' Retirement System

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

Benefits Provided. LGERS provides retirement and survivor benefits. Retirement benefits are determined as 1.85% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. Plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. Plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service (age 55 for firefighters).

TOWN OF MONTREAT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

Survivor benefits are available to eligible beneficiaries of members who die while in active service or within 180 days of their last day of service and who have either completed 20 years of creditable service regardless of age (15 years of creditable service for firefighters and rescue squad members who are killed in the line of duty) or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

LGERS plan members who are LEOs are eligible to retire with full retirement benefits at age 55 with five years of creditable service as an officer, or at any age with 30 years of creditable service. LEO plan members are eligible to retire with partial retirement benefits at age 50 with 15 years of creditable service as an officer. Survivor benefits are available to eligible beneficiaries of LEO members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed 15 years of service as a LEO and have reached age 50, or have completed five years of creditable service as a LEO and have reached age 55, or have completed 15 years of creditable service as a LEO if killed in the line of duty. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions.

Contributions. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. Town of 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, 2016, was 7.15% of compensation for law enforcement officers and 6.77% 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 \$43,897 for the year ended June 30, 2016.

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

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

At June 30, 2016, the Town reported a liability of \$47,886 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014. The total pension liability was then rolled forward to the measurement date of June 30, 2015 utilizing update procedures incorporating the actuarial

TOWN OF MONTREAT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

assumptions. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2015, the Town's proportion was 0.01067%, which was an increase of 0.00133% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the Town recognized pension expense of \$26,967. At June 30, 2016, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 11,256
Net difference between projected and actual earnings on pension plan investments	-	13,633
Changes in proportion and differences between Town contributions and proportionate share of contributions	10,728	3,890
Town contributions subsequent to the measurement date	43,897	-
Total	<u>\$ 54,625</u>	<u>\$ 28,779</u>

\$43,897 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred inflows and outflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30	Amount
2017	\$ (14,378)
2018	(14,378)
2019	(14,348)
2020	25,053
Total	<u>\$ (18,051)</u>

TOWN OF MONTREAT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

Actuarial Assumptions. The total pension liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

The actuarial assumptions used in the December 31, 2014 valuation were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

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

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2015 are summarized in the following table:

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

TOWN OF MONTREAT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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

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

Sensitivity of the Town's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following presents the Town's proportionate share of the net pension liability calculated using the discount rate of 7.25%, 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%) or one percentage point higher (8.25%) than the current rate:

	1% Decrease (6.25%)	Discount Rate (7.25%)	1% Increase (8.25%)
Town's proportionate share of the net pension liability (asset)	\$ 333,916	\$ 47,886	\$ (193,088)

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% 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, 2016

All full-time law enforcement officers of the Town are covered by the Separation Allowance. At December 31, 2015, the Separation Allowance's membership consisted of:

Retirees receiving benefits	-
Terminated plan members entitled to, but not yet receiving, benefits	-
Active plan members	5
Total	<u>5</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, non-employer 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, 2014 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, 2016

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	\$ 11,401
Interest on net pension obligation	6,900
Adjustment to annual required contribution	<u>(12,127)</u>
Annual pension cost	6,174
Contributions made	<u>-</u>
Increase in net pension obligation	6,174
Net pension obligation beginning of year	<u>137,998</u>
Net pension obligation end of year	<u><u>\$ 144,172</u></u>

Three-Year Trend Information

Year Ended <u>June 30</u>	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2014	\$ 4,915	0.00%	\$ 130,979
2015	7,019	0.00%	137,998
2016	6,174	0.00%	144,172

4. *Funding Status and Funding Progress.*

As of December 31, 2015, the most recent actuarial valuation date, the Plan was not funded. The actuarial accrued liability for benefits and the unfunded actuarial accrued liability (UAAL) was \$70,293. The covered payroll (annual payroll of active employees covered by the plan) was \$227,806, and the ratio of the UAAL to the covered payroll was 30.86%.

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

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.

TOWN OF MONTREAT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

The Supplemental Retirement Income Plan for Law Enforcement Officers is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes the pension trust fund financial statements for the Internal Revenue Code Section 401(k) plan that includes the Supplemental Retirement Income Plan for Law Enforcement Officers. That report may be obtained by writing to the office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Funding Policy. Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the Plan. Contributions for the year ended June 30, 2016 were \$29,903, which consisted of \$16,269 from the Town and \$13,634 from 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 5% 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, 2016 were \$54,081, which consisted of \$28,711 from the Town and \$25,370 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.

TOWN OF MONTREAT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

3. Deferred Outflows and Inflows of Resources

The Town has two deferred outflow of resources. Deferred outflows of resources are comprised of the following:

<u>Source</u>	<u>Amount</u>
Contributions to pension plan in current fiscal year	\$ 43,897
Changes in proportion and differences between Town contributions and proportionate share of contributions	10,728
Total	<u>\$ 54,625</u>

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

<u>Source</u>	<u>Amount</u>
Property taxes receivable	\$ 9
Prepaid taxes not yet earned	7,963
Differences between expected and actual experience	11,256
Net difference between projected and actual earnings on pension plan investments	13,633
Changes in proportion and differences between Town contributions and proportionate share of contributions	3,890
	<u>\$ 36,751</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.

TOWN OF MONTREAT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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, 2016, 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.

6. Long-Term Obligations

a. Installment Purchase

The Town's installment purchases at June 30, 2016 are comprised of the following individual issues:

In November 2015, the Town entered into a note with a private banking institution for \$162,000 to finance the construction of the Upper Kentucky Road Water Extension Project. The note is payable in 10 annual installments beginning in November 2016 with an interest rate of 2.12%. \$ 162,000

In December 2015, the Town entered into a note with a private banking institution for \$39,875 to finance the purchase of a vehicle. The note is payable in 36 monthly installments beginning in January 2016 with an interest rate of 2.731% 33,446

Total installment debt - General Fund \$ 195,446

Annual debt service payments of the installment purchases as of June 30, 2016, including \$20,091 of interest, are as follows:

Year Ending June 30	Governmental Activities	
	Principal	Interest
2017	\$ 29,320	\$ 4,173
2018	29,677	3,472
2019	23,049	2,829
2020	16,200	2,404
2021	16,200	2,061
2022-2026	81,000	5,152
Total	<u>\$ 195,446</u>	<u>\$ 20,091</u>

TOWN OF MONTREAT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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%. \$ 30,875

In November 2015, the Town entered into a note with a private banking institution for \$138,000 to finance the construction of the Upper Kentucky Road water extension project. The note is payable in 10 annual installments beginning in November 2016 with an interest rate of 2.12%. 138,000

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. 405,413

Total installment debt - Water Fund \$ 574,288

Annual debt service payments of the installment purchases as of June 30, 2016, including \$56,705 of interest, are as follows:

Year Ending June 30	Business-Type Activities	
	Principal	Interest
2017	\$ 55,593	\$ 8,256
2018	55,928	7,372
2019	40,323	6,413
2020	40,323	5,830
2021	40,323	5,246
2022-2026	201,616	17,478
2027-2031	127,083	5,819
2032	13,099	291
Total	<u>\$ 574,288</u>	<u>\$ 56,705</u>

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.

TOWN OF MONTREAT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

The Town's bond payable at June 30, 2016 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%. \$ 146,000

Total general obligation debt - Water Fund \$ 146,000

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

<u>Year Ending</u> <u>June 30</u>	<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2017	\$ 28,000	\$ 7,300
2018	28,000	5,900
2019	28,000	4,500
2020	28,000	3,100
2021	28,000	1,700
2022	6,000	300
Total	<u>\$ 146,000</u>	<u>\$ 22,800</u>

c. Changes in Long-Term Liabilities

	<u>July 1, 2015</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2016</u>	<u>Current Portion</u>
Governmental Activities:					
Installment purchase	\$ -	\$ 201,875	\$ 6,429	\$ 195,446	\$ 29,320
Unfunded pension obligation	137,998	6,174	-	144,172	-
Net pension liability (LGERS)	-	47,886	-	47,886	-
Compensated absences	104,951	71,425	72,567	103,809	10,381
Governmental activity long-term liabilities	<u>\$ 242,949</u>	<u>\$ 327,360</u>	<u>\$ 78,996</u>	<u>\$ 491,313</u>	<u>\$ 39,701</u>
Business-Type Activities:					
Bonds payable	\$ 174,000	\$ -	\$ 28,000	\$ 146,000	\$ 28,000
Installment purchase	477,753	138,000	41,465	574,288	55,593
Business-type activity long-term liabilities	<u>\$ 651,753</u>	<u>\$ 138,000</u>	<u>\$ 69,465</u>	<u>\$ 720,288</u>	<u>\$ 83,593</u>

At June 30, 2016, the Town had a legal debt margin of \$18,574,271.

TOWN OF MONTREAT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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.

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, 2016**

Schedule of Funding Progress

Schedule of Funding Progress						
	Actuarial Accrued					
	Actuarial	Liability (AAL) -				UAAL as a
Actuarial	Value of	Projected Unit	Unfunded	Funded	Covered	% of Covered
Valuation	Assets	Credit	AAL (UAAL)	Ratio	Payroll	Payroll
Date	(A)	(B)	(B-A)	(A/B)	(C)	((B-A)/C)
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%
12/31/2015	-	70,293	70,293	0.00%	227,806	30.86%

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	12/31/2015
Actuarial cost method	Entry Age Normal
Amortization method	Level dollar, closed
Remaining amortization period	15 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return*	3.57%
Projected salary increases*	Ranges from 3.50% to 7.35%
*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 THREE FISCAL YEARS *****LOCAL GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Town's proportion of the net pension liability (asset) (%)	0.01067%	0.00934%	0.00133%
Town's proportion of the net pension liability (asset) (\$)	\$ 47,886	\$ (55,082)	\$ 124,155
Town's covered-employee payroll	\$ 631,711	\$ 587,628	\$ 614,739
Town's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	7.58%	(9.37%)	20.20%
Plan fiduciary net position as a percentage of the total pension liability**	98.09%	102.64%	94.35%

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

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

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 43,897	\$ 45,387	\$ 41,947
Contributions in relation to the contractually required contribution	<u>43,897</u>	<u>45,387</u>	<u>41,947</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 623,948	\$ 631,711	\$ 587,628
Contributions as a percentage of covered-employee payroll	7.04%	7.18%	7.14%

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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, 2016**

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues:			
Ad Valorem Taxes:			
Taxes		\$ 966,124	
Total	\$ 963,900	966,124	\$ 2,224
Other Taxes and Licenses:			
Local option sales taxes		388,923	
Penalties and interest		1,776	
Total	346,000	390,699	44,699
Unrestricted Intergovernmental Revenues:			
Utility franchise tax		95,145	
Beer and wine tax		3,191	
Total	60,000	98,336	38,336
Restricted Intergovernmental Revenues:			
Solid waste disposal tax		472	
Powell Bill allocation		40,141	
Local grant		14,000	
State grant		150,646	
Total	66,300	205,259	138,959
Permits and Fees:			
Community service fees		49,608	
Building permits		36,545	
Total	95,000	86,153	(8,847)
Sales and Services:			
Public safety charges		3,371	
Sanitation fees		10,516	
Other		15,992	
Total	24,718	29,879	5,161
Other:			
Investment earnings		1,709	
Miscellaneous		2,116	
Contributions		4,700	
Total	715,200	8,525	(706,675)
Total revenues	2,271,118	1,784,975	(486,143)

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, 2016**

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Expenditures:			
General Government:			
Governing Body:			
Salaries and employee benefits		9,800	
Operating expenses		164,947	
Total	<u>274,700</u>	<u>174,747</u>	<u>99,953</u>
Administration:			
Salaries and employee benefits		165,010	
Operating expenses		90,588	
Total	<u>279,200</u>	<u>255,598</u>	<u>23,602</u>
Public Buildings:			
Operating expenses		49,487	
Total	<u>139,950</u>	<u>49,487</u>	<u>90,463</u>
Total general government	<u>693,850</u>	<u>479,832</u>	<u>214,018</u>
Public Safety:			
Police Department:			
Salaries and employee benefits		234,723	
Operating expenses		115,378	
Capital outlay		4,841	
Total	<u>364,943</u>	<u>354,942</u>	<u>10,001</u>
Planning and Zoning:			
Salaries and employee benefits		50,355	
Operating expenses		29,210	
Total	<u>82,400</u>	<u>79,565</u>	<u>2,835</u>
Total public safety	<u>447,343</u>	<u>434,507</u>	<u>12,836</u>
Transportation:			
Public Works:			
Salaries and employee benefits		54,300	
Operating expenses		16,033	
Total	<u>86,100</u>	<u>70,333</u>	<u>15,767</u>
Street:			
Salaries and employee benefits		110,394	
Operating expenses		106,082	
Capital outlay		241,891	
Total	<u>1,282,100</u>	<u>458,367</u>	<u>823,733</u>

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, 2016**

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Powell Bill:			
Operating expenses		48,111	
Total	<u>56,000</u>	<u>48,111</u>	<u>7,889</u>
Total transportation	<u>1,424,200</u>	<u>576,811</u>	<u>847,389</u>
Environmental Protection:			
Sanitation:			
Salaries and employee benefits		33,264	
Operating expenses		70,044	
Total	<u>116,100</u>	<u>103,308</u>	<u>12,792</u>
Total environmental protection	<u>116,100</u>	<u>103,308</u>	<u>12,792</u>
Cultural and Recreation:			
Recreation Commission:			
Operating expenses		968	
Capital outlay		9,977	
Total cultural and recreation	<u>28,500</u>	<u>10,945</u>	<u>17,555</u>
Debt Service:			
Principal retirement		6,429	
Interest and fees		600	
Total debt service	<u>7,100</u>	<u>7,029</u>	<u>71</u>
Total expenditures	<u>2,717,093</u>	<u>1,612,432</u>	<u>1,104,661</u>
Revenues over (under) expenditures	<u>(445,975)</u>	<u>172,543</u>	<u>618,518</u>
Other Financing Sources (Uses):			
Debt issued	-	201,875	
Fund balance appropriated	<u>445,975</u>	<u>-</u>	
Total other financing sources (uses)	<u>445,975</u>	<u>201,875</u>	<u>(244,100)</u>
Net change in fund balance	<u>\$ -</u>	<u>374,418</u>	<u>\$ 374,418</u>
Fund Balance:			
Beginning of year - July 1		<u>1,457,016</u>	
End of year - June 30		<u><u>\$ 1,831,434</u></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, 2016

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues:			
Operating revenues:			
Charges for services	\$ 304,000	\$ 301,982	\$ (2,018)
Other	22,500	151,975	129,475
Total operating revenues	<u>326,500</u>	<u>453,957</u>	<u>127,457</u>
Non-operating revenues:			
Investment earnings	500	152	(348)
Total non-operating revenues	<u>500</u>	<u>152</u>	<u>(348)</u>
Total revenues	<u>327,000</u>	<u>454,109</u>	<u>127,109</u>
Expenditures:			
Operating expenditures:			
Repairs and maintenance		22,438	
Operating expenditures		<u>122,583</u>	
Total operating expenditures	<u>242,800</u>	<u>145,021</u>	<u>97,779</u>
Debt Service:			
Interest and fees		14,536	
Principal retirement		<u>69,465</u>	
Total debt service	<u>84,200</u>	<u>84,001</u>	<u>199</u>
Total expenditures	<u>327,000</u>	<u>229,022</u>	<u>97,978</u>
Revenues over (under) expenditures	<u>-</u>	<u>225,087</u>	<u>225,087</u>
Other Financing Sources (Uses):			
Debt issued	-	<u>138,000</u>	<u>138,000</u>
Total other financing sources (uses)	<u>-</u>	<u>138,000</u>	<u>138,000</u>
Revenues and other financing sources over (under) expenditures	<u>\$ -</u>	<u>\$ 363,087</u>	<u>\$ 363,087</u>
Reconciliation from Modified Accrual Basis to Full Accrual Basis:			
Revenues over (under) expenditures		\$ 363,087	
Reconciling items:			
Debt issued		(138,000)	
Payment of debt principal		69,465	
Depreciation		<u>(91,788)</u>	
Change in net position		<u>\$ 202,764</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, 2016**

Fiscal Year	Uncollected Balance July 1, 2015	Additions	Collections and Credits	Uncollected Balance June 30, 2016
2015-2016	\$ -	\$ 961,948	\$ 961,941	\$ 7
2014-2015	2,060	-	2,059	1
2013-2014	781	-	781	-
2012-2013	1	-	-	1
2011-2012	313	-	313	-
2010-2011	6	-	6	-
2009-2010	-	-	-	-
2008-2009	-	-	-	-
2007-2008	-	-	-	-
2006-2007	-	-	-	-
Total	<u>\$ 3,161</u>	<u>\$ 961,948</u>	<u>\$ 965,100</u>	<u>9</u>

Ad valorem taxes receivable - net \$ 9

Reconciliation with Revenues:

Ad valorem taxes	\$ 966,124
Interest and penalties	1,776
Miscellaneous	<u>(2,800)</u>
Total collections and credit	<u>\$ 965,100</u>

TOWN OF MONTREAT, NORTH CAROLINA
ANALYSIS OF CURRENT YEAR LEVY
TOWN-WIDE LEVY
FOR THE YEAR ENDED JUNE 30, 2016

	Town-Wide			Total Levy	
	Property Valuation	Rate	Amount of Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
Original Levy:					
Property taxed at current year's rate	\$ 234,617,073	\$ 0.41	\$ 961,930	\$ 948,797	\$ 13,133
Penalties	4,390	0.41	18	18	-
Total	<u>234,621,463</u>		<u>961,948</u>	<u>948,815</u>	<u>13,133</u>
Total property valuation	<u>\$ 234,621,463</u>				
Net Levy			961,948	948,815	13,133
Uncollected taxes as of June 30, 2016			<u>(7)</u>	<u>(7)</u>	<u>-</u>
Current Year's Taxes Collected			<u>\$ 961,941</u>	<u>\$ 948,808</u>	<u>\$ 13,133</u>
Current Levy Collection Percentage			<u>100.00%</u>	<u>100.00%</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.

<u>Contents</u>	<u>Page</u>
Financial Trends Information	63
These tables contain trend information to help the reader understand how the Town's financial performance and well-being have changed over time.	
Revenue Capacity Information	77
These tables contain information to help the reader assess the Town's most significant local revenue source, the property tax.	
Debt Capacity Information	83
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.	
Demographic and Economic Information	86
These tables offer demographic and economic indicators to help the reader understand the environment within which the Town's financial activities take place.	
Operating Information	90
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.

Town of Montreal
Net Position by Activity
Governmental and Business Type Functions

	FYE 2016	FYE 2015	FYE 2014	FYE 2013
Governmental Activities				
Net Position:				
Net investment				
in capital assets	\$ 3,707,773	\$ 3,731,572	\$ 3,394,389	\$ 2,794,719
Restricted	294,400	267,742	255,216	249,671
Unrestricted	1,267,022	910,515	1,016,240	990,917
Subtotal, Governmental Net Position	\$ 5,269,195	\$ 4,909,829	\$ 4,665,845	\$ 4,035,307
Business Type Activities				
Net Position:				
Net investment				
in capital assets	\$ 1,020,541	\$ 1,180,864	\$ 1,036,410	\$ 982,912
Restricted				
Unrestricted	754,721	391,634	597,996	595,469
Subtotal, Business Type Net Position	\$ 1,775,262	\$ 1,572,498	\$ 1,634,406	\$ 1,578,381
Total Primary Government				
Net Position:				
Net investment				
in capital assets	\$ 4,728,314	\$ 4,912,436	\$ 4,430,799	\$ 3,777,631
Restricted	294,400	267,742	255,216	249,671
Unrestricted	2,021,743	1,302,149	1,614,236	1,586,386
Total Net Position	\$ 7,044,457	\$ 6,482,327	\$ 6,300,251	\$ 5,613,688

Table 1

FYE 2012	FYE 2011	FYE 2010	FYE 2009	FYE 2008	FYE 2007
\$ 1,887,129	\$ 1,144,711	\$ 878,624	\$ 676,603	\$ 526,091	\$ 272,858
269,501	283,792	180,577	192,666	191,284	159,627
1,132,305	1,332,931	1,470,348	1,450,376	1,322,521	1,249,071
<u>\$ 3,288,935</u>	<u>\$ 2,761,434</u>	<u>\$ 2,529,549</u>	<u>\$ 2,319,645</u>	<u>\$ 2,039,896</u>	<u>\$ 1,681,556</u>
\$ 959,327	\$ 1,089,073	\$ 772,709	\$ 575,217	\$ 532,318	\$ 552,704
-	-	-	-	-	-
866,473	583,502	505,627	531,157	526,367	483,797
<u>\$ 1,825,800</u>	<u>\$ 1,672,575</u>	<u>\$ 1,278,336</u>	<u>\$ 1,106,374</u>	<u>\$ 1,058,685</u>	<u>\$ 1,036,501</u>
\$ 2,846,456	\$ 2,233,784	\$ 1,651,333	\$ 1,251,820	\$ 1,058,409	\$ 825,562
269,501	283,792	180,577	192,666	191,284	159,627
1,998,778	1,916,433	1,975,975	1,981,533	1,848,888	1,732,868
<u>\$ 5,114,735</u>	<u>\$ 4,434,009</u>	<u>\$ 3,807,885</u>	<u>\$ 3,426,019</u>	<u>\$ 3,098,581</u>	<u>\$ 2,718,057</u>

Town of Montreat
Change in Net Position
Governmental Functions

	FYE 2016	FYE 2015	FYE 2014	FYE 2013
Revenues:				
Program Revenues:				
Charges for Services:				
General Government	\$ 86,153	\$ 79,484	\$ 102,254	\$ 94,897
Public Safety	3,371	3,090	3,846	3,396
Transportation			-	-
Environmental Protection	14,472	447	388	325
Cultural & Recreation			-	-
Total Charges for Services	<u>\$ 103,996</u>	<u>\$ 83,021</u>	<u>\$ 106,488</u>	<u>\$ 98,618</u>
Operating Grants and Contributions	164,985	135,379	108,380	105,034
Capital Grants and Contributions	155,346	36,977	360,088	584,932
General Revenues:				
Taxes:				
Property Taxes	962,972	968,042	970,716	892,839
Other Taxes & Licenses	390,699	356,952	332,403	313,951
Grants & Contributions, non-program				
Investment earnings, unrestricted	1,709	1,073	1,629	1,850
Miscellaneous	2,116	10,362	194	20
	<u></u>	<u></u>	<u></u>	<u></u>
Total Revenues	\$ 1,781,823	\$ 1,591,806	\$ 1,879,898	\$ 1,997,244
Expenses:				
General Government	\$ 479,543	\$ 551,016	\$ 347,272	\$ 403,785
Public Safety	450,926	415,119	418,288	417,698
Transportation	362,962	107,255	214,513	137,836
Environmental Protection	12,343	1,587	162,683	203,889
Cultural & Recreation	116,083	109,206	60,993	102,532
Interest on Long Term Debt	600			
	<u></u>	<u></u>	<u></u>	<u></u>
Total Expenses	\$ 1,422,457	\$ 1,184,183	\$ 1,203,749	\$ 1,265,740
Increase/(decrease) in net position before transfers	\$ 359,366	\$ 407,623	\$ 676,149	\$ 731,504
Transfers	-	-	(45,614)	14,868
	<u></u>	<u></u>	<u></u>	<u></u>
Increase/(decrease) in net position	\$ 359,366	\$ 407,623	\$ 630,535	\$ 746,372

Table 2

FYE 2012		FYE 2011		FYE 2010		FYE 2009		FYE 2008		FYE 2007	
\$	-	\$	-	\$	1,390	\$	-	\$	-	\$	-
	39,701		47,610		41,793		49,806		51,510		54,973
	-		-		-		-		-		-
	494		473		498		41,278		42,325		26,867
	-		-		-		-		-		-
\$	40,195	\$	48,083	\$	43,681	\$	91,084	\$	93,835	\$	81,840
	134,045		132,343		139,196		48,276		46,394		190,775
	385,151		5,550		60,272		12,800		-		-
	886,345		873,863		875,331		868,213		857,051		810,549
	307,211		280,616		277,467		300,486		334,775		316,204
	-		-		-		146,242		58,489		57,058
	5,915		7,921		14,591		21,996		55,594		74,474
	15,931		1,134		1,891		7,628		13,253		18,387
\$	1,774,793	\$	1,349,510	\$	1,412,429	\$	1,496,725	\$	1,459,391	\$	1,549,287
\$	411,493	\$	348,601	\$	400,771	\$	372,544	\$	399,433	\$	442,914
	450,064		418,103		398,889		400,467		339,693		305,020
	338,622		317,661		374,792		333,633		341,160		645,048
	17,779		27,743		63,120		105,353		110,613		90,637
	96,161		90,850		54,052		2,340		-		1,239
	-		467		2,201		2,266		3,252		2,949
\$	1,314,119	\$	1,203,425	\$	1,293,825	\$	1,216,603	\$	1,194,151	\$	1,487,807
\$	460,674	\$	146,085	\$	118,604	\$	280,122	\$	265,240	\$	61,480
	66,827		85,800		91,300		87,600		93,100		103,500
\$	527,501	\$	231,885	\$	209,904	\$	367,722	\$	358,340	\$	164,980

Town of Montreat
Change in Net Position
Business Type Functions

	FYE 2016	FYE 2015	FYE 2014	FYE 2013
Revenues:				
Program Revenues:				
Charges for Services:				
Water	\$ 450,882	\$ 320,392	\$ 346,006	\$ 281,712
Operating Grants and Contributions				
Capital Grants and Contributions				
General Revenues:				
Taxes:				
Property Taxes				
Other Taxes & Licenses				
Grants & Contributions, non-program				
Investment earnings, unrestricted	152	75	102	231
Miscellaneous				
	<hr/>			
Total Revenues	\$ 451,034	\$ 320,467	\$ 346,108	\$ 281,943
Expenses:				
Water	\$ 251,345	\$ 382,375	\$ 335,697	\$ 171,006
	<hr/>			
Total Expenses	\$ 251,345	\$ 382,375	\$ 335,697	\$ 171,006
Increase/(decrease) in net position before transfers	\$ 199,689	\$ (61,908)	\$ 10,411	\$ 110,937
Transfers & Other Financing Sources	3,075	-	45,614	(14,868)
	<hr/>			
Increase/(decrease) in net position	\$ 202,764	\$ (61,908)	\$ 56,025	\$ 96,069

Table 3

	FYE 2012		FYE 2011		FYE 2010		FYE 2009		FYE 2008		FYE 2007
\$	270,153	\$	348,989	\$	289,188	\$	288,512	\$	274,496	\$	226,356
	-		-		-		-		-		-
			281,797		158,309		-		-		-
			-		-		-		-		-
			-		-		-		-		-
			-		-		-		-		-
	1,324		1,081		1,128		2,916		6,771		7,809
			-				8,213		-		-
<hr/>											
\$	271,477	\$	631,867	\$	448,625	\$	299,641	\$	281,267	\$	234,165
<hr/>											
\$	223,169	\$	151,828	\$	185,363	\$	164,352	\$	165,983	\$	136,573
<hr/>											
\$	223,169	\$	151,828	\$	185,363	\$	164,352	\$	165,983	\$	136,573
<hr/>											
\$	48,308	\$	480,039	\$	263,262	\$	135,289	\$	115,284	\$	97,592
	(66,827)		(85,800)		(91,300)		(87,600)		(93,100)		(103,500)
<hr/>											
\$	(18,519)	\$	394,239	\$	171,962	\$	47,689	\$	22,184	\$	(5,908)

Town of Montreat
Change in Net Position
Total Primary Government

	FYE 2016	FYE 2015	FYE 2014	FYE 2013
Revenues:				
Program Revenues:				
Charges for Services:				
General Government	\$ 86,153	\$ 79,484	\$ 102,254	\$ 94,897
Public Safety	3,371	3,090	3,846	3,396
Transportation	-	-	-	-
Environmental Protection	14,472	447	388	325
Landcare	-	-	-	-
Water	450,882	320,392	346,006	281,712
Operating Grants and Contributions	164,985	135,379	108,380	105,034
Capital Grants and Contributions	155,346	36,977	360,088	584,932
General Revenues:				
Taxes:				
Property Taxes	962,972	968,042	970,716	892,839
Other Taxes & Licenses	390,699	356,952	332,403	313,951
Grants & Contributions, non-program	-	-	-	-
Investment earnings, unrestricted	1,861	1,148	1,731	2,081
Miscellaneous	2,116	10,362	194	20
Total Revenues	\$ 2,232,857	\$ 1,912,273	\$ 2,226,006	\$ 2,279,187
Expenses:				
General Government	\$ 479,543	\$ 551,016	\$ 347,272	\$ 403,785
Public Safety	450,926	415,119	418,288	417,698
Transportation	362,962	107,255	214,513	137,836
Environmental Protection	12,343	1,587	162,683	203,889
Landcare	116,083	109,206	60,993	102,532
Interest on Long Term Debt	600	-	-	-
Water	251,345	382,375	335,697	171,006
Total Expenses	\$ 1,673,802	\$ 1,566,558	\$ 1,539,446	\$ 1,436,746
Increase/(decrease) in net position before transfers	\$ 559,055	\$ 345,715	\$ 686,560	\$ 842,441
Transfers	3,075	-	-	-
Increase/(decrease) in net position	\$ 562,130	\$ 345,715	\$ 686,560	\$ 842,441

Table 4

FYE 2012	FYE 2011	FYE 2010	FYE 2009	FYE 2008	FYE 2007
\$ -	\$ -	\$ 1,390	\$ -	\$ -	\$ -
39,701	47,610	41,793	49,806	51,510	54,973
-	-	-	-	-	-
494	473	498	41,278	42,325	26,867
-	-	-	-	-	-
270,153	348,989	289,188	288,512	274,496	226,356
134,045	132,343	139,196	48,276	46,394	190,775
385,151	287,347	218,581	12,800	-	-
886,345	873,863	875,331	868,213	857,051	810,549
307,211	280,616	277,467	300,486	334,775	316,204
-	-	-	146,242	58,489	57,058
7,239	9,002	15,719	24,912	62,365	82,283
15,931	1,134	1,891	15,841	13,253	18,387
<hr/>					
\$ 2,046,270	\$ 1,981,377	\$ 1,861,054	\$ 1,796,366	\$ 1,740,658	\$ 1,783,452
411,493	348,601	400,771	372,544	399,433	442,914
450,064	418,103	398,889	400,467	339,693	305,020
338,622	317,661	374,792	333,633	341,160	645,048
17,779	27,743	63,120	105,353	110,613	90,637
96,161	90,850	54,052	2,340	-	1,239
-	467	2,201	2,266	3,252	2,949
223,169	151,828	185,363	164,352	165,983	136,573
<hr/>					
\$ 1,537,288	\$ 1,355,253	\$ 1,479,188	\$ 1,380,955	\$ 1,360,134	\$ 1,624,380
508,982	626,124	381,866	415,411	380,524	159,072
-	-	-	-	-	-
<hr/>					
\$ 508,982	\$ 626,124	\$ 381,866	\$ 415,411	\$ 380,524	\$ 159,072

Town of Montreat
Fund Balances/Net Position
All Funds

	FYE 2016	FYE 2015	FYE 2014	FYE 2013
Governmental Activities				
Nonspendable	\$ 15,394	\$ 9,986	\$ 4,872	
Restricted	\$ 294,400	\$ 267,742	\$ 255,216	\$ 249,671
Committed	\$ 34,932	\$ 34,710	\$ 30,193	\$ 26,854
Assigned (Designated pre-2011)	\$ 177,192	\$ 382,322	\$ 419,290	\$ 54,177
Unassigned	\$ 1,309,516	\$ 762,256	\$ 697,978	\$ 1,115,891
Total General Fund Balance	\$ 1,831,434	\$ 1,457,016	\$ 1,407,549	\$ 1,446,593
Reconcile to Net Position	\$ 3,437,761	\$ 3,452,813	\$ 3,258,293	\$ 2,588,714
Governmental Net Position	\$ 5,269,195	\$ 4,909,829	\$ 4,665,842	\$ 4,035,307
Business-Type Activities				
Unrestricted	\$ 754,721	\$ 391,634	\$ 597,996	\$ 595,469
Total Water Fund Balance	\$ 754,721	\$ 391,634	\$ 597,996	\$ 595,469
Net investment in capital assets	\$ 1,020,541	\$ 1,180,864	\$ 1,036,410	\$ 982,912
Business-Type Net Position	\$ 1,775,262	\$ 1,572,498	\$ 1,634,406	\$ 1,578,381

Table 5

	FYE 2012	FYE 2011	FYE 2010	FYE 2009	FYE 2008	FYE 2007
	\$	9,300				
\$	269,501	\$ 283,792	\$ 280,575	\$ 312,119	\$ 319,247	\$ 287,156
\$	52,675	\$ 24,005				
\$	53,923	\$ 683,744	\$ 717,435	\$ 667,435	\$ 480,183	\$ 328,710
\$	1,222,858	\$ 810,104	\$ 834,992	\$ 820,455	\$ 775,623	\$ 844,486
\$	1,598,957	\$ 1,810,945	\$ 1,833,002	\$ 1,800,009	\$ 1,575,053	\$ 1,460,352
\$	1,689,978	\$ 950,489	\$ 696,547	\$ 519,636	\$ 464,843	\$ 221,204
\$	3,288,935	\$ 2,761,434	\$ 2,529,549	\$ 2,319,645	\$ 2,039,896	\$ 1,681,556
\$	522,985	\$ 583,502	\$ 505,627	\$ 531,157	\$ 526,367	\$ 483,797
\$	522,985	\$ 583,502	\$ 505,627	\$ 531,157	\$ 526,367	\$ 483,797
\$	959,327	\$ 1,089,073	\$ 772,709	\$ 575,217	\$ 532,318	\$ 552,704
\$	1,482,312	\$ 1,672,575	\$ 1,278,336	\$ 1,106,374	\$ 1,058,685	\$ 1,036,501

Town of Montreat
Changes in Fund Balance
General Fund

	FYE 2016	FYE 2015	FYE 2014
Revenues			
Ad valorem taxes	\$ 966,124	\$ 968,685	\$ 973,858
Other taxes and licenses	390,699	356,952	332,403
Unrestricted intergovernmental revenues	98,336	86,869	59,392
Restricted intergovernmental revenues	205,259	76,307	300,024
Permits and fees	86,153	79,467	102,255
Sales and services	29,879	12,158	13,784
Investment earnings	1,709	1,073	1,629
Miscellaneous	6,816	10,939	1,396
Total revenues	<u>\$ 1,784,975</u>	<u>\$ 1,592,450</u>	<u>\$ 1,784,741</u>
Expenditures			
General government	\$ 479,832	\$ 560,520	\$ 652,473
Public Safety	434,507	432,969	390,135
Transportation	576,811	452,875	478,599
Environmental protection	103,308	96,431	95,994
Cultural and recreation	10,945	188	160,970
Debt Service:			
Principal	6,429	-	-
Interest	600	-	-
Total expenditures	<u>\$ 1,612,432</u>	<u>\$ 1,542,983</u>	<u>\$ 1,778,171</u>
Other Financing Sources (Uses)			
Transfers from Enterprise Fund		\$ -	\$ -
Transfers to Enterprise Fund		-	(45,614)
Debt/Installment purchase obligations issued	201,875	-	-
Total other financing uses	<u>\$ 201,875</u>	<u>\$ -</u>	<u>\$ (45,614)</u>
Net Change in Fund Balance	\$ 374,418	\$ 49,467	\$ (39,044)
Prior Period Adjustment			
Fund Balance:			
Beginning of Year - July 1	<u>\$ 1,457,016</u>	<u>\$ 1,407,549</u>	<u>\$ 1,446,593</u>
End of Year - June 30	<u><u>\$ 1,831,434</u></u>	<u><u>\$ 1,457,016</u></u>	<u><u>\$ 1,407,549</u></u>

Table 6

	FYE 2013	FYE 2012	FYE 2011	FYE 2010	FYE 2009	FYE 2008	FYE 2007
\$	895,333	\$ 879,659	\$ 873,310	\$ 877,564	\$ 865,993	\$ 858,966	\$ 843,074
	313,951	307,211	280,616	277,467	298,781	330,010	302,903
	41,756	55,856	56,934	60,802	71,242	58,489	57,058
	97,902	49,160	37,609	45,907	60,945	45,980	190,347
	94,898	36,003	35,626	39,412	39,884	34,849	44,102
	28,129	43,518	50,257	45,028	52,685	63,751	51,039
	1,850	5,915	7,921	14,591	22,347	56,008	74,902
	2,020	21,772	7,592	53,891	7,628	13,253	18,387
\$	1,475,839	\$ 1,399,094	\$ 1,349,865	\$ 1,414,662	\$ 1,419,505	\$ 1,461,306	\$ 1,581,812
\$	393,828	\$ 391,258	\$ 343,836	\$ 379,835	\$ 390,142	\$ 404,951	\$ 445,853
	468,435	424,235	391,460	393,707	397,414	346,352	317,928
	477,526	750,075	603,850	535,851	367,653	563,975	658,042
	101,260	96,161	90,044	89,127	90,520	97,307	81,613
	202,022	16,177	12,910	48,287	9,300		1,239
	-	-	15,156	23,961	24,854	23,868	14,590
	-	-	466	2,201	2,266	3,252	2,949
\$	1,643,071	\$ 1,677,906	\$ 1,457,722	\$ 1,472,969	\$ 1,282,149	\$ 1,439,705	\$ 1,522,214
\$	66,000	\$ 82,100	\$ 85,800	\$ 91,300	\$ 87,600	\$ 93,100	\$ 103,500
	(51,132)	(15,273)	-	-	-	-	
	-	-	-	-	-	-	32,429
\$	14,868	\$ 66,827	\$ 85,800	\$ 91,300	\$ 87,600	\$ 93,100	\$ 135,929
\$	(152,364)	\$ (211,985)	\$ (22,057)	\$ 32,993	\$ 224,956	\$ 114,701	\$ 195,527
	\$	(3)					
\$	1,598,957	\$ 1,810,945	\$ 1,833,002	\$ 1,800,009	\$ 1,575,053	\$ 1,460,352	\$ 1,264,825
\$	1,446,593	\$ 1,598,957	\$ 1,810,945	\$ 1,833,002	\$ 1,800,009	\$ 1,575,053	\$ 1,460,352

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
2016	479,543	450,926	362,962	12,343	116,083
2015	551,016	415,119	107,255	1,587	109,206
2014	347,272	418,288	214,513	162,683	60,993
2013	403,785	417,698	137,836	203,889	102,532
2012	411,493	450,064	338,622	17,779	96,161
2011	348,601	418,103	317,661	27,743	90,850
2010	400,771	398,889	374,792	63,120	54,052
2009	372,544	400,467	333,633	105,353	2,340
2008	399,433	339,693	341,160	110,613	-
2007	442,914	305,020	645,048	90,637	1,239

Table 7

Interest on Long Term Debt	Total
600	1,422,457
-	1,184,183
-	1,203,749
-	1,265,740
-	1,314,119
467	1,203,425
2,201	1,293,825
2,266	1,216,603
3,252	1,194,151
2,949	1,487,807

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
2016	962,972	390,699	103,996	164,985	155,346
2015	968,042	356,952	83,021	135,379	36,977
2014	970,716	332,403	106,488	108,380	360,088
2013	892,839	313,951	98,618	105,034	584,932
2012	886,345	307,211	40,195	134,045	385,151
2011	873,863	280,616	48,083	132,343	5,550
2010	875,331	277,467	43,681	139,196	60,272
2009	868,213	300,486	91,084	48,276	12,800
2008	857,051	334,775	93,835	46,394	-
2007	810,549	316,204	81,840	190,775	-

Table 8

Non-Program Grants & Contributions	Investment Earnings	Miscellaneous	Total
-	1,709	2,116	1,781,823
-	1,073	10,362	1,591,806
-	1,629	194	1,879,898
-	1,850	20	1,997,244
-	5,915	15,931	1,774,793
-	7,921	1,134	1,349,510
-	14,591	1,891	1,412,429
146,242	21,996	7,628	1,496,725
58,489	55,594	13,253	1,459,391
57,058	74,474	18,387	1,549,287

Town of Montreat
Property Tax Levies & Collections - General Fund

Fiscal Year Ended June 30	Total Tax Levy	Current Tax Collections	Percent of Levy Collected	Delinquent Tax Collections, Credits & Write- offs	Total Tax Collections
2016	\$ 961,948	\$ 961,941	100.00%	3,159	\$ 965,100
2015	963,203	961,143	99.79%	2,703	963,846
2014	972,675	969,735	99.70%	6,083	975,818
2013	905,262	898,808	99.29%	2,262	901,070
2012	905,282	896,135	98.99%	2,461	898,596
2011	875,507	874,635	99.90%	319	874,954
2010	872,786	871,997	99.91%	(38,433)	833,564
2009	867,101	863,797	99.62%	234	864,031
2008	857,049	856,390	99.92%	2,574	858,964
2007	842,420	840,204	99.74%	181	840,385

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

Table 9

Ratio of Total Tax Collections to Tax Levy	Total Direct Tax Rate
100.33%	0.41
100.07%	0.41
100.32%	0.41
99.54%	0.37
99.26%	0.37
99.94%	0.37
95.51%	0.37
99.65%	0.37
100.22%	0.37
99.76%	0.37

Town of Montreat
Assessed Value of Taxable Property

Table 10

Fiscal Year Ended June 30	TR-2 Calendar Tax Year	Real Property	Personal Property	Public Service Company Property	Total Assessed Value
2016	2015	\$ 229,531,700	\$ 877,970	\$ 1,008,186	\$ 231,417,856
2015	2014	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

Town of Montreat**Table 11****Property Tax Rates - Town of Montreat and Overlapping Jurisdictions
(Per \$100.00 of Assessed Value)**

Fiscal Year Ended	Town of Montreat	Black Mountain Fire District	Buncombe County	Total Tax Rate
June 30				
2016	0.4100	0.0990	0.6040	1.1130
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

Source: Buncombe County Tax Department.

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

Fiscal Year Ended June 30	Assessed Value	General Obligation Bonded Debt	Ratio of Net General Obligation Bonded Debt to Assessed Value	Population	Net General Obligation Bonded Debt per Capita
2016	231,417,856	\$ -	0.00%	792	0.00%
2015	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%

Town of Montreat
Computation of Legal Debt Margin
June 30, 2016

Table 13

Assessed value of taxable property	\$ 234,621,463
times	0.08
Debt limit (8% of assessed value)	<u>\$ 18,769,717</u>
Gross debt:	
Bonds Payable	\$ 146,000
Authorized & unissued bonds	-
Installment Purchase	<u>769,734</u>
Gross Debt	<u>\$ 915,734</u>
Less: Water Fund debts	<u>\$ 720,288</u>
Total amount of debt applicable to debt limit	<u>\$ 195,446</u>
Legal debt margin	<u><u>\$ 18,574,271</u></u>

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

Fiscal Year Ended June 30	Principal		Interest		Total Debt Service	Total General Governmental Expenditures	Ratio, Debt Service to Total General Governmental Expenditures
2016	\$	6,429	\$	600	\$ 7,029	\$ 1,422,457	0.49%
2015	\$	-	\$	-	\$ -	\$ 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%

Fiscal Year Ended June 30	Population	Per Capita Income	Median Age	School Enrollment	Unemployment Rate % (June)*
2016	792	N/A	N/A	6	4.1
2015	728	N/A	N/A	6	5.0
2014	704	N/A	N/A	6	5.3
2013	690	\$ 20,075	24.3	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
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, 2016**

2016

Taxpayer	Classification	2014 Assessed Valuation	Percentage of Total Assessed Valuation
MOUNTAIN RETREAT CENTER	Institutional	****	****
NEALE, HENRY W & MARGARET C	Residential	1,109,800	0.47%
SLOOP GROUP LLC	Residential	1,015,700	0.43%
BES-LU LLC	Residential	936,800	0.40%
MANDEVILLE, LLC	Residential	882,800	0.38%
EVANS, E. CRAIG	Residential	886,100	0.38%
GETTYS JR. JOSEPH M.	Residential	817,000	0.35%
MING REAL ESTATE COMPANY LLC	Residential	812,000	0.35%
BOYD, DOROTHY COE	Residential	787,700	0.34%
DUKE ENERGY PROGRESS	Utility	774,136	0.33%
MCCASKILL, WM C	Residential	760,100	0.32%

**** Mountain Retreat Association holds the largest assessed valuation of property, but is a tax exempt entity and thus is not one of the largest taxpayers.

* Note: Comparative data from ten years ago not available

Source: Buncombe County Tax Department.

Table 16

2015

Classification	2014 Assessed Valuation	Percentage of Total Assessed Valuation
Institutional	3,105,090	130.00%
Residential	1,109,800	0.48%
Residential	1,078,100	0.46%
Residential	936,800	0.40%
Residential	882,800	0.38%
Residential	886,100	0.38%
Residential	817,000	0.35%
Residential	812,000	0.35%
Residential	787,700	0.34%
Utility	769,294	0.33%

**Town of Montreat
Largest Employers
June 30, 2016**

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:

Year	Montreat College	Montreat Conference Center	Town of Montreat	Total
2016	140*	60*	14	214
2015	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

* Estimates, data not available at publication time

Source: Montreat College, Montreat Conference Center

Town of Montreat
Miscellaneous Statistics
June 30, 2016

Table 18

Date of establishment	1966
Form of Government	Mayor-Council
Employees	
Full-time permanent	14
Vacancies	0
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	97
Water Service:	
Number of customers	673
Average daily consumption	105,500 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	
Buncombe County Schools	
Cultural and Recreational:	
All recreational facilities owned and operated by	
Montreat Conference Center	
Sewers:	
Sanitary sewer system operated by the	
Municipal Sewer District of Buncombe County	

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COMPLIANCE SECTION

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

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

Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With *Government Auditing Standards*

Independent Auditor's Report

To The Honorable Mayor and
Members of the Board of Commissioners
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, 2016, and the related notes to the financial statements which collectively comprises the Town of Montreat's basic financial statements, and have issued our report thereon dated October 14, 2016.

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 deficiency described as Finding 2016-003 in the accompanying Schedule of Findings and Responses to be a material weakness.

A *significant deficiency* is a deficiency or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described as Findings 2016-001 and 2016-002 in the accompanying Schedule of Findings and Responses to be significant deficiencies.

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 14, 2016

TOWN OF MONTREAT, NORTH CAROLINA

SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED JUNE 30, 2016

1. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued on whether the financial statements audited were prepared in accordance to GAAP

Unmodified

Internal control over financial reporting:

- Material weaknesses identified? Yes
- Significant deficiencies identified? Yes

Noncompliance material to financial statements noted?

No

TOWN OF MONTREAT, NORTH CAROLINA

SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED JUNE 30, 2016

2. Financial Statement Findings

Finding 2016-001

Significant Deficiency

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.

Identification of a Repeat Finding: This is a repeat finding from the immediate previous audit 2015-001.

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.

Views of Responsible Officials and Corrective Action Plan: Management concurs with this finding and will adhere to the corrective action plan in this audit report.

TOWN OF MONTREAT, NORTH CAROLINA

SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED JUNE 30, 2016

2. Financial Statement Findings (continued)

Finding 2016-002

Significant Deficiency

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.

Identification of a Repeat Finding: This is a repeat finding from the immediate previous audit 2015-002.

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.

Views of Responsible Officials and Corrective Action Plan: Management concurs with this finding and will adhere to the corrective action plan in this audit report.

TOWN OF MONTREAT, NORTH CAROLINA

SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED JUNE 30, 2016

2. Financial Statement Findings (continued)

Finding 2016-003

Material Weakness

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

Condition: A significant audit adjustment is a proposed correction of the basic financial statements that, in our judgement, may not have been detected except through our auditing procedures. The existence of such material adjustments indicates that the Town's system of controls did not detect and prevent such errors. We have provided management with a report of these adjustments.

Context: The external auditor identified significant audit adjustments as defined above.

Effect: Adjustments not posted could cause misstatement of the account balances.

Cause: There are limited Town resources as it relates to the preparation of some year-end adjustments for financial reporting purposes.

Recommendation: Management should examine the adjustments required as a result of our audit and assess the cost/benefit of improving the internal control system to prevent the adjustments in the future, given the unit's available financial resources. Management should acknowledge inherent limitations in the internal control system caused by limited resources and modify their oversight function accordingly.

Views of Responsible Officials and Corrective Action Plan: Management concurs with this finding and will adhere to the corrective action plan in this audit report.

TOWN OF MONTREAT, NORTH CAROLINA

CORRECTIVE ACTION PLAN FOR THE YEAR ENDED JUNE 30, 2016

Significant Deficiencies

Finding 2016-001

Name of Contact Person: Stefan Stackhouse

Corrective Action: The Town Administrator reviews and approves all journal entries, payroll, and bank reconciliations.

Proposed Completion Date: Immediately

Finding 2016-002

Name of Contact Person: Stefan Stackhouse

Correction Action: Management has evaluated the cost benefit and has chosen to engage the external auditor to perform this function. The Town exercises due care in reviewing the financial statements drafted by the external auditor and reconciles the statements to the Town's financial records. The Town is responsible for the accuracy of the audited financial statements.

Proposed Completion Date: Immediately

Material Weakness

Finding 2016-003

Name of Contact Person: Stefan Stackhouse

Corrective Action: Management is aware that year-end audit adjustments are typically required. Management will examine controls in place to see if they can be strengthened, given available resources, thus reducing the number of audit adjustments required at year-end. In the areas where the cost/benefit does not justify improving the control system, management will exercise due caution in performing their oversight function.

Proposed Completion Date: Immediately

TOWN OF MONTREAT, NORTH CAROLINA

SUMMARY SCHEDULE OF PRIOR YEAR'S AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2016

Finding 2015-001

Status: Repeated as finding 2016-001. Duties are being separated as much as possible and alternative controls have been implemented to the extent possible to compensate for lack of separation.

Corrective Action: The Town Administrator reviews and approves all journal entries, payroll, and bank reconciliations. The governing board is involved in reviewing financial results.

Finding 2015-002

Status: Repeated as finding 2016-002. Management has evaluated the cost benefit and has chosen to engage the external auditor to perform this function.

Corrective Action: The Town exercises due care in reviewing the financial statements drafted by the external auditor and reconciles the statements to the Town's financial records. The Town is responsible for the accuracy of the audited financial statements.

Finding 2015-003

Status: Resolved