

**TOWN OF MONTREAT
NORTH CAROLINA**

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2018

**TOWN OF MONTREAT
NORTH CAROLINA**

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2018

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

TOWN OF MONTREAT, NORTH CAROLINA

COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2018

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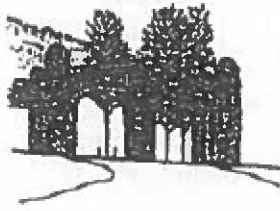
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INTRODUCTORY SECTION

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Town of Montreat

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www.townofmontreat.org

February 28, 2019

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, 2018 is hereby submitted. 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 transmittal 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. The administration has gone to great lengths since our last CAFR to analyze and strengthen our internal controls to minimize any material misstatements in the financial statements. We believe 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, CPAs, 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's 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 868 people according to the U.S. Census Bureau and N.C. Office of State Budget and Management. 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, while there is a different population of Montreat College students during the school year. 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 somewhat below national averages, and stood at 3.9% vs. 4.9% in June of 2016. Regional employment continues the same national trend of a slow recovery.

While we have largely recovered from 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 2015 was \$44,826 vs. a national median of \$56,516, 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 9.4% from 2010 to 2015, according to the Economic Development Coalition of Asheville-Buncombe County. The best performing sectors in our region have been: professional and business services (with an increase of 20.0% from 2010-2015); leisure and hospitality (with an increase of 19.8% from 2010-2015); transportation & utilities (with an increase of 18.2% from 2010-2015); and health care and education (with an employment increase of 14.0% from 2010-2015). In contrast, the area has experienced sustained declines in the government (-8.8%); information (-5.3%), and wholesale trade (-2.1%) sectors between 2010 and 2015.

The Asheville region has had a history of being a center for healthcare 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, mostly located in Asheville and Black Mountain.

In addition to Montreat College, whose main campus is 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 is seen as a relatively inexpensive vacation destination and an affordable value for many people living in the eastern half of the nation.

Local government, represented by the Town of Montreat, is itself an important industry in the local economy. Our general and water fund budgets (excluding extraordinary grant-funded activities) have remained relatively stable over the past five years. The Town of Montreat employs a full-time staff of 14 individuals.

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 generally 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 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 and Capital Improvement Plan (C.I.P) process. Both documents may be found on the Town's website (<https://townofmontreat.org/>.) Two large projects were under consideration throughout FYE 18 but remain in a preliminary planning stage: the building of a new town hall and public works building. The Town Hall is in the Design phase and construction is expected to begin in the summer of 2019.

Awards and Acknowledgements

The previous fiscal year that ended on June 30, 2017 was our sixth year that the Town has participated in the Certificate of Achievement for Excellence in Financial Reporting program of the Government Finance Officers Association. Due to staffing turnover, we were not able to submit our application for the award last year, however it is our intention to submit this CAFR to the GFOA program.

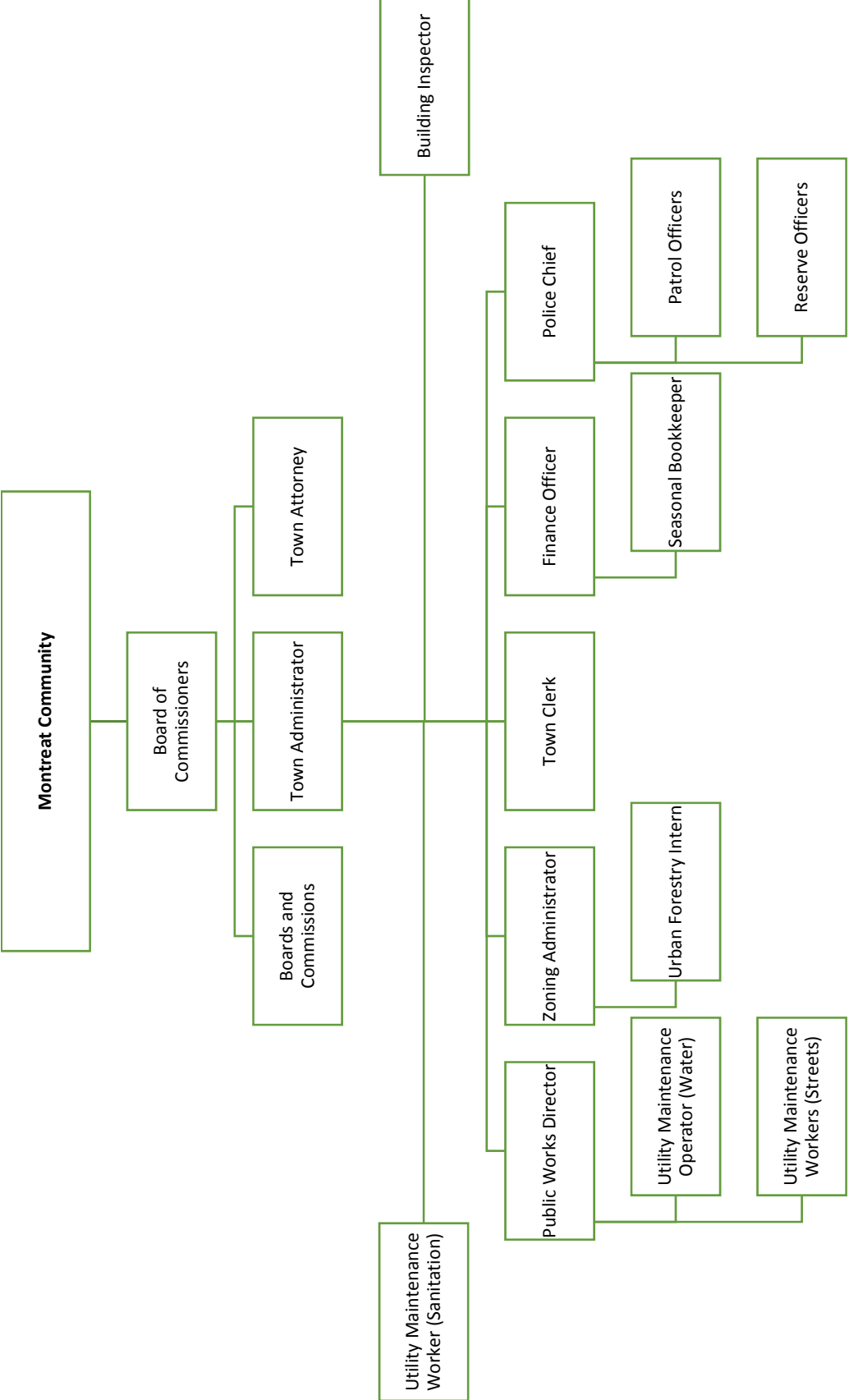
The preparation of this comprehensive annual financial report was made possible with the assistance of Martin Starnes & Associates, CPAs, P.A., and with the assistance of the Town of Montreat staff members, to whom we express our appreciation. We also acknowledge the support of the Mayor, Board of Commissioners, 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.



Alex Carmichael
Town Administrator



Darlene Carrisquillo
Finance Officer



Town of Montreat, North Carolina
List of Principal Officials
June 30, 2018

TOWN COUNCIL

Honorable Tim Helms, Mayor
Kent Otto, Mayor Pro Tem
Kathryn Fouche
William Gilliland
Alice Lentz
Tom Widmer

ADMINISTRATION

Alex Carmichael, Town Administrator
Erin Marie Wheeler, Finance Officer
Angela Murphy, Town Clerk
David Arrant, Interim Chief of Police
Barry Creasman, Interim Director of Public Works

AUDIT COMMITTEE

William Gilliland, Chair
Hugh Alexander, Vice Chair
Phillip Arnold, Secretary
Kent Otto
Tom Widmer

**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, each major fund and the aggregate remaining fund information of the Town of Montreat, North Carolina, as of and for the year ended June 30, 2018, 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, each major fund, and the aggregate remaining fund information of the Town of Montreat, North Carolina, as of June 30, 2018, 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, the Law Enforcement Officers' Special Separation Allowance Schedules of the Changes in Total Pension Liability and Total Pension Liability as a Percentage of Covered Payroll, and the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Asset (Liability) and Contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of 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, combining and individual fund financial statements, 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 combining and individual fund financial statements, 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 combining and individual fund financial statements, 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 February 28, 2019 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town of Montreat's 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, North Carolina
February 28, 2019

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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, 2018. 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

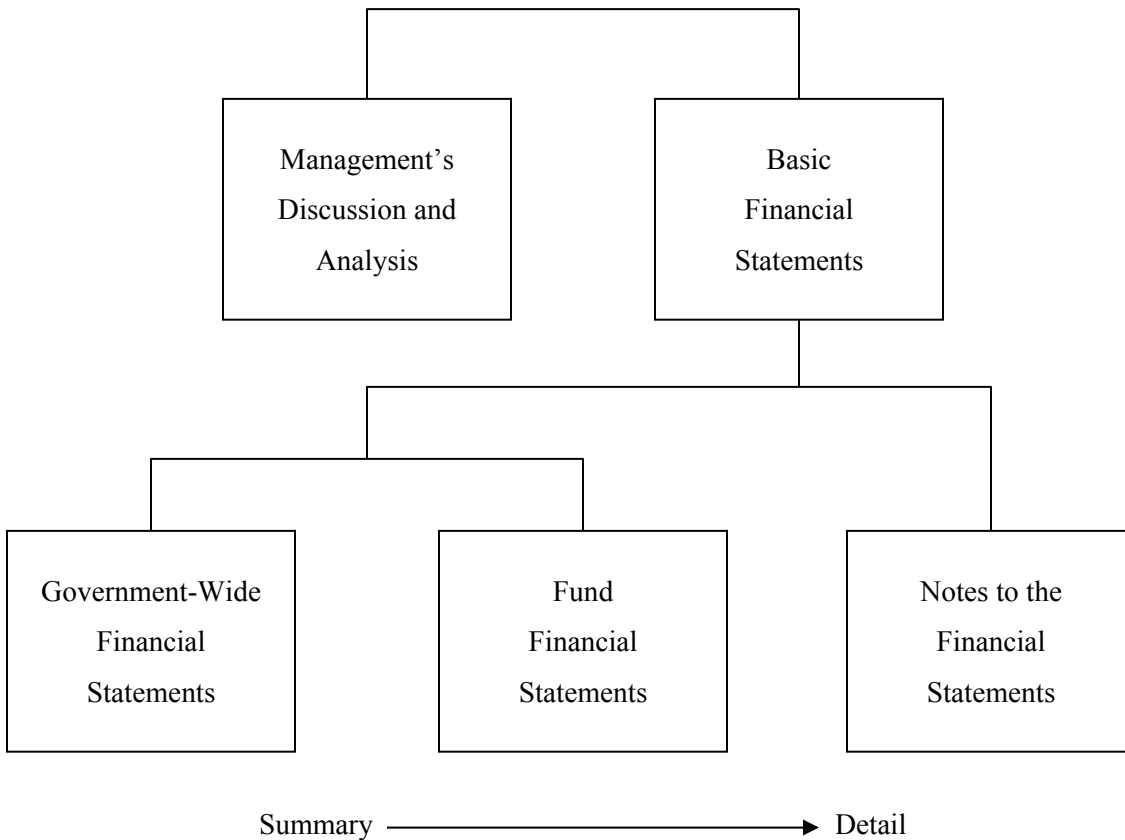
- The assets and deferred outflows of resources of the Town of Montreat exceed its liabilities and deferred inflows of resources at the close of the fiscal year by \$7,533,785 (*net position*).
- The government's total net position increased by \$245,434, primarily due to increased assets and decreased long and short-term liabilities.
- As of the close of the current fiscal year, the Town of Montreat's General Fund reported ending fund balance of \$1,762,860 with a net decrease of \$160,260 in fund balance. Approximately 22.3% of this total amount, or \$393,649, is non-spendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$1,316,220, or 72.0%, of total General Fund expenditures and transfers out for the fiscal year.
- The Town of Montreat's total long-term liabilities decreased by \$221,741 (-18.3%) during the current fiscal year. The key factor in this decrease was the reduction in Law Enforcement Officers pension liabilities, installment purchase and bond debt liabilities and compensated absences during the year.

Overview of the Financial Statements

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

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

The first two statements (Exhibits A and B) in the basic financial statements are the **government-wide financial statements**. They provide both short and long-term information about the Town's financial status.

The next statements (Exhibits C - J) 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.

Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The Town of Montreat has one fiduciary fund, which is an agency fund.

Notes to the Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 25 of this report.

Other Information - In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the Town of Montreat's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 53 of this report.

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

Government-Wide Financial Analysis

Town of Montreat's Net Position

Figure 2

| | Governmental Activities | | Business-Type Activities | | Total | |
|---|----------------------------|---------------------|-----------------------------|---------------------|---------------------|---------------------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Assets and Deferred Outflows of Resources: | | | | | | |
| Current and other assets | \$ 2,202,298 | \$ 2,134,011 | \$ 891,586 | \$ 848,000 | \$ 3,093,884 | \$ 2,982,011 |
| Capital assets | 3,831,821 | 3,915,657 | 1,591,451 | 1,668,915 | 5,423,272 | 5,584,572 |
| Deferred outflows of resources | <u>133,656</u> | <u>186,757</u> | <u>-</u> | <u>-</u> | <u>133,656</u> | <u>186,757</u> |
| Total assets and deferred outflows of resources | <u>6,167,775</u> | <u>6,236,425</u> | <u>2,483,037</u> | <u>2,516,915</u> | <u>8,650,812</u> | <u>8,753,340</u> |
| Liabilities and Deferred Inflows of Resources: | | | | | | |
| Long-term liabilities outstanding | 439,726 | 577,540 | 552,769 | 636,696 | 992,495 | 1,214,236 |
| Other liabilities | 93,808 | 211,369 | 9,718 | 25,359 | 103,526 | 236,728 |
| Deferred inflows of resources | <u>21,006</u> | <u>14,025</u> | <u>-</u> | <u>-</u> | <u>21,006</u> | <u>14,025</u> |
| Total liabilities and deferred inflows of resources | <u>554,540</u> | <u>802,934</u> | <u>562,487</u> | <u>662,055</u> | <u>1,117,027</u> | <u>1,464,989</u> |
| Net Position: | | | | | | |
| Net investment in capital assets | 3,695,360 | 3,749,519 | 1,038,682 | 1,032,219 | 4,734,042 | 4,781,738 |
| Restricted | 390,961 | 330,586 | - | - | 390,961 | 330,586 |
| Unrestricted | <u>1,526,914</u> | <u>1,353,386</u> | <u>881,868</u> | <u>822,641</u> | <u>2,408,782</u> | <u>2,176,027</u> |
| Total net position | <u>\$ 5,613,235</u> | <u>\$ 5,433,491</u> | <u>\$ 1,920,550</u> | <u>\$ 1,854,860</u> | <u>\$ 7,533,785</u> | <u>\$ 7,288,351</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 \$7,533,785 as of June 30, 2018. The Town's net position increased by \$245,434 for the fiscal year ended June 30, 2018. However, the largest portion (62.8%) 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, \$390,961, or 5.2%, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$2,408,782 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 \$179,744. As compared to the previous fiscal year, the Town had more cash in Accounts Receivables. Assets increased (such as through the purchase of property at 1210 Montreat Road) and liabilities decreased (such as through payments made towards bond debt and installment financing).

- The net position in business-type activities increased by \$65,690. As compared to the previous fiscal year, the Town's liabilities decreased (such as payments on bond debt and paying off the backhoe note).

Town of Montreat Changes in Net Position

Figure 3

| | Governmental Activities | | Business-Type Activities | | Total | |
|--|----------------------------|---------------------|-----------------------------|---------------------|---------------------|---------------------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 94,784 | \$ 98,987 | \$ 333,751 | \$ 351,697 | \$ 428,535 | \$ 450,684 |
| Operating grants and contributions | 152,413 | 147,450 | - | - | 152,413 | 147,450 |
| Capital grants and contributions | 2,787 | 3,694 | - | - | 2,787 | 3,694 |
| General revenues: | | | | | | |
| Property taxes | 1,000,700 | 974,695 | - | - | 1,000,700 | 974,695 |
| Other taxes | 406,038 | 402,651 | - | - | 406,038 | 402,651 |
| Other | 9,848 | 9,758 | 3,886 | 244 | 13,734 | 10,002 |
| Total revenues | <u>1,666,570</u> | <u>1,637,235</u> | <u>337,637</u> | <u>351,941</u> | <u>2,004,207</u> | <u>1,989,176</u> |
| Expenses: | | | | | | |
| General government | 337,182 | 604,294 | - | - | 337,182 | 604,294 |
| Public safety | 358,436 | 439,093 | - | - | 358,436 | 439,093 |
| Transportation | 473,469 | 380,618 | - | - | 473,469 | 380,618 |
| Environmental protection | 117,305 | 96,173 | - | - | 117,305 | 96,173 |
| Culture and recreation | 26,265 | 20,419 | - | - | 26,265 | 20,419 |
| Interest on long-term debt | 3,278 | 6,221 | - | - | 3,278 | 6,221 |
| Water and sewer | - | - | 271,947 | 272,343 | 271,947 | 272,343 |
| Total expenses | <u>1,315,935</u> | <u>1,546,818</u> | <u>271,947</u> | <u>272,343</u> | <u>1,587,882</u> | <u>1,819,161</u> |
| Increase in net position before special item | 350,635 | 90,417 | 65,690 | 79,598 | 416,325 | 170,015 |
| Special item: | | | | | | |
| Loss on disposal of asset | <u>(170,891)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(170,891)</u> | <u>-</u> |
| Change in net position | <u>179,744</u> | <u>90,417</u> | <u>65,690</u> | <u>79,598</u> | <u>245,434</u> | <u>170,015</u> |
| Net position, beginning of year | 5,433,491 | 5,269,195 | 1,854,860 | 1,775,262 | 7,288,351 | 7,044,457 |
| Restatement | <u>-</u> | <u>73,879</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>73,879</u> |
| Beginning of year - July 1 as restated | <u>5,433,491</u> | <u>5,343,074</u> | <u>1,854,860</u> | <u>1,775,262</u> | <u>7,288,351</u> | <u>7,118,336</u> |
| Net position, June 30 | <u>\$ 5,613,235</u> | <u>\$ 5,433,491</u> | <u>\$ 1,920,550</u> | <u>\$ 1,854,860</u> | <u>\$ 7,533,785</u> | <u>\$ 7,288,351</u> |

Governmental Activities. Governmental activities increased the Town's net position by \$179,744, thereby accounting for 73.2% of the total growth in the net position of \$245,434 for the Town of Montreat. This compares to an increase of \$170,015 in the previous fiscal year, a difference of \$75,419.

Key elements of this increase are as follows:

- Program revenues decreased by about \$147 over the previous year.
- Government activity revenues increased by \$11,140 from the previous year.
- Governmental activity expenses decreased by \$230,883 compared to the previous fiscal year.

Business-Type Activities. Business-type activities in the Water Fund increased the Town of Montreat's net position by \$65,690, accounting for 26.8% of the total growth in the government's net position.

Key elements of this increase are as follows:

- Business-type revenues decreased by \$17,946 from the previous year.
- Business-type activity expenses remained consistent with the prior year and decreased by \$396.

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, the Town of Montreat's fund balance available in the General Fund was \$1,656,888, while total fund balance reached \$1,762,860. The governing body of the Town of Montreat has determined that the Town should maintain at least 35% of General Fund budgeted expenditures in case of unforeseen needs or opportunities, in addition to meeting the cash flow needs of the Town. The Town currently has available fund balance of 90.70% of total General Fund expenditures and transfers out, while total fund balance represents 96.50% of the same amount.

At June 30, 2018, the governmental funds of the Town of Montreat reported a combined fund balance of \$2,108,741, with a net increase in fund balance of \$185,621. During fiscal year 2018, the Town identified its need to construct a Town Hall and Public Works Building and adopted project ordinances for the construction of these buildings. The Town Hall Capital Project Fund had an increase in fund balance and an ending fund balance at June 30, 2018 of \$74,340, while the Public Works Capital Project Fund had an increase in fund balance and an ending fund balance of \$295,200.

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 below the final budgeted amounts and our total revenues were \$219,682 less than budgeted. Our actual General Fund expenditures in all departments (appropriation is by departmental level) were below budget by a total of \$312,140. Transfers to establish the capital project funds for the Town Hall and Public Works Building were equal to the budgeted amount of \$525,000.

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 \$881,868. The total change in net position for the Water Fund was \$65,690.

The Town’s Proprietary (Water) Fund brought in actual revenues below budget of \$30,966. This was due to lower water fees being received than expected. We also expended \$91,235 less than budgeted due to some projects being reduced and deferred. Overall, the Water Fund ended with a surplus over the original balanced budget of \$60,269.

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, 2018 totals \$5,423,272 (net of accumulated depreciation). These assets include land, buildings, building improvements, equipment, infrastructure, vehicles, and water system.

Major capital asset transactions during the year include the following:

- Two new capital project funds for the Town Hall and Public Works Building projects which totaled \$155,460 included in construction in progress.
- A new bucket truck for \$27,248
- New police radios totaling \$38,273

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

Figure 4

| | Governmental Activities | | Business-Type Activities | | Total | |
|--------------------------|----------------------------|---------------------|-----------------------------|---------------------|---------------------|---------------------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Land | \$ 1,355,224 | \$ 1,355,224 | \$ 367,968 | \$ 367,968 | \$ 1,723,192 | \$ 1,723,192 |
| Construction in progress | 323,471 | 337,006 | - | - | 323,471 | 337,006 |
| Buildings | 1,777 | 1,825 | 74,626 | 78,179 | 76,403 | 80,004 |
| Building improvements | 14,480 | 17,895 | 497,719 | 517,628 | 512,199 | 535,523 |
| Equipment | 40,320 | 4,342 | - | 14,949 | 40,320 | 19,291 |
| Infrastructure | 1,952,370 | 2,033,383 | 651,138 | 690,191 | 2,603,508 | 2,723,574 |
| Vehicles | 144,179 | 165,982 | - | - | 144,179 | 165,982 |
| Total | <u>\$ 3,831,821</u> | <u>\$ 3,915,657</u> | <u>\$ 1,591,451</u> | <u>\$ 1,668,915</u> | <u>\$ 5,423,272</u> | <u>\$ 5,584,572</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, 2018, the Town of Montreat had total bonded debt outstanding of \$90,000 and \$559,230 of installment debt.

Outstanding Liabilities

Figure 5

| | Governmental Activities | | Business-Type Activities | | Total | |
|------------------------------|----------------------------|-------------------|-----------------------------|-------------------|-------------------|---------------------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Bonds payable | \$ - | \$ - | \$ 90,000 | \$ 118,000 | \$ 90,000 | \$ 118,000 |
| Installment debt | 136,461 | 166,138 | 462,769 | 518,696 | 599,230 | 684,834 |
| Compensated absences | 102,266 | 133,027 | - | - | 102,266 | 133,027 |
| Pension related debt (LGERS) | 141,467 | 200,773 | - | - | 141,467 | 200,773 |
| Pension related debt (LEO) | 59,532 | 77,602 | - | - | 59,532 | 77,602 |
| Total | \$ 439,726 | \$ 577,540 | \$ 552,769 | \$ 636,696 | \$ 992,495 | \$ 1,214,236 |

Town of Montreat's Outstanding Debt

The Town of Montreat's total long-term obligations decreased by \$221,741 (-18.26%) during the past fiscal year, primarily due to scheduled debt payments and the decrease in pension related debt and compensated absences.

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 \$20,088,319.

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 2017 is 868. 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 full-time equivalent employees at the Montreat Conference Center has increased to 87 in the past year. The operating budget for Montreat Conference Center has held steady at approximately \$7.5 million in 2017 and 2018. The total headcount enrollment of full and part-time students on the Montreat College main campus increased from 509 in 2017 to 538 in 2018. The number of employees at the Montreat campuses increased slightly from 127 in 2017 to 128 in 2018. The operating budget for Montreat College increased from \$20.5 million in 2017 to \$20.9 in 2018. (Source: Montreat Conference Center and Montreat College)
- The total valuation of real property within the jurisdiction of the Town of Montreat for calendar year 2017 was \$238,989,117. (Source: Buncombe County).
- A total of 87 building permits were issued by the Town. This is an increase of 35 over the previous fiscal year. (Source: Town of Montreat)
- The Town delivered a total of 33,875,260 gallons of water through fiscal year ended 2018, an increase of 5,475,144 gallons, or 20% from the previous year. (Source: Town of Montreat)

Budget Highlights for the Fiscal Year Ending June 30, 2019

Governmental Activities:

- Budgeted General Fund revenues for the fiscal year ending June 30, 2019 have been estimated at \$1,886,447. This represents an increase of \$219,877, or 11%, from the final actual revenues of \$1,666,570 for the fiscal year ended June 30, 2018. 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, 2019 have been estimated at \$1,886,447. This represents an increase of \$584,617, or 30%, from the final actual expenditures of \$1,301,830 for fiscal year ended June 30, 2018. Most of the increase is due to anticipated expenditures for capital projects in fiscal year 2018 were deferred to fiscal 2019.
- Other financing sources (appropriated fund balance) for the General Fund for fiscal year ending 2019 are budgeted at \$0. This compares with actual other financing sources (debt issued) for the fiscal year ended 2018 of \$-0-, which shows no increase and/or decrease. Note that the Town routinely budgets an appropriation of fund balance in excess of what it ultimately uses. In the fiscal year ended 2018, an appropriation of fund balance of \$127,718 was left entirely unused.

Business-Type Activities:

- Budgeted Water Fund revenues for the fiscal year ending June 30, 2019 have been estimated at \$356,611. This represents an increase of \$18,974, or 5%, from the final actual revenues of \$337,637 for the fiscal year ended June 30, 2018. This difference is primarily due to a significant reduction in water access fees from fiscal year 2018 to fiscal year 2019.
- Budgeted Water Fund expenditures and debt service for the fiscal year ending June 30, 2019 equal \$354,311. This is an increase of \$82,364, or 23%, from the final actual expenditures of \$271,947 for fiscal year ended June 30, 2018. This is due to budgeting for additional 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 Alex Carmichael, 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, 2018

| | Primary Government | | |
|--|----------------------------|-----------------------------|---------------------|
| | Governmental Activities | Business-Type Activities | Total |
| Assets: | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 1,823,516 | \$ 833,600 | \$ 2,657,116 |
| Taxes receivable, net | 1 | - | 1 |
| Accounts receivable, net | 103,284 | 33,212 | 136,496 |
| Inventories | - | 17,279 | 17,279 |
| Prepaid items | 2,688 | - | 2,688 |
| Restricted cash and cash equivalents | 272,809 | 7,495 | 280,304 |
| Total current assets | <u>2,202,298</u> | <u>891,586</u> | <u>3,093,884</u> |
| Non-current assets: | | | |
| Capital assets: | | | |
| Land and construction in progress | 1,678,695 | 367,968 | 2,046,663 |
| Other capital assets, net of depreciation | 2,153,126 | 1,223,483 | 3,376,609 |
| Total non-current assets | <u>3,831,821</u> | <u>1,591,451</u> | <u>5,423,272</u> |
| Total assets | <u>6,034,119</u> | <u>2,483,037</u> | <u>8,517,156</u> |
| Deferred Outflows of Resources: | | | |
| Pension deferrals | <u>133,656</u> | <u>-</u> | <u>133,656</u> |
| Liabilities: | | | |
| Current liabilities: | | | |
| Accounts payable and accrued expenses | 93,808 | 2,223 | 96,031 |
| Liabilities payable from restricted assets | - | 7,495 | 7,495 |
| Current portion of long-term liabilities | 23,061 | 69,086 | 92,147 |
| Current portion of compensated absences | 10,227 | - | 10,227 |
| Total current liabilities | <u>127,096</u> | <u>78,804</u> | <u>205,900</u> |
| Long-term liabilities: | | | |
| Total pension liability (LEOSSA) | 59,532 | - | 59,532 |
| Net pension liability (LGRERS) | 141,467 | - | 141,467 |
| Due in more than one year | 205,439 | 483,683 | 689,122 |
| Total long-term liabilities | <u>406,438</u> | <u>483,683</u> | <u>890,121</u> |
| Total liabilities | <u>533,534</u> | <u>562,487</u> | <u>1,096,021</u> |
| Deferred Inflows of Resources: | | | |
| Pension deferrals | 19,506 | - | 19,506 |
| Prepaid taxes | 1,500 | - | 1,500 |
| Total deferred inflows of resources | <u>21,006</u> | <u>-</u> | <u>21,006</u> |
| Net Position: | | | |
| Net investment in capital assets | 3,695,360 | 1,038,682 | 4,734,042 |
| Restricted for: | | | |
| Stabilization by state statute | 103,284 | - | 103,284 |
| Streets | 272,809 | - | 272,809 |
| Cultural and recreation | 14,868 | - | 14,868 |
| Unrestricted | 1,526,914 | 881,868 | 2,408,782 |
| Total net position | <u>\$ 5,613,235</u> | <u>\$ 1,920,550</u> | <u>\$ 7,533,785</u> |

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

TOWN OF MONTREAT, NORTH CAROLINA

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

| | <u>Program Revenues</u> | | | |
|----------------------------------|-------------------------|-----------------------------|---|-----------------|
| | <u>Expenses</u> | <u>Charges for Services</u> | <u>Operating Grants and Contributions</u> | |
| Functions/Programs: | | | | |
| Primary Government: | | | | |
| Governmental Activities: | | | | |
| General government | \$ 337,182 | \$ 88,002 | \$ 105,009 | \$ - |
| Public safety | 358,436 | 1,673 | - | - |
| Transportation | 473,469 | - | 40,875 | - |
| Environmental protection | 117,305 | 5,109 | 6,529 | 2,787 |
| Cultural and recreation | 26,265 | - | - | - |
| Interest on long-term debt | 3,278 | - | - | - |
| Total governmental activities | <u>1,315,935</u> | <u>94,784</u> | <u>152,413</u> | <u>2,787</u> |
| Business-Type Activities: | | | | |
| Water | <u>271,947</u> | <u>333,751</u> | - | - |
| Total business-type activities | <u>271,947</u> | <u>333,751</u> | - | - |
| Total primary government | <u>\$ 1,587,882</u> | <u>\$ 428,535</u> | <u>\$ 152,413</u> | <u>\$ 2,787</u> |

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

TOWN OF MONTREAT, NORTH CAROLINA

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

| | Net (Expense) Revenue and Changes in Net Position | | |
|--|--|-------------------------------------|--------------|
| | Primary Government | | |
| | Governmental Activities | Business-Type Activities | Total |
| Functions/Programs: | | | |
| Primary Government: | | | |
| Governmental Activities: | | | |
| General government | \$ (144,171) | \$ - | \$ (144,171) |
| Public safety | (356,763) | - | (356,763) |
| Transportation | (432,594) | - | (432,594) |
| Environmental protection | (102,880) | - | (102,880) |
| Cultural and recreation | (26,265) | - | (26,265) |
| Interest on long-term debt | (3,278) | - | (3,278) |
| Total governmental activities | (1,065,951) | - | (1,065,951) |
| Business-Type Activities: | | | |
| Water | - | 61,804 | 61,804 |
| Total business-type activities | - | 61,804 | 61,804 |
| Total primary government | (1,065,951) | 61,804 | (1,004,147) |
| General Revenues: | | | |
| Taxes: | | | |
| Property taxes, levied for general purposes | 1,000,700 | - | 1,000,700 |
| Local option sales tax | 406,038 | - | 406,038 |
| Investment earnings, unrestricted | 4,395 | 284 | 4,679 |
| Miscellaneous | 5,453 | 3,602 | 9,055 |
| Total general revenues, excluding special item | 1,416,586 | 3,886 | 1,420,472 |
| Special item: loss on disposal of asset | (170,891) | - | (170,891) |
| Change in net position | 179,744 | 65,690 | 245,434 |
| Net Position: | | | |
| Beginning of year - July 1 | 5,433,491 | 1,854,860 | 7,288,351 |
| End of year - June 30 | \$ 5,613,235 | \$ 1,920,550 | \$ 7,533,785 |

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

TOWN OF MONTREAT, NORTH CAROLINA

BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2018

| | Major | | | Other Governmental Funds | Total |
|---|---------------------|--------------------------------------|---|--------------------------------|---------------------|
| | General Fund | Town Hall Capital Project Fund | Public Works Capital Project Fund | | |
| Assets: | | | | | |
| Cash and cash equivalents | \$ 1,453,976 | \$ 74,340 | \$ 295,200 | \$ - | \$ 1,823,516 |
| Taxes receivable, net | 1 | - | - | - | 1 |
| Accounts receivable, net | 103,284 | - | - | - | 103,284 |
| Prepaid items | 2,688 | - | - | - | 2,688 |
| Restricted cash | 272,809 | - | - | - | 272,809 |
| Total assets | <u>\$ 1,832,758</u> | <u>\$ 74,340</u> | <u>\$ 295,200</u> | <u>\$ -</u> | <u>\$ 2,202,298</u> |
| Liabilities, Deferred Inflows of Resources, and Fund Balances: | | | | | |
| Liabilities: | | | | | |
| Accounts payable | \$ 68,397 | \$ - | \$ - | \$ 23,659 | \$ 92,056 |
| Deferred Inflows of Resources: | | | | | |
| Property tax receivable | 1 | - | - | - | 1 |
| Prepaid taxes | 1,500 | - | - | - | 1,500 |
| Total deferred inflows of resources | <u>1,501</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>1,501</u> |
| Fund Balances: | | | | | |
| Non-spendable: | | | | | |
| Prepays | 2,688 | - | - | - | 2,688 |
| Restricted: | | | | | |
| Stabilization by state statute | 103,284 | - | - | - | 103,284 |
| Streets | 272,809 | - | - | - | 272,809 |
| Open space | 14,868 | - | - | - | 14,868 |
| Committed | 20,115 | 74,340 | 295,200 | - | 389,655 |
| Assigned: | | | | | |
| Public safety | 32,876 | - | - | - | 32,876 |
| Unassigned | 1,316,220 | - | - | (23,659) | 1,292,561 |
| Total fund balances | <u>1,762,860</u> | <u>74,340</u> | <u>295,200</u> | <u>(23,659)</u> | <u>2,108,741</u> |
| Total liabilities, deferred inflows of resources, and fund balances | <u>\$ 1,832,758</u> | <u>\$ 74,340</u> | <u>\$ 295,200</u> | <u>\$ -</u> | |
| Amounts reported for governmental activities in the Statement of Net Position (Exhibit A) are different because: | | | | | |
| Capital assets, net of accumulated depreciation, used in governmental activities are not current financial resources and, therefore, are not reported in the funds. | | | | | 3,831,821 |
| Deferred outflows of resources related to pensions are not reported in the funds. | | | | | 133,656 |
| Long-term liabilities, compensated absences, and interest payable are not due and payable in the current period and, therefore, are not reported in the funds. | | | | | (240,479) |
| Net pension liability - LGERS | | | | | (141,467) |
| Total pension liability - LEOSSA | | | | | (59,532) |
| Deferred inflows of resources related to pensions are not reported in the funds. | | | | | (19,506) |
| 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>1</u> |
| Net position of governmental activities | | | | | <u>\$ 5,613,235</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 FUNDS
FOR THE YEAR ENDED JUNE 30, 2018

| | Major | | | Other Governmental Funds | Total |
|---|---------------------|--------------------------------------|---|--------------------------------|---------------------|
| | General Fund | Town Hall Capital Project Fund | Public Works Capital Project Fund | | |
| Revenues: | | | | | |
| Ad valorem taxes | \$ 1,000,700 | \$ - | \$ - | \$ - | \$ 1,000,700 |
| Other taxes and licenses | 406,038 | - | - | - | 406,038 |
| Unrestricted intergovernmental revenues | 93,385 | - | - | - | 93,385 |
| Restricted intergovernmental revenues | 46,875 | - | - | - | 46,875 |
| Permits and fees | 88,002 | - | - | - | 88,002 |
| Sales and services | 18,935 | - | - | - | 18,935 |
| Investment earnings | 4,395 | - | - | - | 4,395 |
| Miscellaneous | 8,240 | - | - | - | 8,240 |
| Total revenues | <u>1,666,570</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>1,666,570</u> |
| Expenditures: | | | | | |
| Current: | | | | | |
| General government | 363,348 | 150,660 | - | - | 514,008 |
| Public safety | 397,494 | - | - | - | 397,494 |
| Transportation | 389,954 | - | 4,800 | 23,659 | 418,413 |
| Environmental protection | 104,362 | - | - | - | 104,362 |
| Cultural and recreation | 13,490 | - | - | - | 13,490 |
| Debt service: | | | | | |
| Principal | 29,677 | - | - | - | 29,677 |
| Interest | 3,505 | - | - | - | 3,505 |
| Total expenditures | <u>1,301,830</u> | <u>150,660</u> | <u>4,800</u> | <u>23,659</u> | <u>1,480,949</u> |
| Revenues over (under) expenditures | <u>364,740</u> | <u>(150,660)</u> | <u>(4,800)</u> | <u>(23,659)</u> | <u>185,621</u> |
| Other Financing Sources (Uses): | | | | | |
| Transfers from other funds | - | 225,000 | 300,000 | - | 525,000 |
| Transfers to other funds | <u>(525,000)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(525,000)</u> |
| Total other financing sources (uses) | <u>(525,000)</u> | <u>225,000</u> | <u>300,000</u> | <u>-</u> | <u>-</u> |
| Net change in fund balances | (160,260) | 74,340 | 295,200 | (23,659) | 185,621 |
| Fund Balances: | | | | | |
| Beginning of year - July 1 | <u>1,923,120</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>1,923,120</u> |
| End of year - June 30 | <u>\$ 1,762,860</u> | <u>\$ 74,340</u> | <u>\$ 295,200</u> | <u>\$ (23,659)</u> | <u>\$ 2,108,741</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, 2018

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) | \$ | 185,621 |
| Expenses related to interest expense that do not require current financial resources are not reported as expenditures. | | 227 |
| 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. | | 222,547 |
| Loss on disposal of asset | | (170,891) |
| Depreciation expense allocates the costs of capital assets over their useful lives. It is not reported as an expenditure in the governmental funds statement. | | (135,492) |
| 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. | | 29,677 |
| Expenses related to compensated absences and pension obligations in the Statement of Activities that do not pay for current financial obligations are not reported as expenditures in the governmental funds. This adjustment is the amount of net change in these balances in the current year. | | |
| Compensated absences | 30,761 | |
| Pension expense - LGERS | (6,471) | |
| Pension expense - LEOSSA | <u>23,765</u> | <u>48,055</u> |
| Change in net position of governmental activities per Exhibit B | \$ | <u>179,744</u> |

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

TOWN OF MONTREAT, NORTH CAROLINA

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2018

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance Over/Under</u> |
|---|-------------------------|------------------|-----------------------|----------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues: | | | | |
| Ad valorem taxes | \$ 981,843 | \$ 981,843 | \$ 1,000,700 | \$ 18,857 |
| Other taxes and licenses | 411,600 | 411,600 | 406,038 | (5,562) |
| Unrestricted intergovernmental revenues | 105,983 | 105,983 | 93,385 | (12,598) |
| Restricted intergovernmental revenues | 39,446 | 45,446 | 46,875 | 1,429 |
| Permits and fees | 93,480 | 93,480 | 88,002 | (5,478) |
| Sales and services | 238,100 | 238,100 | 18,935 | (219,165) |
| Investment earnings | 6,800 | 6,800 | 4,395 | (2,405) |
| Miscellaneous | 3,000 | 3,000 | 8,240 | 5,240 |
| Total revenues | <u>1,880,252</u> | <u>1,886,252</u> | <u>1,666,570</u> | <u>(219,682)</u> |
| Expenditures: | | | | |
| General government | 804,882 | 411,132 | 363,348 | 47,784 |
| Public safety | 462,374 | 426,204 | 397,494 | 28,710 |
| Transportation | 600,527 | 583,725 | 389,954 | 193,771 |
| Environmental protection | 100,037 | 110,621 | 104,362 | 6,259 |
| Cultural and recreation | 7,000 | 13,540 | 13,490 | 50 |
| Debt service: | | | | |
| Principal | 29,550 | 65,148 | 29,677 | 35,471 |
| Interest | 3,600 | 3,600 | 3,505 | 95 |
| Total debt service | <u>33,150</u> | <u>68,748</u> | <u>33,182</u> | <u>35,566</u> |
| Total expenditures | <u>2,007,970</u> | <u>1,613,970</u> | <u>1,301,830</u> | <u>312,140</u> |
| Revenues over (under) expenditures | <u>(127,718)</u> | <u>272,282</u> | <u>364,740</u> | <u>92,458</u> |
| Other Financing Sources (Uses): | | | | |
| Fund balance appropriated | 127,718 | 252,718 | - | (252,718) |
| Transfer to other funds | - | (525,000) | (525,000) | - |
| Total other financing sources (uses) | <u>127,718</u> | <u>(272,282)</u> | <u>(525,000)</u> | <u>(252,718)</u> |
| Net change in fund balance | <u>\$ -</u> | <u>\$ -</u> | <u>(160,260)</u> | <u>\$ (160,260)</u> |
| Fund Balance: | | | | |
| Beginning of year - July 1 | | | <u>1,923,120</u> | |
| End of year - June 30 | | | <u>\$ 1,762,860</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, 2018

| | <u>Water Fund</u> |
|---|---------------------|
| Assets: | |
| Current assets: | |
| Cash and cash equivalents | \$ 833,600 |
| Accounts receivable, net | 33,212 |
| Inventory | 17,279 |
| Restricted cash and cash equivalents | <u>7,495</u> |
| Total current assets | <u>891,586</u> |
| Non-current assets: | |
| Land and construction in process | 367,968 |
| Other capital assets, net | <u>1,223,483</u> |
| Total capital assets | <u>1,591,451</u> |
| Total assets | <u>2,483,037</u> |
| Liabilities: | |
| Current liabilities: | |
| Accounts payable and accrued liabilities | 2,223 |
| Bonds payable, current | 28,000 |
| ARRA debt, current | 27,286 |
| Note payable, current | 13,800 |
| Liabilities payable from restricted assets: | |
| Customer deposits | <u>7,495</u> |
| Total current liabilities | <u>78,804</u> |
| Non-current liabilities: | |
| Bonds payable | 62,000 |
| ARRA debt | 325,083 |
| Note payable | <u>96,600</u> |
| Total non-current liabilities | <u>483,683</u> |
| Total liabilities | <u>562,487</u> |
| Net Position: | |
| Net investment in capital assets | 1,038,682 |
| Unrestricted | <u>881,868</u> |
| Total net position | <u>\$ 1,920,550</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, 2018

| | <u>Water Fund</u> |
|---|---------------------|
| Operating Revenues: | |
| Charges for services | \$ 285,901 |
| Other | <u>47,850</u> |
| Total operating revenues | <u>333,751</u> |
| Operating Expenses: | |
| Water operations | 182,357 |
| Depreciation | <u>77,464</u> |
| Total operating expenses | <u>259,821</u> |
| Operating income (loss) | <u>73,930</u> |
| Non-Operating Revenues (Expenses): | |
| Investment earnings | 284 |
| Sales of capital assets | 3,602 |
| Interest expense | <u>(12,126)</u> |
| Total non-operating revenues (expenses) | <u>(8,240)</u> |
| Change in net position | 65,690 |
| Net Position: | |
| Beginning of year - July 1 | <u>1,854,860</u> |
| End of year - June 30 | <u>\$ 1,920,550</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, 2018**

| | <u>Water Fund</u> |
|---|-------------------|
| Cash Flows from Operating Activities: | |
| Cash received from customers | \$ 376,905 |
| Cash paid for goods and services | (164,877) |
| Cash paid to employees for services | <u>(34,305)</u> |
| Net cash provided (used) by operating activities | <u>177,723</u> |
| Cash Flows from Capital and Related Financing Activities: | |
| Proceeds from sale of capital assets | 3,602 |
| Principal payment on long-term debt | (83,927) |
| Interest payment on long-term debt | <u>(12,869)</u> |
| Net cash provided (used) by capital and related financing activities | <u>(93,194)</u> |
| Cash Flows from Investing Activities: | |
| Interest received | <u>284</u> |
| Net increase (decrease) in cash, cash equivalents, and investments | 84,813 |
| Cash and Cash Equivalents: | |
| Beginning of year - July 1 | <u>756,282</u> |
| End of year - June 30 | <u>\$ 841,095</u> |
| Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) By Operating Activities: | |
| Operating income (loss) | \$ 73,930 |
| Depreciation | 77,464 |
| Change in assets and liabilities: | |
| Accounts receivables | 38,568 |
| Prepays | 860 |
| Inventories | 1,799 |
| Accounts payable and accrued liabilities | (19,484) |
| Customer deposits | <u>4,586</u> |
| Net cash provided (used) by operating activities | <u>\$ 177,723</u> |

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

TOWN OF MONTREAT, NORTH CAROLINA

**STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUND
JUNE 30, 2018**

| | <u>Agency Fund</u> |
|---------------------------|--------------------|
| Assets: | |
| Cash and cash equivalents | \$ 20,461 |
| Receivables | <u>31,997</u> |
| Total assets | <u>\$ 52,458</u> |
| | |
| Liabilities | |
| Accounts payable | <u>\$ 52,458</u> |

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

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TOWN OF MONTREAT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

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, proprietary, and fiduciary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

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

TOWN OF MONTREAT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

The Town reports the following major governmental funds:

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

Town Hall Capital Project Fund. This fund is used to account for the expenditures for the new Town Hall in the Town of Montreat.

Public Works Building Capital Project Fund. This fund is used to account for the expenditures for the new Public Works Building in the Town of Montreat.

The Town reports the following major enterprise fund:

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

The Town reports the following nonmajor governmental funds:

Special Revenue Funds. The special revenue funds accounts for specific revenue sources (other than capital projects) that are legally restricted to expenditures for specified purposes. The special revenue funds maintained by the Town are the Calvin Trail Fund, Culvert Project Fund and Miscellaneous Project Fund.

Capital Project Funds. The capital project funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities. The nonmajor capital projects maintained by the Town is the Providence Terrace Project Fund.

The Town reports the following fund types:

Agency Funds. Agency funds are custodial in nature and do not involve the measurement of operating results. Agency funds are used to account for assets the Town holds on behalf of others. The Town maintains one agency fund: Metropolitan Sewer District of Buncombe County.

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, Proprietary and Fiduciary Fund Financial Statements. The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus except for the agency funds, which have no measurement focus. The government-wide, proprietary and fiduciary 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

TOWN OF MONTREAT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

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 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 or limited registration plates are shown as a receivable in these financial statements and are offset by deferred inflows of resources.

TOWN OF MONTREAT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

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.

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 all capital project funds and special revenue funds. 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 Government Portfolio, an SEC-registered (2a-7) government money market fund, is measured at amortized cost, which is the NCCMT's share price. The NCCMT-Term Portfolio's securities are valued at fair value.

TOWN OF MONTREAT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

2. Cash and Cash Equivalents

The Town pools money from several funds to facilitate disbursement and investment and to maximize investment income and considers all cash and investments to be cash and cash equivalents.

3. Restricted Assets

Customer deposits held by the Town before any services are supplied are restricted to the service for which the deposit was collected. Powell Bill funds are also classified as restricted cash because they can be expended only for the purposes 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, 2018 consists of the following:

Governmental Activities:

General Fund:

| | |
|-------------------------------|----------------|
| Powell Bill | \$ 272,809 |
| Total governmental activities | <u>272,809</u> |

Business-Type Activities:

Water Fund:

| | |
|--------------------------------|--------------|
| Customer deposits | <u>7,495</u> |
| Total business-type activities | <u>7,495</u> |

| | |
|-----------------------|--------------------------|
| Total restricted cash | <u><u>\$ 280,304</u></u> |
|-----------------------|--------------------------|

4. Ad Valorem Taxes Receivable

In accordance with state law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad valorem taxes on property other than motor vehicles on July 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, 2017. 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.

TOWN OF MONTREAT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

6. Inventory and Prepaid Items

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

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 30, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 30, 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 |

TOWN OF MONTREAT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

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 one item that meets this criteria: pension related deferrals for the 2018 fiscal year. In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized until then. The Town has two items that meet the criteria for this category - prepaid taxes and pension deferrals.

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.

TOWN OF MONTREAT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

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.

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 – 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 Powel Bill funds.

Restricted for Open Space – portion of fund balance that donors have contributed to the Town for conservation program efforts.

TOWN OF MONTREAT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

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

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

Committed for General Government – portion of fund balance that is committed by the Board for the Town Hall building project.

Committed for Transportation – portion of fund balance that is committed by the Board for the Public Works building project.

| | General Fund | Town Hall Capital Project Fund | Public Works Capital Project Fund |
|--------------------------------|-------------------------|---|--|
| Committed Fund Balance: | | | |
| Town contribution - open space | \$ 20,115 | \$ - | \$ - |
| General government | - | 74,340 | - |
| Transportation | - | - | 295,200 |
| Total | \$ 20,115 | \$ 74,340 | \$ 295,200 |

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.

Unassigned Fund Balance - the portion of fund balance that has not been restricted, committed, or assigned to specific purposes or other funds. The General Fund is the only governmental fund that reports a positive unassigned fund balance.

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.

TOWN OF MONTREAT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

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 remaining fund balance is at least equal to or greater than 35% of final budgeted expenditures. Any portion of the General Fund balance in excess of 35% 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.

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 | \$ 1,762,860 |
| Less: | |
| Stabilization by state statute | (103,284) |
| Non-spendable | <u>(2,688)</u> |
| Available fund balance | 1,656,888 |
| Fund balance policy | <u>(564,890)</u> |
| Remaining fund balance | <u>\$ 1,091,999</u> |

12. Defined Benefit Cost-Sharing Plans

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 (LGERS) and additions to/deductions from LGERS' fiduciary net position have been determined on the same basis as they are reported by LGERS. For this purpose, plan member contributions are recognized in the period in which the contributions are due. The Town of Montreat's employer contributions are recognized when due and the Town of Montreat has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of LGERS. Investments are reported at fair value.

II. Detail Notes On All Funds

A. Assets

1. Deposits

All of the deposits of the Town are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the Town's agents in the Town's name. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town, these deposits are considered to be held by the Town's agents in their names. The amount of the

TOWN OF MONTREAT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

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

At June 30, 2018, the Town's deposits had a carrying amount of \$2,944,255 and a bank balance of \$2,951,552. 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, 2018, the Town's petty cash fund totaled \$250.

2. Investments

At June 30, 2018, the Town of Montreat had \$13,376 invested with the North Carolina Capital Management Trust's Government Portfolio.

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 Government Portfolio carried a credit rating of AAAM by Standard & Poor's as of June 30, 2018.

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, 2018 are net of the following allowances for doubtful accounts:

| | |
|----------------------------------|-----------------|
| Water Fund - accounts receivable | <u>\$ 1,748</u> |
|----------------------------------|-----------------|

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

TOWN OF MONTREAT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

4. Capital Assets

Primary Government

Capital asset activity for the primary government for the year ended June 30, 2018 was as follows:

| | <u>July 1, 2017</u> | <u>Increases</u> | <u>Decreases</u> | <u>June 30, 2018</u> |
|--|---------------------|-------------------|--------------------|----------------------|
| Governmental Activities: | | | | |
| Capital Assets Not Being Depreciated: | | | | |
| Land | \$ 1,355,224 | \$ - | \$ - | \$ 1,355,224 |
| Construction in progress | <u>337,006</u> | <u>157,356</u> | <u>(170,891)</u> | <u>323,471</u> |
| Total capital assets not being depreciated | <u>1,692,230</u> | <u>157,356</u> | <u>(170,891)</u> | <u>1,678,695</u> |
| Capital Assets Being Depreciated: | | | | |
| Buildings | 1,921 | - | - | 1,921 |
| Building improvements | 59,507 | - | - | 59,507 |
| Infrastructure | 2,430,395 | - | - | 2,430,395 |
| Equipment | 97,418 | 37,943 | (28,498) | 106,863 |
| IT equipment | 73,254 | - | (21,647) | 51,607 |
| Vehicles | <u>420,354</u> | <u>27,248</u> | <u>-</u> | <u>447,602</u> |
| Total capital assets being depreciated | <u>3,082,849</u> | <u>65,191</u> | <u>(50,145)</u> | <u>3,097,895</u> |
| Less Accumulated Depreciation: | | | | |
| Buildings | 96 | 48 | - | 144 |
| Building improvements | 41,612 | 3,415 | - | 45,027 |
| Infrastructure | 397,012 | 81,013 | - | 478,025 |
| Equipment | 93,076 | 1,965 | (28,498) | 66,543 |
| IT equipment | 73,254 | - | (21,647) | 51,607 |
| Vehicles | <u>254,372</u> | <u>49,051</u> | <u>-</u> | <u>303,423</u> |
| Total accumulated depreciation | <u>859,422</u> | <u>\$ 135,492</u> | <u>\$ (50,145)</u> | <u>944,769</u> |
| Total capital assets being depreciated | <u>2,223,427</u> | | | <u>2,153,126</u> |
| Governmental activity capital assets, net | <u>\$ 3,915,657</u> | | | <u>\$ 3,831,821</u> |

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

| | |
|----------------------------|-------------------|
| General government | \$ 2,901 |
| Public safety | 20,312 |
| Transportation | 86,943 |
| Environmental protection | 12,561 |
| Cultural and recreation | <u>12,775</u> |
| Total depreciation expense | <u>\$ 135,492</u> |

TOWN OF MONTREAT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

Proprietary Capital Assets

The capital asset activity of the proprietary fund for the year ended June 30, 2018 was as follows:

| | <u>July 1, 2017</u> | <u>Increases</u> | <u>Decreases</u> | <u>June 30, 2018</u> |
|--|---------------------|------------------|--------------------|----------------------|
| Business-Type Activities: | | | | |
| Capital Assets Not Being Depreciated: | | | | |
| Land | \$ 367,968 | \$ - | \$ - | \$ 367,968 |
| Capital Assets Being Depreciated: | | | | |
| Buildings | 142,110 | - | - | 142,110 |
| Improvements | 601,155 | - | - | 601,155 |
| Infrastructure | 2,001,392 | - | - | 2,001,392 |
| Equipment | 98,938 | - | - | 98,938 |
| IT equipment | 23,776 | - | - | 23,776 |
| Vehicles | 39,807 | - | (13,293) | 26,514 |
| Total capital assets being depreciated | <u>2,907,178</u> | <u>-</u> | <u>(13,293)</u> | <u>2,893,885</u> |
| Less Accumulated Depreciation: | | | | |
| Buildings | 63,931 | 3,553 | - | 67,484 |
| Improvements | 83,527 | 19,909 | - | 103,436 |
| Infrastructure | 1,311,201 | 39,053 | - | 1,350,254 |
| Equipment | 83,989 | 14,949 | - | 98,938 |
| IT equipment | 23,776 | - | - | 23,776 |
| Vehicles | 39,807 | - | (13,293) | 26,514 |
| Total accumulated depreciation | <u>1,606,231</u> | <u>\$ 77,464</u> | <u>\$ (13,293)</u> | <u>1,670,402</u> |
| Total capital assets being depreciated, net | <u>1,300,947</u> | | | <u>1,223,483</u> |
| Business-type activities capital assets, net | <u>\$ 1,668,915</u> | | | <u>\$ 1,591,451</u> |

Net Investment in Capital Assets

The total net investment in capital assets at June 30, 2018 is composed of the following elements:

| | <u>Governmental Activities</u> | <u>Business-Type Activities</u> |
|----------------------------------|------------------------------------|-------------------------------------|
| Capital assets | \$ 3,831,821 | \$ 1,591,451 |
| Long-term debt | (136,461) | (552,769) |
| Net investment in capital assets | <u>\$ 3,695,360</u> | <u>\$ 1,038,682</u> |

TOWN OF MONTREAT, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

B. Liabilities

1. Payables

Payables at the government-wide level at June 30, 2018 were as follows:

| | Salaries and Benefits | Vendors | Accrued Interest | Total |
|----------------------------------|----------------------------------|----------------|-----------------------------|--------------|
| Governmental Activities: | | | | |
| General Fund | \$ 10,229 | \$ 58,168 | \$ 1,752 | \$ 70,149 |
| Other governmental funds | - | 23,659 | - | 23,659 |
| Total | \$ 10,229 | \$ 81,827 | \$ 1,752 | \$ 93,808 |
| Business-Type Activities: | | | | |
| Water Fund | \$ - | \$ 2,223 | \$ - | \$ 2,223 |

2. 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, 2018

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, 2018 was 8.25% of compensation for law enforcement officers and 7.50% 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 \$42,845 for the year ended June 30, 2018.

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.

TOWN OF MONTREAT, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

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

At June 30, 2018, the Town reported a liability of \$141,467 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016. The total pension liability was then rolled forward to the measurement date of June 30, 2017 utilizing update procedures incorporating the actuarial assumptions. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2017, the Town's proportion was 0.00926%, which was a decrease of 0.00020% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the Town recognized pension expense of \$49,314. At June 30, 2018, 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 | \$ 8,150 | \$ 4,004 |
| Changes of assumptions | 20,203 | - |
| Net difference between projected and actual earnings on pension plan investments | 34,348 | - |
| Changes in proportion and differences between Town contributions and proportionate share of contributions | 5,327 | 3,079 |
| Town contributions subsequent to the measurement date | 42,845 | - |
| Total | \$ 110,873 | \$ 7,083 |

\$42,845 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, 2019. 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 |
|--------------------------------|---------------|
| 2019 | \$ 8,474 |
| 2020 | 42,770 |
| 2021 | 20,190 |
| 2022 | (10,489) |
| 2023 | - |
| Thereafter | - |
| Total | \$ 60,945 |

TOWN OF MONTREAT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

Actuarial Assumptions. The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---------------------------|---|
| Inflation | 3.0 percent |
| Salary increases | 3.50 to 7.75 percent, including inflation and productivity factor |
| Investment rate of return | 7.20 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, 2016 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

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, 2017 are summarized in the following table:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|----------------------|------------------------------|---|
| Fixed income | 29.0% | 1.4% |
| Global equity | 42.0% | 5.3% |
| Real estate | 8.0% | 4.3% |
| Alternatives | 8.0% | 8.9% |
| Credit | 7.0% | 6.0% |
| Inflation protection | 6.0% | 4.0% |
| Total | <u>100%</u> | |

TOWN OF MONTREAT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

The information above is based on 30-year expectations developed with the consulting actuary for the 2017 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 7.20%. 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 7.20%, 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 (6.20%) or one percentage point higher (8.20%) than the current rate:

| | 1% Decrease (6.20%) | Discount Rate (7.20%) | 1% Increase (8.20%) |
|--|------------------------------------|--------------------------------------|------------------------------------|
| Town's proportionate share of the net pension liability (asset) | \$ 424,688 | \$ 141,467 | \$ (94,933) |

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 under the age of 62 who have completed at least 30 years of creditable service or have attained 55 years of age and have completed five or more years of creditable service. The Separation Allowance is equal to 0.85 percent of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or

TOWN OF MONTREAT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

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. A separate report was not issued for the plan.

All full-time law enforcement officers of the Town are covered by the Separation Allowance. At December 31, 2016, the Separation Allowance's membership consisted of:

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

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 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 Statement 73.

3. Actuary Assumptions

The entry age normal actuarial cost method was used in the December 31, 2016 valuation. The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|-----------------|--|
| Inflation | 2.50 percent |
| Salary increase | 3.50 to 7.35 percent, including inflation and productivity factor |
| Discount rate | 3.16 percent |

The discount rate used to measure the total pension liability is the S&P Municipal Bond 20-Year High Grade Rate Index.

Deaths After Retirement (Healthy): RP-2014 Healthy Annuitant base rates projected to 2015 using MP-2015, projected forward generationally from 2015 using MP-2015. Rates are adjusted by 104% for males and 100% for females.

TOWN OF MONTREAT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

Deaths Before Retirement: RP-2014 Employee base rates projected to 2015 using MP-2015, projected forward generationally from 2015 using MP-2015.

Deaths After Retirement (Beneficiary): RP-2014 Healthy Annuitant base rates projected to 2015 using MP-2015, projected forward generationally from 2015 using MP-2015. Rates are adjusted by 123% for males and females.

Deaths After Retirement (Disabled): RP-2014 Disabled Retiree base rates projected to 2015 using MP-2015, projected forward generationally from 2015 using MP-2015. Rates are adjusted by 103% for males and 99% for females.

4. Contributions

The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the amounts necessary to cover the benefits earned on a pay-as-you-go basis through appropriations made in the General Fund operating budget. There were no contributions made by employees. The Town's obligation to contribute to this Plan is established and may be amended by the North Carolina General Assembly. Administration costs of the Separation Allowance are financed through investment earnings. The Town paid \$18,657 as benefits came due for the reporting period.

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

At June 30, 2018, the Town reported a total pension liability of \$59,532. The total pension liability was measured as of December 31, 2017 based on a December 31, 2016 actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2017 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2018, the Town recognized pension expense of \$6,875.

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|--|
| Differences between expected and actual experience | \$ - | \$ 12,042 |
| Changes of assumptions | 6,068 | 381 |
| Town benefit payments and plan administrative expense made subsequent to the measurement date | 16,715 | - |
| Total | \$ 22,783 | \$ 12,423 |

TOWN OF MONTREAT, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

\$16,715 reported as deferred outflows of resources related to pensions resulting from benefit payments made and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total pension liability in the year ending June 30, 2019. 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 |
|--------------------------------|-------------------|
| 2019 | \$ (1,672) |
| 2020 | (1,672) |
| 2021 | (1,672) |
| 2022 | (1,339) |
| 2023 | - |
| Thereafter | - |
| Total | \$ (6,355) |

Sensitivity of the Town's Total Pension Liability to Changes in the Discount Rate. The following presents the Town's total pension liability calculated using the discount rate of 3.16%, as well as what the Town's total pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.16%) or 1-percentage-point higher (4.16%) than the current rate:

| | 1% Decrease (2.16%) | Discount Rate (3.16%) | 1% Increase (4.16%) |
|-------------------------|------------------------------------|--------------------------------------|------------------------------------|
| Total pension liability | \$ 62,343 | \$ 59,532 | \$ 56,759 |

**Schedule of Changes in Total Pension Liability
Law Enforcement Officer's Special Separation Allowance**

| | 2018 |
|--|------------------|
| Beginning balance | \$ 77,602 |
| Service cost | 5,494 |
| Interest on the total pension liability | 2,635 |
| Differences between expected and actual experience | (15,203) |
| Changes of assumptions or other inputs | 7,661 |
| Benefit payments | <u>(18,657)</u> |
| Ending balance of the total pension liability | <u>\$ 59,532</u> |

TOWN OF MONTREAT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

The plan currently uses mortality tables that vary by age, 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, 2016 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

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

Following is information related to the proportionate share and pension expense for all pension plans:

| | LGERS | LEOSSA | Total |
|--|--------------|---------------|--------------|
| Pension expense | \$ 49,314 | \$ 6,875 | \$ 56,189 |
| Pension liability | 141,467 | 59,532 | 200,999 |
| Proportionate share of the net pension liability | 0.00926% | n/a | - |

Deferred Outflows of Resources:

| | | | |
|---|------------|-----------|------------|
| Differences between expected and actual experience | \$ 8,150 | \$ - | \$ 8,150 |
| Changes of assumptions | 20,203 | 6,068 | 26,271 |
| Net difference between projected and actual earnings on plan investments | 34,348 | - | 34,348 |
| Changes in proportion and differences between Town contributions and proportionate share of contributions | 5,327 | - | 5,327 |
| Benefit payments and administrative costs paid subsequent to the measurement date | 42,845 | 16,715 | 59,560 |
| Total deferred outflows of resources | \$ 110,873 | \$ 22,783 | \$ 133,656 |

Deferred Inflows of Resources:

| | | | |
|---|----------|-----------|-----------|
| Differences between expected and actual experience | \$ 4,004 | \$ 12,042 | \$ 16,046 |
| Changes of assumptions | - | 381 | 381 |
| Changes in proportion and differences between Town contributions and proportionate share of contributions | 3,079 | - | 3,079 |
| Total deferred inflows of resources | \$ 7,083 | \$ 12,423 | \$ 19,506 |

TOWN OF MONTREAT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

c. Supplemental Retirement Income Plan for Law Enforcement Officers

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

Funding Policy. Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to 5% of each officer's salary, and all amounts contributed are vested immediately. The law enforcement officers may also make voluntary contributions to the plan. Contributions for the year ended June 30, 2018 were \$14,490, which consisted of \$9,495 from the Town and \$4,995 from law enforcement officers. No amounts were forfeited.

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, 2018 were \$28,388, which consisted of \$16,784 from the Town and \$11,604 from the employees. No amounts were forfeited.

3. 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, 2018**

4. Deferred Outflows and Inflows of Resources

Deferred outflows of resources are comprised of the following:

| Source | Amount |
|-------------------|---------------|
| Pension deferrals | \$ 133,656 |

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

| | Statement of Net Position | General Fund Balance Sheet |
|--|--------------------------------------|---------------------------------------|
| Property taxes receivable (General Fund) | \$ - | \$ 1 |
| Prepaid taxes not yet earned | 1,500 | 1,500 |
| Pension deferrals | 19,506 | - |
| Total | \$ 21,006 | \$ 1,501 |

5. 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.

The Town does not carry flood insurance due to its geographic location.

TOWN OF MONTREAT, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

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.

6. Long-Term Obligations

a. Installment Purchase

The Town’s installment purchases at June 30, 2018 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%. \$ 129,600

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%. 6,861

Total installment debt - General Fund \$ 136,461

Annual debt service payments of the installment purchases as of June 30, 2018 are as follows:

| <u>Year Ending</u> <u>June 30</u> | <u>Governmental Activities</u> | |
|--------------------------------------|--------------------------------|------------------|
| | <u>Principal</u> | <u>Interest</u> |
| 2019 | \$ 23,061 | \$ 2,828 |
| 2020 | 16,200 | 2,404 |
| 2021 | 16,200 | 2,061 |
| 2022 | 16,200 | 1,717 |
| 2023 | 16,200 | 1,374 |
| 2024-2026 | <u>48,600</u> | <u>2,061</u> |
| Total | <u>\$ 136,461</u> | <u>\$ 12,445</u> |

TOWN OF MONTREAT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

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%. \$ 110,400

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. 352,369

Total installment debt - Water Fund \$ 462,769

Annual debt service payments of the installment purchases as of June 30, 2018 are as follows:

| Year Ending June 30 | Business-Type Activities | |
|------------------------|--------------------------|-----------|
| | Principal | Interest |
| 2019 | \$ 41,086 | \$ 4,485 |
| 2020 | 41,239 | 4,040 |
| 2021 | 41,393 | 3,594 |
| 2022 | 41,549 | 3,145 |
| 2023 | 41,707 | 2,695 |
| 2024-2028 | 183,359 | 6,952 |
| 2029-2032 | 72,436 | 1,138 |
| Total | \$ 462,769 | \$ 26,049 |

b. General Obligation Indebtedness

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

The Town's bond payable at June 30, 2018 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%. \$ 90,000

Total general obligation debt - Water Fund \$ 90,000

TOWN OF MONTREAT, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

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> |
| 2019 | \$ 28,000 | \$ 4,500 |
| 2020 | 28,000 | 3,100 |
| 2021 | 28,000 | 1,700 |
| 2022 | 6,000 | 300 |
| 2023 | - | - |
| Total | <u>\$ 90,000</u> | <u>\$ 9,600</u> |

c. Changes in Long-Term Liabilities

| | <u>July 1, 2017</u> | <u>Increases</u> | <u>Decreases</u> | <u>June 30, 2018</u> | <u>Current Portion</u> |
|---|---------------------|------------------|-------------------|----------------------|----------------------------|
| Governmental Activities: | | | | | |
| Installment purchase | \$ 166,138 | \$ - | \$ 29,677 | \$ 136,461 | \$ 23,061 |
| Total pension liability (LEO) | 77,602 | - | 18,070 | 59,532 | - |
| Net pension liability (LGRS) | 200,773 | - | 59,306 | 141,467 | - |
| Compensated absences | <u>133,027</u> | <u>54,219</u> | <u>84,980</u> | <u>102,266</u> | <u>10,227</u> |
| Governmental activity long-term liabilities | <u>\$ 577,540</u> | <u>\$ 54,219</u> | <u>\$ 192,033</u> | <u>\$ 439,726</u> | <u>\$ 33,288</u> |
| Business-Type Activities: | | | | | |
| Bonds payable | \$ 118,000 | \$ - | \$ 28,000 | \$ 90,000 | \$ 28,000 |
| Installment purchase | <u>518,696</u> | <u>-</u> | <u>55,927</u> | <u>462,769</u> | <u>41,086</u> |
| Business-type activity long-term liabilities | <u>\$ 636,696</u> | <u>\$ -</u> | <u>\$ 83,927</u> | <u>\$ 552,769</u> | <u>\$ 69,086</u> |

At June 30, 2018, the Town had a legal debt margin of \$20,088,319.

7. Interfund Balances and Activity

Transfers to/from other funds at June 30, 2018, consist of the following:

| <u>From</u> | <u>To</u> | <u>Amount</u> | <u>Purpose</u> |
|--------------|--|-------------------|----------------------|
| General Fund | Town Hall Capital Project Fund | \$ 225,000 | Fund capital project |
| General Fund | Public Works Building Capital Project Fund | <u>300,000</u> | Fund capital project |
| | | <u>\$ 525,000</u> | |

TOWN OF MONTREAT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

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.

IV. Special Item

Loss on Disposal of Asset

Officials from the Town and its engineering firm approached representatives of the N.C. Department of Transportation and Federal Highway Administration regarding the Texas Road Bridge Project with respect to issues with the build alternative option and decided they were not going to continue with the project. The Town submitted certain documentation to the department and the Town has satisfied the requirements to close the project. The N.C. Department of Transportation approved for the project to be closed and discontinued indefinitely, with no return of the federal funding expenditures. No payable is booked as a result. The loss on disposal of asset is reflected on the government-wide statements as a special item because it is unusual in nature but under the control of management. The construction in progress had a book value of \$170,891.

V. Related Party Transactions

The Town has transactions with a local company that is owned by one of its Director's family member. During fiscal year 2018, the Town was invoiced \$8,714 for services rendered, of which \$585 is outstanding at June 30, 2018.

**REQUIRED SUPPLEMENTARY
INFORMATION**

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TOWN OF MONTREAT, NORTH CAROLINA**SCHEDULES OF CHANGES IN TOTAL PENSION LIABILITY
LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE
LAST TWO FISCAL YEARS**

| | <u>2018</u> | <u>2017</u> |
|---|------------------|------------------|
| Beginning balance | \$ 77,602 | \$ 70,293 |
| Service cost | 5,494 | 5,389 |
| Interest on the total pension liability | 2,635 | 2,509 |
| Differences between expected and actual experience in the measurement of the total pension liability | (15,203) | - |
| Changes of assumptions or other inputs | 7,661 | (589) |
| Benefit payments | <u>(18,657)</u> | <u>-</u> |
| Ending balance of the total pension liability | <u>\$ 59,532</u> | <u>\$ 77,602</u> |

The amounts presented for each fiscal year were determined as of the prior December 31.

This schedule is intended to show information for ten years. Additional years' information will be displayed as it becomes available.

TOWN OF MONTREAT, NORTH CAROLINA**SCHEDULE OF TOTAL PENSION LIABILITY AS A PERCENTAGE OF COVERED PAYROLL
LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE
LAST TWO FISCAL YEARS**

| | <u>2018</u> | <u>2017</u> |
|--|-------------|-------------|
| Total pension liability | \$ 59,532 | \$ 77,602 |
| Covered payroll | 240,642 | 227,806 |
| Total pension liability as a percentage of covered payroll | 24.74% | 34.06% |

Notes to the Schedules:

The Town of Montreat has no assets accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 73 to pay related benefits.

This schedule is intended to show information for ten years. Additional years' information will be displayed as it becomes available.

TOWN OF MONTREAT, NORTH CAROLINA**PROPORTIONATE SHARE OF NET PENSION LIABILITY (ASSET)
REQUIRED SUPPLEMENTARY INFORMATION
LAST FIVE FISCAL YEARS ***

| | LOCAL GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM | | | | |
|---|--|-------------|-------------|-------------|-------------|
| | 2018 | 2017 | 2016 | 2015 | 2014 |
| Town's proportion of the net pension liability (asset) (%) | 0.00926% | 0.00946% | 0.01067% | 0.00934% | 0.00133% |
| Town's proportion of the net pension liability (asset) (\$) | \$ 141,467 | \$ 200,773 | \$ 47,886 | \$ (55,082) | \$ 124,155 |
| Town's covered-employee payroll | \$ 595,751 | \$ 623,948 | \$ 631,711 | \$ 587,628 | \$ 614,739 |
| Town's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll | 23.75% | 32.18% | 7.58% | (9.37%) | 20.20% |
| Plan fiduciary net position as a percentage of the total pension liability** | 94.18% | 91.47% | 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 FIVE FISCAL YEARS

LOCAL GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM

| | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|--|---------------|---------------|---------------|---------------|---------------|
| Contractually required contribution | \$ 42,845 | \$ 45,161 | \$ 43,897 | \$ 45,387 | \$ 41,947 |
| Contributions in relation to the contractually required contribution | <u>42,845</u> | <u>45,161</u> | <u>43,897</u> | <u>45,387</u> | <u>41,947</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Covered-employee payroll | \$ 546,381 | \$ 595,751 | \$ 623,948 | \$ 631,711 | \$ 587,628 |
| Contributions as a percentage of covered-employee payroll | 7.84% | 7.58% | 7.04% | 7.18% | 7.14% |

This schedule is intended to show information for ten years. Additional years' information will be displayed as it becomes available.

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, 2018

| | <u>Final Budget</u> | <u>Actual</u> | <u>Variance Over/Under</u> |
|---|-------------------------|---------------|--------------------------------|
| Revenues: | | | |
| Ad Valorem Taxes: | | | |
| Taxes | | \$ 1,000,700 | |
| Total | \$ 981,843 | 1,000,700 | \$ 18,857 |
| Other Taxes and Licenses: | | | |
| Local option sales taxes | | 404,640 | |
| Penalties and interest | | 1,398 | |
| Total | 411,600 | 406,038 | (5,562) |
| Unrestricted Intergovernmental Revenues: | | | |
| Utility franchise tax | | 89,411 | |
| Solid waste disposal tax | | 529 | |
| Beer and wine tax | | 3,445 | |
| Total | 105,983 | 93,385 | (12,598) |
| Restricted Intergovernmental Revenues: | | | |
| Powell Bill allocation | | 40,875 | |
| Local grant | | 6,000 | |
| Total | 45,446 | 46,875 | 1,429 |
| Permits and Fees: | | | |
| Community service fees | | 51,291 | |
| Building permits | | 35,026 | |
| Zoning permits | | 1,685 | |
| Total | 93,480 | 88,002 | (5,478) |
| Sales and Services: | | | |
| Public safety charges | | 1,673 | |
| Sanitation fees | | 5,109 | |
| Other | | 12,153 | |
| Total | 238,100 | 18,935 | (219,165) |
| Other: | | | |
| Investment earnings | | 4,395 | |
| Miscellaneous | | 5,453 | |
| Contributions | | 2,787 | |
| Total | 9,800 | 12,635 | 2,835 |
| Total revenues | 1,886,252 | 1,666,570 | (219,682) |

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, 2018**

| | <u>Final Budget</u> | <u>Actual</u> | <u>Variance Over/Under</u> |
|--------------------------------|-------------------------|----------------|--------------------------------|
| Expenditures: | | | |
| General Government: | | | |
| Governing Body: | | | |
| Salaries and employee benefits | | 4,900 | |
| Operating expenses | | <u>37,183</u> | |
| Total | <u>71,900</u> | <u>42,083</u> | <u>29,817</u> |
| Administration: | | | |
| Salaries and employee benefits | | 156,630 | |
| Operating expenses | | <u>146,481</u> | |
| Total | <u>318,287</u> | <u>303,111</u> | <u>15,176</u> |
| Public Buildings: | | | |
| Operating expenses | | <u>18,154</u> | |
| Total | <u>20,945</u> | <u>18,154</u> | <u>2,791</u> |
| Total general government | <u>411,132</u> | <u>363,348</u> | <u>47,784</u> |
| Public Safety: | | | |
| Police Department: | | | |
| Salaries and employee benefits | | 238,650 | |
| Operating expenses | | 81,500 | |
| Capital outlay | | <u>38,273</u> | |
| Total | <u>377,855</u> | <u>358,423</u> | <u>19,432</u> |
| Planning and Zoning: | | | |
| Salaries and employee benefits | | 4,910 | |
| Operating expenses | | <u>34,161</u> | |
| Total | <u>48,349</u> | <u>39,071</u> | <u>9,278</u> |
| Total public safety | <u>426,204</u> | <u>397,494</u> | <u>28,710</u> |
| Transportation: | | | |
| Public Works: | | | |
| Salaries and employee benefits | | 65,409 | |
| Operating expenses | | 4,344 | |
| Capital outlay | | <u>27,248</u> | |
| Total | <u>108,311</u> | <u>97,001</u> | <u>11,310</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, 2018**

| | <u>Final Budget</u> | <u>Actual</u> | <u>Variance Over/Under</u> |
|--|-------------------------|---------------------|--------------------------------|
| Street: | | | |
| Salaries and employee benefits | | 139,336 | |
| Operating expenses | | <u>153,617</u> | |
| Total | <u>475,414</u> | <u>292,953</u> | <u>182,461</u> |
| Total transportation | <u>583,725</u> | <u>389,954</u> | <u>193,771</u> |
| Environmental Protection: | | | |
| Sanitation: | | | |
| Salaries and employee benefits | | 36,378 | |
| Operating expenses | | <u>67,984</u> | |
| Total | <u>110,621</u> | <u>104,362</u> | <u>6,259</u> |
| Total environmental protection | <u>110,621</u> | <u>104,362</u> | <u>6,259</u> |
| Cultural and Recreation: | | | |
| Recreation Commission: | | | |
| Operating expenses | | <u>13,490</u> | |
| Total cultural and recreation | <u>13,540</u> | <u>13,490</u> | <u>50</u> |
| Debt Service: | | | |
| Principal retirement | | 29,677 | |
| Interest and fees | | <u>3,505</u> | |
| Total debt service | <u>68,748</u> | <u>33,182</u> | <u>35,566</u> |
| Total expenditures | <u>1,613,970</u> | <u>1,301,830</u> | <u>312,140</u> |
| Revenues over (under) expenditures | <u>272,282</u> | <u>364,740</u> | <u>92,458</u> |
| Other Financing Sources (Uses): | | | |
| Transfer to other funds | (525,000) | (525,000) | |
| Fund balance appropriated | <u>252,718</u> | <u>-</u> | |
| Total other financing sources (uses) | <u>(272,282)</u> | <u>(525,000)</u> | <u>(252,718)</u> |
| Net change in fund balance | <u>\$ -</u> | <u>(160,260)</u> | <u>\$ (160,260)</u> |
| Fund Balance: | | | |
| Beginning of year - July 1 | | <u>1,923,120</u> | |
| End of year - June 30 | | <u>\$ 1,762,860</u> | |

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**MAJOR
CAPITAL PROJECT
FUNDS**

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TOWN OF MONTREAT, NORTH CAROLINA

**TOWN HALL MAJOR CAPITAL PROJECT FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2018**

| | <u>Project Authorization</u> | <u>Actual</u> | | | <u>Variance Over/Under</u> |
|--|----------------------------------|------------------------|-------------------------|--------------------------|--------------------------------|
| | | <u>Prior Years</u> | <u>Current Year</u> | <u>Total to Date</u> | |
| Expenditures: | | | | | |
| Operating expenditures | \$ 300 | \$ - | \$ 223 | \$ 223 | \$ 77 |
| Professional services | 85,000 | - | 16,989 | 16,989 | 68,011 |
| Capital outlay | 139,700 | - | 133,448 | 133,448 | 6,252 |
| Total expenditures | <u>225,000</u> | <u>-</u> | <u>150,660</u> | <u>150,660</u> | <u>74,340</u> |
| Revenues over (under) expenditures | (225,000) | - | (150,660) | (150,660) | 74,340 |
| Other Financing Sources (Uses): | | | | | |
| Transfer from General Fund | <u>225,000</u> | <u>-</u> | <u>225,000</u> | <u>225,000</u> | <u>-</u> |
| Net change in fund balance | <u>\$ -</u> | <u>\$ -</u> | 74,340 | <u>\$ 74,340</u> | <u>\$ 74,340</u> |
| Fund Balance: | | | | | |
| Beginning of year - July 1 | | | <u>-</u> | | |
| End of year - June 30 | | | <u>\$ 74,340</u> | | |

TOWN OF MONTREAT, NORTH CAROLINA

**PUBLIC WORKS MAJOR CAPITAL PROJECT FUND
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCE - BUDGET AND ACTUAL
 FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2018**

| | <u>Project Authorization</u> | <u>Actual</u> | | | <u>Variance Over/Under</u> |
|--|----------------------------------|------------------------|-------------------------|--------------------------|--------------------------------|
| | | <u>Prior Years</u> | <u>Current Year</u> | <u>Total to Date</u> | |
| Expenditures: | | | | | |
| Professional services | \$ 10,000 | \$ - | \$ 3,100 | \$ 3,100 | \$ 6,900 |
| Capital outlay | 290,000 | - | 1,700 | 1,700 | 288,300 |
| Total expenditures | <u>300,000</u> | <u>-</u> | <u>4,800</u> | <u>4,800</u> | <u>295,200</u> |
| Revenues over (under) expenditures | (300,000) | - | (4,800) | (4,800) | 295,200 |
| Other Financing Sources (Uses): | | | | | |
| Transfer from General Fund | <u>300,000</u> | <u>-</u> | <u>300,000</u> | <u>300,000</u> | <u>-</u> |
| Net change in fund balance | <u>\$ -</u> | <u>\$ -</u> | <u>295,200</u> | <u>\$ 295,200</u> | <u>\$ 295,200</u> |
| Fund Balance: | | | | | |
| Beginning of year - July 1 | | | <u>-</u> | | |
| End of year - June 30 | | | <u>\$ 295,200</u> | | |

**NONMAJOR
GOVERNMENTAL
FUNDS**

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TOWN OF MONTREAT, NORTH CAROLINA

NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2018

| | <u>Special Revenue Funds</u> | | | <u>Capital</u> | <u>Total</u> |
|--|------------------------------|----------------------------|-----------------------------------|--|--------------|
| | <u>Calvin Trail</u> | <u>Culvert Project</u> | <u>Miscellaneous Projects</u> | <u>Project Fund Providence Terrace</u> | |
| Liabilities and Fund Balances: | | | | | |
| Liabilities: | | | | | |
| Accounts payable and accrued liabilities | \$ 10,503 | \$ 903 | \$ 10,358 | \$ 1,895 | \$ 23,659 |
| Fund Balances: | | | | | |
| Unassigned | (10,503) | (903) | (10,358) | (1,895) | (23,659) |
| Total liabilities and fund balances | \$ - | \$ - | \$ - | \$ - | \$ - |

TOWN OF MONTREAT, NORTH CAROLINA

NONMAJOR GOVERNMENTAL FUNDS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES
 FOR THE YEAR ENDED JUNE 30, 2018

| | <u>Special Revenue Funds</u> | | | <u>Capital Project Fund</u> | <u>Total</u> |
|-----------------------------|------------------------------|----------------------------|-----------------------------------|---------------------------------|--------------------|
| | <u>Calvin Trail</u> | <u>Culvert Project</u> | <u>Miscellaneous Projects</u> | <u>Providence Terrace</u> | |
| Expenditures: | | | | | |
| Transportation | \$ 10,503 | \$ 903 | \$ 10,358 | \$ 1,895 | 23,659 |
| Net change in fund balances | (10,503) | (903) | (10,358) | (1,895) | (23,659) |
| Fund Balances: | | | | | |
| Beginning of year - July 1 | - | - | - | - | - |
| End of year - June 30 | <u>\$ (10,503)</u> | <u>\$ (903)</u> | <u>\$ (10,358)</u> | <u>\$ (1,895)</u> | <u>\$ (23,659)</u> |

TOWN OF MONTREAT, NORTH CAROLINA

CAPITAL PROJECT FUND - PROVIDENCE TERRACE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2018

| | <u>Project Authorization</u> | <u>Actual</u> | | | <u>Variance Over/Under</u> |
|------------------------------|----------------------------------|------------------------|-------------------------|--------------------------|--------------------------------|
| | | <u>Prior Years</u> | <u>Current Year</u> | <u>Total to Date</u> | |
| Revenues: | | | | | |
| Restricted intergovernmental | \$ 21,000 | \$ - | \$ - | \$ - | \$ (21,000) |
| Expenditures: | | | | | |
| Capital outlay | 21,000 | - | 1,895 | 1,895 | 19,105 |
| Net change in fund balance | <u>\$ -</u> | <u>\$ -</u> | (1,895) | <u>\$ (1,895)</u> | <u>\$ (1,895)</u> |
| Fund Balance: | | | | | |
| Beginning of year - July 1 | | | - | | |
| End of year - June 30 | | | <u>\$ (1,895)</u> | | |

TOWN OF MONTREAT, NORTH CAROLINA

**SPECIAL REVENUE FUND - CALVIN TRAIL
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2018**

| | <u>Budget</u> | <u>Actual</u> | <u>Variance Over/Under</u> |
|------------------------------|---------------|--------------------|--------------------------------|
| Revenues: | | | |
| Restricted intergovernmental | \$ 30,000 | \$ - | \$ (30,000) |
| Expenditures: | | | |
| Transportation | 30,000 | 10,503 | 19,497 |
| Net change in fund balance | <u>\$ -</u> | (10,503) | <u>\$ (10,503)</u> |
| Fund Balance: | | | |
| Beginning of year - July 1 | | <u>-</u> | |
| End of year - June 30 | | <u>\$ (10,503)</u> | |

TOWN OF MONTREAT, NORTH CAROLINA

**SPECIAL REVENUE FUND - CULVERT PROJECT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2018**

| | <u>Budget</u> | <u>Actual</u> | <u>Variance Over/Under</u> |
|------------------------------|---------------|-----------------|--------------------------------|
| Revenues: | | | |
| Restricted intergovernmental | \$ 39,800 | \$ - | \$ (39,800) |
| Expenditures: | | | |
| Transportation | 39,800 | 903 | 38,897 |
| Net change in fund balance | <u>\$ -</u> | (903) | <u>\$ (903)</u> |
| Fund Balance: | | | |
| Beginning of year - July 1 | | <u>-</u> | |
| End of year - June 30 | | <u>\$ (903)</u> | |

TOWN OF MONTREAT, NORTH CAROLINA

**SPECIAL REVENUE FUND - MISCELLANEOUS PROJECTS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2018**

| | <u>Budget</u> | <u>Actual</u> | <u>Variance Over/Under</u> |
|------------------------------|---------------|--------------------|--------------------------------|
| Revenues: | | | |
| Restricted intergovernmental | \$ 15,360 | \$ - | \$ (15,360) |
| Expenditures: | | | |
| Transportation | 15,360 | 10,358 | 5,002 |
| Net change in fund balance | <u>\$ -</u> | (10,358) | <u>\$ (10,358)</u> |
| Fund Balance: | | | |
| Beginning of year - July 1 | | <u>-</u> | |
| End of year - June 30 | | <u>\$ (10,358)</u> | |

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, 2018

| | <u>Budget</u> | <u>Actual</u> | <u>Variance Over/Under</u> |
|--|----------------|------------------|--------------------------------|
| Revenues: | | | |
| Operating revenues: | | | |
| Charges for services | \$ 317,500 | \$ 285,901 | \$ (31,599) |
| Other | 50,910 | 47,850 | (3,060) |
| Total operating revenues | <u>368,410</u> | <u>333,751</u> | <u>(34,659)</u> |
| Non-operating revenues: | | | |
| Investment earnings | 193 | 284 | 91 |
| Sales of capital assets | - | <u>3,602</u> | <u>3,602</u> |
| Total non-operating revenues | <u>193</u> | <u>3,886</u> | <u>3,693</u> |
| Total revenues | <u>368,603</u> | <u>337,637</u> | <u>(30,966)</u> |
| Expenditures: | | | |
| Operating expenditures: | | | |
| Repairs and maintenance | | 34,305 | |
| Operating expenditures | | <u>148,052</u> | |
| Total operating expenditures | <u>281,392</u> | <u>182,357</u> | <u>99,035</u> |
| Debt Service: | | | |
| Interest and fees | | 11,084 | |
| Principal retirement | | <u>83,927</u> | |
| Total debt service | <u>87,211</u> | <u>95,011</u> | <u>(7,800)</u> |
| Total expenditures | <u>368,603</u> | <u>277,368</u> | <u>91,235</u> |
| Revenues over (under) expenditures | <u>\$ -</u> | <u>\$ 60,269</u> | <u>\$ 60,269</u> |
| Reconciliation from Modified Accrual Basis to Full Accrual Basis: | | | |
| Revenues over (under) expenditures | | \$ 60,269 | |
| Reconciling items: | | | |
| Payment of debt principal | | 83,927 | |
| Change in accrued interest payable | | (1,042) | |
| Depreciation | | <u>(77,464)</u> | |
| Change in net position | | <u>\$ 65,690</u> | |

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AGENCY FUNDS

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TOWN OF MONTREAT, NORTH CAROLINA

AGENCY FUNDS

COMBINING SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES
FOR THE YEAR ENDED JUNE 30, 2018

| | <u>Balance</u> <u>July 1, 2017</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balance</u> <u>June 30, 2018</u> |
|-------------------------------------|---------------------------------------|-------------------|-------------------|--|
| Metropolitan Sewer District: | | | | |
| Assets: | | | | |
| Cash and cash equivalents | \$ - | \$ 31,380 | \$ 10,919 | \$ 20,461 |
| Receivables | - | 302,948 | 270,951 | 31,997 |
| Total assets | <u>\$ -</u> | <u>\$ 334,328</u> | <u>\$ 281,870</u> | <u>\$ 52,458</u> |
| Liabilities: | | | | |
| Accounts payable | <u>\$ -</u> | <u>\$ 334,328</u> | <u>\$ 281,870</u> | <u>\$ 52,458</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, 2018

| <u>Fiscal Year</u> | <u>Uncollected Balance July 1, 2017</u> | <u>Additions</u> | <u>Collections and Credits</u> | <u>Uncollected Balance June 30, 2018</u> |
|--------------------|---|---------------------|------------------------------------|--|
| 2017-2018 | \$ - | \$ 1,036,520 | \$ 1,036,520 | \$ - |
| 2016-2017 | - | - | - | - |
| 2015-2016 | - | - | - | - |
| 2014-2015 | - | - | - | - |
| 2013-2014 | - | - | - | - |
| 2012-2013 | 1 | - | - | 1 |
| 2011-2012 | - | - | - | - |
| 2010-2011 | - | - | - | - |
| 2009-2010 | - | - | - | - |
| 2008-2009 | - | - | - | - |
| Total | <u>\$ 1</u> | <u>\$ 1,036,520</u> | <u>\$ 1,036,520</u> | <u>1</u> |

Ad valorem taxes receivable - net

\$ 1**Reconciliation with Revenues:**

| | |
|---------------------------------------|---------------------|
| Ad valorem taxes | \$ 1,000,700 |
| Ad valorem taxes - special assessment | 33,073 |
| Interest and penalties | 1,398 |
| Miscellaneous | <u>1,349</u> |
| Total collections and credit | <u>\$ 1,036,520</u> |

TOWN OF MONTREAT, NORTH CAROLINA

ANALYSIS OF CURRENT YEAR LEVY
TOWN-WIDE LEVY
FOR THE YEAR ENDED JUNE 30, 2018

| | 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 | \$ 244,740,488 | \$ 0.41 | \$ 1,003,436 | \$ 983,831 | \$ 19,605 |
| Special assessment | 8,066,585 | 0.41 | 33,073 | 33,073 | - |
| Penalties | 2,683 | 0.41 | 11 | 11 | - |
| Total | <u>252,809,756</u> | | <u>1,036,520</u> | <u>1,016,915</u> | <u>19,605</u> |
| Total property valuation | <u>\$ 252,809,756</u> | | | | |
| Net Levy | | | 1,036,520 | 1,016,915 | 19,605 |
| Uncollected taxes as of June 30, 2018 | | | - | - | - |
| Current Year's Taxes Collected | | | <u>\$ 1,036,520</u> | <u>\$ 1,016,915</u> | <u>\$ 19,605</u> |
| Current Levy Collection Percentage | | | <u>100.00%</u> | <u>100.00%</u> | <u>100.00%</u> |

**STATISTICAL
SECTION**

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

| | FYE 2018 | FYE 2017 | FYE 2016 | FYE 2015 |
|--------------------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| Governmental Activities | | | | |
| Net Position: | | | | |
| Net Investment in | | | | |
| Capital Assets | \$ 3,695,360 | \$ 3,749,519 | \$ 3,707,773 | \$ 3,731,572 |
| Restricted | 390,961 | 330,586 | 294,400 | 267,742 |
| Unrestricted | 1,526,914 | 1,353,386 | 1,267,022 | 910,515 |
| Subtotal, Governmental Net Position | <u>\$ 5,613,235</u> | <u>\$ 5,433,491</u> | <u>\$ 5,269,195</u> | <u>\$ 4,909,829</u> |
| Business Type Activities | | | | |
| Net Position: | | | | |
| Net Investment in | | | | |
| Capital Assets | \$ 1,038,682 | \$ 1,032,219 | \$ 1,020,541 | \$ 1,180,864 |
| Restricted | - | - | - | - |
| Unrestricted | 881,868 | 822,641 | 754,721 | 391,634 |
| Subtotal, Business Type Net Position | <u>\$ 1,920,550</u> | <u>\$ 1,854,860</u> | <u>\$ 1,775,262</u> | <u>\$ 1,572,498</u> |
| Total Primary Government | | | | |
| Net Position: | | | | |
| Net Investment in | | | | |
| Capital Assets | \$ 4,734,042 | \$ 4,781,738 | \$ 4,728,314 | \$ 4,912,436 |
| Restricted | 390,961 | 330,586 | 294,400 | 267,742 |
| Unrestricted | 2,408,782 | 2,176,027 | 2,021,743 | 1,302,149 |
| Total Net Position | <u><u>\$ 7,533,785</u></u> | <u><u>\$ 7,288,351</u></u> | <u><u>\$ 7,044,457</u></u> | <u><u>\$ 6,482,327</u></u> |

Table 1

| FYE 2014 | FYE 2013 | FYE 2012 | FYE 2011 | FYE 2010 | FYE 2009 |
|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| \$ 3,394,389 | \$ 2,794,719 | \$ 1,887,129 | \$ 1,144,711 | \$ 878,624 | \$ 676,603 |
| 255,216 | 249,671 | 269,501 | 283,792 | 180,577 | 192,666 |
| 1,016,240 | 990,917 | 1,132,305 | 1,332,931 | 1,470,348 | 1,450,376 |
| <u>\$ 4,665,845</u> | <u>\$ 4,035,307</u> | <u>\$ 3,288,935</u> | <u>\$ 2,761,434</u> | <u>\$ 2,529,549</u> | <u>\$ 2,319,645</u> |
| | | | | | |
| \$ 1,036,410 | \$ 982,912 | \$ 959,327 | \$ 1,089,073 | \$ 772,709 | \$ 575,217 |
| - | - | - | - | - | - |
| 597,996 | 595,469 | 866,473 | 583,502 | 505,627 | 531,157 |
| <u>\$ 1,634,406</u> | <u>\$ 1,578,381</u> | <u>\$ 1,825,800</u> | <u>\$ 1,672,575</u> | <u>\$ 1,278,336</u> | <u>\$ 1,106,374</u> |
| | | | | | |
| \$ 4,430,799 | \$ 3,777,631 | \$ 2,846,456 | \$ 2,233,784 | \$ 1,651,333 | \$ 1,251,820 |
| 255,216 | 249,671 | 269,501 | 283,792 | 180,577 | 192,666 |
| 1,614,236 | 1,586,386 | 1,998,778 | 1,916,433 | 1,975,975 | 1,981,533 |
| <u>\$ 6,300,251</u> | <u>\$ 5,613,688</u> | <u>\$ 5,114,735</u> | <u>\$ 4,434,009</u> | <u>\$ 3,807,885</u> | <u>\$ 3,426,019</u> |

Town of Montreat
Change in Net Position
Governmental Functions

| | FYE 2018 | FYE 2017 | FYE 2016 | FYE 2015 |
|---|---------------------|---------------------|---------------------|---------------------|
| Revenues: | | | | |
| Program Revenues: | | | | |
| Charges for Services: | | | | |
| General Government | \$ 88,002 | \$ 89,095 | \$ 86,153 | \$ 79,484 |
| Public Safety | 1,673 | 3,371 | 3,371 | 3,090 |
| Environmental Protection | 5,109 | 6,521 | 14,472 | 447 |
| Total Charges for Services | <u>\$ 94,784</u> | <u>\$ 98,987</u> | <u>\$ 103,996</u> | <u>\$ 83,021</u> |
| Operating Grants and Contributions | 152,413 | 147,450 | 164,985 | 135,379 |
| Capital Grants and Contributions | 2,787 | 3,694 | 155,346 | 36,977 |
| General Revenues: | | | | |
| Taxes: | | | | |
| Property Taxes | 1,000,700 | 974,695 | 962,972 | 968,042 |
| Other Taxes & Licenses | 406,038 | 402,651 | 390,699 | 356,952 |
| Grants & Contributions, non-program | - | - | - | - |
| Investment earnings, unrestricted | 4,395 | 3,643 | 1,709 | 1,073 |
| Miscellaneous | 5,453 | 6,115 | 2,116 | 10,362 |
| Total Revenues | <u>\$ 1,666,570</u> | <u>\$ 1,637,235</u> | <u>\$ 1,781,823</u> | <u>\$ 1,591,806</u> |
| Expenses: | | | | |
| General Government | 337,182 | \$ 604,294 | \$ 479,543 | \$ 551,016 |
| Public Safety | 358,436 | 439,093 | 450,926 | 415,119 |
| Transportation | 473,469 | 380,618 | 362,962 | 107,255 |
| Environmental Protection | 117,305 | 96,173 | 12,343 | 1,587 |
| Cultural & Recreation | 26,265 | 20,419 | 116,083 | 109,206 |
| Interest on Long Term Debt | 3,278 | 6,221 | 600 | - |
| Total Expenses | <u>\$ 1,315,935</u> | <u>\$ 1,546,818</u> | <u>\$ 1,422,457</u> | <u>\$ 1,184,183</u> |
| Increase/(decrease) in net position | | | | |
| before transfers and special item | \$ 350,635 | \$ 90,417 | \$ 359,366 | \$ 407,623 |
| Special item: loss on disposal of asset | (170,891) | - | - | - |
| Transfers | - | - | - | - |
| Increase/(decrease) in net position | <u>\$ 179,744</u> | <u>\$ 90,417</u> | <u>\$ 359,366</u> | <u>\$ 407,623</u> |

Table 2

| FYE 2014 | FYE 2013 | FYE 2012 | FYE 2011 | FYE 2010 | FYE 2009 |
|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| \$ 102,254 | \$ 94,897 | \$ - | \$ - | \$ 1,390 | \$ - |
| 3,846 | 3,396 | 39,701 | 47,610 | 41,793 | 49,806 |
| 388 | 325 | 494 | 473 | 498 | 41,278 |
| <u>\$ 106,488</u> | <u>\$ 98,618</u> | <u>\$ 40,195</u> | <u>\$ 48,083</u> | <u>\$ 43,681</u> | <u>\$ 91,084</u> |
| 108,380 | 105,034 | 134,045 | 132,343 | 139,196 | 48,276 |
| 360,088 | 584,932 | 385,151 | 5,550 | 60,272 | 12,800 |
| 970,716 | 892,839 | 886,345 | 873,863 | 875,331 | 868,213 |
| 332,403 | 313,951 | 307,211 | 280,616 | 277,467 | 300,486 |
| - | - | - | - | - | 146,242 |
| 1,629 | 1,850 | 5,915 | 7,921 | 14,591 | 21,996 |
| 194 | 20 | 15,931 | 1,134 | 1,891 | 7,628 |
| <u>\$ 1,879,898</u> | <u>\$ 1,997,244</u> | <u>\$ 1,774,793</u> | <u>\$ 1,349,510</u> | <u>\$ 1,412,429</u> | <u>\$ 1,496,725</u> |
| \$ 347,272 | \$ 403,785 | \$ 411,493 | \$ 348,601 | \$ 400,771 | \$ 372,544 |
| 418,288 | 417,698 | 450,064 | 418,103 | 398,889 | 400,467 |
| 214,513 | 137,836 | 338,622 | 317,661 | 374,792 | 333,633 |
| 162,683 | 203,889 | 17,779 | 27,743 | 63,120 | 105,353 |
| 60,993 | 102,532 | 96,161 | 90,850 | 54,052 | 2,340 |
| - | - | - | 467 | 2,201 | 2,266 |
| <u>\$ 1,203,749</u> | <u>\$ 1,265,740</u> | <u>\$ 1,314,119</u> | <u>\$ 1,203,425</u> | <u>\$ 1,293,825</u> | <u>\$ 1,216,603</u> |
| \$ 676,149 | \$ 731,504 | \$ 460,674 | \$ 146,085 | \$ 118,604 | \$ 280,122 |
| - | - | - | - | - | - |
| (45,614) | 14,868 | 66,827 | 85,800 | 91,300 | 87,600 |
| <u>\$ 630,535</u> | <u>\$ 746,372</u> | <u>\$ 527,501</u> | <u>\$ 231,885</u> | <u>\$ 209,904</u> | <u>\$ 367,722</u> |

Town of Montreat
Change in Net Position
Business-Type Functions

| | FYE 2018 | FYE 2017 | FYE 2016 | FYE 2015 |
|---|-------------|------------|------------|-------------|
| Revenues: | | | | |
| Program Revenues: | | | | |
| Charges for Services: | | | | |
| Water | \$ 333,751 | \$ 351,697 | \$ 450,882 | \$ 320,392 |
| Capital Grants and Contributions | - | - | - | - |
| General Revenues: | | | | |
| Investment earnings, unrestricted | 284 | 244 | 152 | 75 |
| Miscellaneous | 3,602 | - | - | - |
| | <hr/> | | | |
| Total Revenues | \$ 337,637 | \$ 351,941 | \$ 451,034 | \$ 320,467 |
| Expenses: | | | | |
| Water | \$ 271,947 | \$ 272,343 | \$ 251,345 | \$ 382,375 |
| | <hr/> | | | |
| Total Expenses | \$ 271,947 | \$ 272,343 | \$ 251,345 | \$ 382,375 |
| Increase/(decrease) in net position before transfers | \$ 65,690 | \$ 79,598 | \$ 199,689 | \$ (61,908) |
| Transfers & Other Financing Sources | - | - | 3,075 | - |
| | <hr/> | | | |
| Increase/(decrease) in net position | \$ 65,690 | \$ 79,598 | \$ 202,764 | \$ (61,908) |
| | <hr/> <hr/> | | | |

Table 3

| FYE 2014 | FYE 2013 | FYE 2012 | FYE 2011 | FYE 2010 | FYE 2009 |
|------------|------------|-------------|------------|------------|------------|
| \$ 346,006 | \$ 281,712 | \$ 270,153 | \$ 348,989 | \$ 289,188 | \$ 288,512 |
| - | - | - | 281,797 | 158,309 | - |
| 102 | 231 | 1,324 | 1,081 | 1,128 | 2,916 |
| - | - | - | - | - | 8,213 |
| <hr/> | | | | | |
| \$ 346,108 | \$ 281,943 | \$ 271,477 | \$ 631,867 | \$ 448,625 | \$ 299,641 |
| <hr/> | | | | | |
| \$ 335,697 | \$ 171,006 | \$ 223,169 | \$ 151,828 | \$ 185,363 | \$ 164,352 |
| <hr/> | | | | | |
| \$ 335,697 | \$ 171,006 | \$ 223,169 | \$ 151,828 | \$ 185,363 | \$ 164,352 |
| <hr/> | | | | | |
| \$ 10,411 | \$ 110,937 | \$ 48,308 | \$ 480,039 | \$ 263,262 | \$ 135,289 |
| 45,614 | (14,868) | (66,827) | (85,800) | (91,300) | (87,600) |
| <hr/> | | | | | |
| \$ 56,025 | \$ 96,069 | \$ (18,519) | \$ 394,239 | \$ 171,962 | \$ 47,689 |
| <hr/> | | | | | |

Town of Montreat
Change in Net Position
Total Primary Government

| | FYE 2018 | FYE 2017 | FYE 2016 | FYE 2015 |
|--|---------------------|---------------------|---------------------|---------------------|
| Revenues: | | | | |
| Program Revenues: | | | | |
| Charges for Services: | | | | |
| General Government | \$ 88,002 | \$ 89,095 | \$ 86,153 | \$ 79,484 |
| Public Safety | 1,673 | 3,371 | 3,371 | 3,090 |
| Environmental Protection | 5,109 | 6,521 | 14,472 | 447 |
| Water | 333,751 | 351,697 | 450,882 | 320,392 |
| Operating Grants and Contributions | 152,413 | 147,450 | 164,985 | 135,379 |
| Capital Grants and Contributions | 2,787 | 3,694 | 155,346 | 36,977 |
| General Revenues: | | | | |
| Taxes: | | | | |
| Property Taxes | 1,000,700 | 974,695 | 962,972 | 968,042 |
| Other Taxes & Licenses | 406,038 | 402,651 | 390,699 | 356,952 |
| Grants & Contributions, non-program | - | - | - | - |
| Investment earnings, unrestricted | 4,679 | 3,887 | 1,861 | 1,148 |
| Miscellaneous | 9,055 | 6,115 | 2,116 | 10,362 |
| Total Revenues | \$ 2,004,207 | \$ 1,989,176 | \$ 2,232,857 | \$ 1,912,273 |
| Expenses: | | | | |
| General Government | \$ 337,182 | \$ 604,294 | \$ 479,543 | \$ 551,016 |
| Public Safety | 358,436 | 439,093 | 450,926 | 415,119 |
| Transportation | 473,469 | 380,618 | 362,962 | 107,255 |
| Environmental Protection | 117,305 | 96,173 | 12,343 | 1,587 |
| Cultural & Recreation | 26,265 | 20,419 | 116,083 | 109,206 |
| Interest on Long Term Debt | 3,278 | 6,221 | 600 | - |
| Water | 271,947 | 272,343 | 251,345 | 382,375 |
| Total Expenses | \$ 1,587,882 | \$ 1,819,161 | \$ 1,673,802 | \$ 1,566,558 |
| Increase/(decrease) in net position before transfers and special item | \$ 416,325 | \$ 170,015 | \$ 559,055 | \$ 345,715 |
| Special item: loss on disposal of asset | (170,891) | - | - | - |
| Transfers | - | - | 3,075 | - |
| Increase/(decrease) in net position | \$ 245,434 | \$ 170,015 | \$ 562,130 | \$ 345,715 |

Table 4

| FYE 2014 | FYE 2013 | FYE 2012 | FYE 2011 | FYE 2010 | FYE 2009 |
|--------------|--------------|--------------|--------------|--------------|--------------|
| \$ 102,254 | \$ 94,897 | \$ - | \$ - | \$ 1,390 | \$ - |
| 3,846 | 3,396 | 39,701 | 47,610 | 41,793 | 49,806 |
| 388 | 325 | 494 | 473 | 498 | 41,278 |
| 346,006 | 281,712 | 270,153 | 348,989 | 289,188 | 288,512 |
| 108,380 | 105,034 | 134,045 | 132,343 | 139,196 | 48,276 |
| 360,088 | 584,932 | 385,151 | 287,347 | 218,581 | 12,800 |
| 970,716 | 892,839 | 886,345 | 873,863 | 875,331 | 868,213 |
| 332,403 | 313,951 | 307,211 | 280,616 | 277,467 | 300,486 |
| - | - | - | - | - | 146,242 |
| 1,731 | 2,081 | 7,239 | 9,002 | 15,719 | 24,912 |
| 194 | 20 | 15,931 | 1,134 | 1,891 | 15,841 |
| <hr/> | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| \$ 2,226,006 | \$ 2,279,187 | \$ 2,046,270 | \$ 1,981,377 | \$ 1,861,054 | \$ 1,796,366 |
| \$ 347,272 | \$ 403,785 | \$ 411,493 | \$ 348,601 | \$ 400,771 | \$ 372,544 |
| 418,288 | 417,698 | 450,064 | 418,103 | 398,889 | 400,467 |
| 214,513 | 137,836 | 338,622 | 317,661 | 374,792 | 333,633 |
| 162,683 | 203,889 | 17,779 | 27,743 | 63,120 | 105,353 |
| 60,993 | 102,532 | 96,161 | 90,850 | 54,052 | 2,340 |
| - | - | - | 467 | 2,201 | 2,266 |
| 335,697 | 171,006 | 223,169 | 151,828 | 185,363 | 164,352 |
| <hr/> | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| \$ 1,539,446 | \$ 1,436,746 | \$ 1,537,288 | \$ 1,355,253 | \$ 1,479,188 | \$ 1,380,955 |
| \$ 686,560 | \$ 842,441 | \$ 508,982 | \$ 626,124 | \$ 381,866 | \$ 415,411 |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| <hr/> | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| \$ 686,560 | \$ 842,441 | \$ 508,982 | \$ 626,124 | \$ 381,866 | \$ 415,411 |

Town of Montreat
Fund Balances/Net Position
All Funds

| | FYE 2018 | FYE 2017 | FYE 2016 | FYE 2015 |
|----------------------------------|---------------------|---------------------|---------------------|---------------------|
| Governmental Activities | | | | |
| Nonspendable | \$ 2,688 | \$ 10,767 | \$ 15,394 | \$ 9,986 |
| Restricted | 390,961 | 330,586 | 294,400 | 267,742 |
| Committed | 389,655 | 34,983 | 34,932 | 34,710 |
| Assigned (Designated pre-2011) | 32,876 | 182,297 | 177,192 | 382,322 |
| Unassigned | 1,292,561 | 1,364,487 | 1,309,516 | 762,256 |
| Total General Fund Balance | <u>2,108,741</u> | <u>1,923,120</u> | <u>1,831,434</u> | <u>1,457,016</u> |
| Reconcile to Net Position | 3,504,494 | 3,510,371 | 3,437,761 | 3,452,813 |
| Governmental Net Position | <u>\$ 5,613,235</u> | <u>\$ 5,433,491</u> | <u>\$ 5,269,195</u> | <u>\$ 4,909,829</u> |
| Business-Type Activities | | | | |
| Unrestricted | \$ 881,868 | \$ 822,641 | \$ 754,721 | \$ 391,634 |
| Total Water Fund Balance | <u>881,868</u> | <u>822,641</u> | <u>754,721</u> | <u>391,634</u> |
| Net investment in capital assets | 1,038,682 | 1,032,219 | 1,020,541 | 1,180,864 |
| Business-Type Net Position | <u>\$ 1,920,550</u> | <u>\$ 1,854,860</u> | <u>\$ 1,775,262</u> | <u>\$ 1,572,498</u> |

Table 5

| FYE 2014 | FYE 2013 | FYE 2012 | FYE 2011 | FYE 2010 | FYE 2009 |
|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| \$ 4,872 | \$ - | \$ - | \$ 9,300 | \$ - | \$ - |
| 255,216 | 249,671 | 269,501 | 283,792 | 280,575 | 312,119 |
| 30,193 | 26,854 | 52,675 | 24,005 | - | - |
| 419,290 | 54,177 | 53,923 | 683,744 | 717,435 | 667,435 |
| 697,978 | 1,115,891 | 1,222,858 | 810,104 | 834,992 | 820,455 |
| 1,407,549 | 1,446,593 | 1,598,957 | 1,810,945 | 1,833,002 | 1,800,009 |
| 3,258,293 | 2,588,714 | 1,689,978 | 950,489 | 696,547 | 519,636 |
| <u>\$ 4,665,842</u> | <u>\$ 4,035,307</u> | <u>\$ 3,288,935</u> | <u>\$ 2,761,434</u> | <u>\$ 2,529,549</u> | <u>\$ 2,319,645</u> |
| \$ 597,996 | \$ 595,469 | \$ 522,985 | \$ 583,502 | \$ 505,627 | \$ 531,157 |
| 597,996 | 595,469 | 522,985 | 583,502 | 505,627 | 531,157 |
| 1,036,410 | 982,912 | 959,327 | 1,089,073 | 772,709 | 575,217 |
| <u>\$ 1,634,406</u> | <u>\$ 1,578,381</u> | <u>\$ 1,482,312</u> | <u>\$ 1,672,575</u> | <u>\$ 1,278,336</u> | <u>\$ 1,106,374</u> |

Town of Montreat
Changes in Fund Balance
General Fund

| | FYE 2018 | FYE 2017 | FYE 2016 | FYE 2015 |
|--|---------------------|---------------------|---------------------|---------------------|
| Revenues | | | | |
| Ad valorem taxes | \$ 1,000,700 | \$ 974,703 | \$ 966,124 | \$ 968,685 |
| Other taxes and licenses | 406,038 | 402,651 | 390,699 | 356,952 |
| Unrestricted intergovernmental revenues | 93,385 | 94,995 | 98,336 | 86,869 |
| Restricted intergovernmental revenues | 46,875 | 47,438 | 205,259 | 76,307 |
| Permits and fees | 88,002 | 89,095 | 86,153 | 79,467 |
| Sales and services | 18,935 | 14,909 | 29,879 | 12,158 |
| Investment earnings | 4,395 | 3,643 | 1,709 | 1,073 |
| Miscellaneous | 8,240 | 9,809 | 6,816 | 10,939 |
| Total revenues | <u>1,666,570</u> | <u>1,637,243</u> | <u>1,784,975</u> | <u>1,592,450</u> |
| Expenditures | | | | |
| General government | 363,348 | 409,101 | 479,832 | 560,520 |
| Public Safety | 397,494 | 449,767 | 434,507 | 432,969 |
| Transportation | 389,954 | 486,518 | 576,811 | 452,875 |
| Environmental protection | 104,362 | 158,977 | 103,308 | 96,431 |
| Cultural and recreation | 13,490 | 7,644 | 10,945 | 188 |
| Debt Service: | | | | |
| Principal | 29,677 | 29,308 | 6,429 | - |
| Interest | 3,505 | 4,242 | 600 | - |
| Total expenditures | <u>1,301,830</u> | <u>1,545,557</u> | <u>1,612,432</u> | <u>1,542,983</u> |
| Other Financing Sources (Uses) | | | | |
| Transfers from Enterprise Fund | - | - | - | - |
| Transfers to Enterprise Fund | - | - | - | - |
| Transfers to Capital Project Funds | (525,000) | - | - | - |
| Debt/Installment purchase obligations issued | | | 201,875 | - |
| Total other financing uses | <u>(525,000)</u> | <u>-</u> | <u>201,875</u> | <u>-</u> |
| Net Change in Fund Balance | (160,260) | 91,686 | 374,418 | 49,467 |
| Prior Period Adjustment | - | - | - | - |
| Fund Balance: | | | | |
| Beginning of Year - July 1 | <u>1,923,120</u> | <u>1,831,434</u> | <u>1,457,016</u> | <u>1,407,549</u> |
| End of Year - June 30 | <u>\$ 1,762,860</u> | <u>\$ 1,923,120</u> | <u>\$ 1,831,434</u> | <u>\$ 1,457,016</u> |

Table 6

| | FYE 2014 | FYE 2013 | FYE 2012 | FYE 2011 | FYE 2010 | FYE 2009 |
|----|------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| \$ | 973,858 | \$ 895,333 | \$ 879,659 | \$ 873,310 | \$ 877,564 | \$ 865,993 |
| | 332,403 | 313,951 | 307,211 | 280,616 | 277,467 | 298,781 |
| | 59,392 | 41,756 | 55,856 | 56,934 | 60,802 | 71,242 |
| | 300,024 | 97,902 | 49,160 | 37,609 | 45,907 | 60,945 |
| | 102,255 | 94,898 | 36,003 | 35,626 | 39,412 | 39,884 |
| | 13,784 | 28,129 | 43,518 | 50,257 | 45,028 | 52,685 |
| | 1,629 | 1,850 | 5,915 | 7,921 | 14,591 | 22,347 |
| | 1,396 | 2,020 | 21,772 | 7,592 | 53,891 | 7,628 |
| | <u>1,784,741</u> | <u>1,475,839</u> | <u>1,399,094</u> | <u>1,349,865</u> | <u>1,414,662</u> | <u>1,419,505</u> |
| | 652,473 | 393,828 | 391,258 | 343,836 | 379,835 | 390,142 |
| | 390,135 | 468,435 | 424,235 | 391,460 | 393,707 | 397,414 |
| | 478,599 | 477,526 | 750,075 | 603,850 | 535,851 | 367,653 |
| | 95,994 | 101,260 | 96,161 | 90,044 | 89,127 | 90,520 |
| | 160,970 | 202,022 | 16,177 | 12,910 | 48,287 | 9,300 |
| | - | - | - | 15,156 | 23,961 | 24,854 |
| | - | - | - | 466 | 2,201 | 2,266 |
| | <u>1,778,171</u> | <u>1,643,071</u> | <u>1,677,906</u> | <u>1,457,722</u> | <u>1,472,969</u> | <u>1,282,149</u> |
| | - | 66,000 | 82,100 | 85,800 | 91,300 | 87,600 |
| | (45,614) | (51,132) | (15,273) | - | - | - |
| | - | - | - | - | - | - |
| | - | - | - | - | - | - |
| | <u>(45,614)</u> | <u>14,868</u> | <u>66,827</u> | <u>85,800</u> | <u>91,300</u> | <u>87,600</u> |
| | (39,044) | (152,364) | (211,985) | (22,057) | 32,993 | 224,956 |
| | - | - | (3) | - | - | - |
| | <u>1,446,593</u> | <u>1,598,957</u> | <u>1,810,945</u> | <u>1,833,002</u> | <u>1,800,009</u> | <u>1,575,053</u> |
| \$ | <u>1,407,549</u> | <u>\$ 1,446,593</u> | <u>\$ 1,598,957</u> | <u>\$ 1,810,945</u> | <u>\$ 1,833,002</u> | <u>\$ 1,800,009</u> |

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

Table 7

| Fiscal Year Ended June 30 | General Government | Public Safety | Transportation | Environmental Protection | Cultural & Recreation | Interest on Long-Term Debt | Total |
|---------------------------------|-----------------------|------------------|----------------|-----------------------------|--------------------------|----------------------------------|--------------|
| 2018 | \$ 337,182 | \$ 358,436 | \$ 473,469 | \$ 117,305 | \$ 26,265 | \$ 3,278 | \$ 1,315,935 |
| 2017 | 604,294 | 439,093 | 380,618 | 96,173 | 20,419 | 6,221 | 1,546,818 |
| 2016 | 479,543 | 450,926 | 362,962 | 12,343 | 116,083 | 600 | 1,422,457 |
| 2015 | 551,016 | 415,119 | 107,255 | 1,587 | 109,206 | - | 1,184,183 |
| 2014 | 347,272 | 418,288 | 214,513 | 162,683 | 60,993 | - | 1,203,749 |
| 2013 | 403,785 | 417,698 | 137,836 | 203,889 | 102,532 | - | 1,265,740 |
| 2012 | 411,493 | 450,064 | 338,622 | 17,779 | 96,161 | - | 1,314,119 |
| 2011 | 348,601 | 418,103 | 317,661 | 27,743 | 90,850 | 467 | 1,203,425 |
| 2010 | 400,771 | 398,889 | 374,792 | 63,120 | 54,052 | 2,201 | 1,293,825 |
| 2009 | 372,544 | 400,467 | 333,633 | 105,353 | 2,340 | 2,266 | 1,216,603 |

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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 |
|--------------------------------------|-------------------------|---|---------------------------------|---|---|
| 2018 | \$ 1,000,700 | \$ 406,038 | \$ 94,784 | \$ 152,413 | \$ 2,787 |
| 2017 | 974,695 | 402,651 | 98,987 | 147,450 | 3,694 |
| 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 |

Table 8

| Non-Program Grants & Contributions | Investment Earnings | Miscellaneous | Total |
|---|--------------------------------|----------------------|--------------|
| \$ - | \$ 4,395 | \$ 5,453 | \$ 1,666,570 |
| - | 3,643 | 6,115 | 1,637,235 |
| - | 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 |

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

Table 9

| Fiscal Year Ended June 30 | Total Tax Levy | Current Tax Collections | Percent of Levy Collected | Delinquent Tax Collections, Credits & Write-offs | Total Tax Collections | Ratio of Total Tax Collections to Tax Levy | Total Direct Tax Rate |
|----------------------------------|-----------------------|--------------------------------|----------------------------------|---|------------------------------|---|------------------------------|
| 2018 | \$ 1,036,520 | \$ 1,036,520 | 100.00% | \$ - | \$ 1,036,520 | 100.00% | 0.41 |
| 2017 | 1,007,190 | 1,007,190 | 100.00% | - | 1,007,190 | 100.00% | 0.41 |
| 2016 | 961,948 | 961,941 | 100.00% | 3,159 | 965,100 | 100.33% | 0.41 |
| 2015 | 963,203 | 961,143 | 99.79% | 2,703 | 963,846 | 100.07% | 0.41 |
| 2014 | 972,675 | 969,735 | 99.70% | 6,083 | 975,818 | 100.32% | 0.41 |
| 2013 | 905,262 | 898,808 | 99.29% | 2,262 | 901,070 | 99.54% | 0.37 |
| 2012 | 905,282 | 896,135 | 98.99% | 2,461 | 898,596 | 99.26% | 0.37 |
| 2011 | 875,507 | 874,635 | 99.90% | 319 | 874,954 | 99.94% | 0.37 |
| 2010 | 872,786 | 871,997 | 99.91% | (38,433) | 833,564 | 95.51% | 0.37 |
| 2009 | 867,101 | 863,797 | 99.62% | 234 | 864,031 | 99.65% | 0.37 |

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

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

Table 10

| Fiscal Year Ended June 30 | TR-2 Calendar Tax Year | Real Property | Personal Property | Public Service Company Property | Total Assessed Value |
|--|---------------------------------------|----------------------|--------------------------|--|---------------------------------|
| 2018 | 2017 | \$ 250,837,992 | \$ 700,059 | \$ 1,271,705 | \$ 252,809,756 |
| 2017 | 2016 | 243,527,907 | 815,827 | 1,312,364 | 245,656,098 |
| 2016 | 2015 | 232,735,307 | 877,970 | 1,008,186 | 234,621,463 |
| 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 |

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

Table 11

| Fiscal Year Ended | Black Mountain | | | Total Tax Rate |
|----------------------------------|-------------------------|----------------------|------------------------|-----------------------|
| | Town of Montreat | Fire District | Buncombe County | |
| 2018 | 0.4100 | 0.1200 | 0.5290 | 1.0590 |
| 2017 | 0.4100 | 0.0990 | 0.6040 | 1.1130 |
| 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 |

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 |
|--|-----------------------|---|--|-------------------|--|
| 2018 | \$ 252,809,756 | \$ - | 0.00% | 868 | 0.00% |
| 2017 | 245,656,098 | - | 0.00% | 798 | 0.00% |
| 2016 | 234,621,463 | - | 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% |

**Town of Montreat
 Computation of Legal Debt Margin
 June 30, 2018**

Table 13

| | |
|---|-----------------------------|
| Assessed value of taxable property | \$ 252,809,756 |
| times | <u>0.08</u> |
| Debt limit (8% of assessed value) | <u>20,224,780</u> |
| Gross debt: | |
| Bonds Payable | 90,000 |
| Authorized & unissued bonds | - |
| Installment Purchase | <u>599,230</u> |
| Gross Debt | <u>689,230</u> |
| Less: Water Fund debts | <u>552,769</u> |
| Total amount of debt applicable to debt limit | <u>136,461</u> |
| Legal debt margin | <u><u>\$ 20,088,319</u></u> |

Note: Bonds Payable are Water Fund, not General Obligation

**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 |
|--|------------------|-----------------|---------------------------|--|---|
| 2018 | \$ - | \$ - | \$ - | \$ 1,315,935 | 0.00% |
| 2017 | - | - | - | 1,546,818 | 0.00% |
| 2016 | - | - | - | 1,422,457 | 0.00% |
| 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% |

Note: The Town of Montreat has no General Obligation Bonded Debt at present.

**Town of Montreat
Demographic Statistics**

Table 15

| Fiscal Year Ended June 30 | Population | Per Capita Income | Median Age | School Enrollment | Unemployment Rate % (June)* |
|--|-------------------|--------------------------|-------------------|--------------------------|--|
| 2018 | 868 | N/A | N/A | 18 | 3.5 |
| 2017 | 798 | N/A | N/A | 6 | 3.9 |
| 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 |

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

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**Town of Montreat
 Ten Largest Taxpayers
 June 30, 2018**

2018

| Taxpayer | Classification | 2017 Assessed Valuation | Percentage of Total Assessed Valuation |
|-----------------------------|-----------------------|--------------------------------|---|
| Mountain Retreat Center | Institutional | **** | **** |
| NEALE, HENRY W & MARGARET C | Residential | 1,772,800 | 0.70% |
| SCHEU, WILLIAM E | Residential | 1,169,700 | 0.46% |
| CLARK, JACQUELINE F | Residential | 1,168,200 | 0.46% |
| SLOOP GROUP, LLC | Residential | 1,087,600 | 0.43% |
| HANNAH, WALTER W | Residential | 979,000 | 0.39% |
| MCCASKILL, WM C | Residential | 974,630 | 0.39% |
| SHORTRIDGE, KENNETH W JR | Residential | 924,700 | 0.37% |
| TOPPLE, STANLEY C | Residential | 846,500 | 0.33% |
| BURRISS, FRANCIS M | Residential | 792,950 | 0.31% |

**** 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

2017

| Classification | 2016 Assessed Valuation | Percentage of Total Assessed Valuation |
|-----------------------|------------------------------------|---|
| Institutional | **** | **** |
| Residential | 1,367,200 | 0.58% |
| Residential | 1,306,600 | 0.56% |
| Residential | 834,500 | 0.36% |
| Residential | 1,377,800 | 0.59% |

**Town of Montreat
Largest Employers
June 30, 2018**

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 |
|-------------|-----------------------------|---|-----------------------------|--------------|
| 2018 | 128 | 87 | 13 | 228 |
| 2017 | 127 | 60 | 14 | 201 |
| 2016 | 125 | 60 | 14 | 199 |
| 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 |

Source: Montreat College, Montreat Conference Center

**Town of Montreat
Miscellaneous Statistics
June 30, 2018**

Table 18

| | |
|------------------------------|----------------|
| Date of establishment | 1967 |
| Form of Government | Mayor-Council |
| Employees | |
| Full-time permanent | 13 |
| Vacancies | 0 |
| Other (Police Reserve) | 3 |
| 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 | 3 |
| Inspections: | |
| Building permits issued | 87 |
| Water Service: | |
| Number of customers | 679 |
| Average daily consumption | 91,400 gal |
| Miles of water mains | 18 |
| 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, each major fund, and the aggregate remaining fund information of the Town of Montreat, North Carolina, as of and for the year ended June 30, 2018, 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 February 28, 2019.

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 have not been identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described as Findings 2018-002 and 2018-003 in the accompanying Schedule of Findings and Responses to be material weaknesses.

A *significant deficiency* is a deficiency or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described as Finding 2018-001 in the accompanying Schedule of Findings and Responses to be a significant deficiency.

Compliance and Other Matters

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

Town of Montreat's Responses to Findings

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

Purpose of this Report

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

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
Hickory, North Carolina
February 28, 2019

TOWN OF MONTREAT, NORTH CAROLINA

**SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2018**

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 weakness(es) identified? Yes
- Significant deficiency(ies) 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, 2018

2. Financial Statement Findings

Finding 2018-001

Significant Deficiency

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

Condition: The external auditor prepared a draft of the basic financial statements, all required note disclosures, and supplemental schedules. Financial reporting under the accounting standards promulgated by the Financial Accounting Standards Board and the Governmental Accounting Standards Board requires a level of technical expertise not possessed by the Town's personnel with regards to drafting full accrual, full disclosure financial statements. Although management of the Town does not possess expertise to draft full accrual, full disclosure financial statements, they do have the skills and knowledge to adequately oversee and perform a detail review of the drafted full accrual, full disclosure financial statements and reconcile the financial statements to the records of the Town.

Effect: Errors in financial reporting could occur.

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

Identification of a Repeat Finding: This is a repeat finding from the immediate previous audit 2017-002.

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 and overseeing the drafting services 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, 2018

2. Financial Statement Findings (continued)

Finding 2018-002

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.

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.

Identification of a Repeat Finding: This is a repeat finding from the immediate previous audit 2017-003.

Recommendation: Management should examine the adjustments required as a result of our audit and asses 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

SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED JUNE 30, 2018

2. Financial Statement Findings (continued)

Finding 2018-003

Material Weakness

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

Condition: Bank reconciliations were not prepared and balanced to the general ledger in a timely manner during the year.

Effect: Lack of timely reconciliations greatly increases the risk of improper financial reporting.

Cause: There are a limited number of personnel for operating functions. Staff turnover has occurred during the year.

Recommendation: Management should require that bank reconciliations be prepared and balanced to the general ledger accounts on a monthly basis as the bank statements come in.

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.



**CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2018**

Financial Statement Findings

Significant Deficiencies

Finding 2018-001

Name of Contact Person: Alex Carmichael, Town Administrator

Correction Action: Management has evaluated the cost benefit of engaging the external auditor to perform this function. Though 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 will continue to analyze this practice and its alternatives. The Town remains responsible for the accuracy of the audited financial statements.

Proposed Completion Date: Immediately

Material Weaknesses

Finding 2018-002

Name of Contact Person: Alex Carmichael, Town Administrator

Corrective Action: Management is aware that year-end audit adjustments are typically required. Management has strengthened internal controls throughout the year and continues to do so. Additionally, with the recent hiring of the Town's new Finance Officer, management expects a reduction in the number of audit adjustments required at year-end.

Proposed Completion Date: Immediately

Finding 2018-003

Name of Contact Person: Alex Carmichael, Town Administrator

Corrective Action: With the recent hiring of the Town's new Finance Officer, end of month bank reconciliations are possible again. Once caught up in the current fiscal year, management will ensure that bank reconciliation will be prepared and balanced to the general ledger accounts on a monthly basis as the bank statements come in.

Proposed Completion Date: Immediately

TOWN OF MONTREAT, NORTH CAROLINA

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2018

Finding 2017-001

Status: Corrected.

Finding 2017-002

Status: Repeated as Finding 2018-001. Management has evaluated the cost benefit and has chosen to engage the external auditor to perform this function.

Corrective Action: Management continues to evaluate the cost benefit of engaging the external auditor to perform this function. Though 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 will continue to analyze this practice and its alternatives. The Town remains responsible for the accuracy of the audited financial statements

Finding 2017-003

Status: Repeated as Finding 2018-002.

Corrective Action: Management is aware that year-end audit adjustments are typically required. Management has strengthened internal controls throughout the year and continues to do so. Additionally, with the recent hiring of the Town's new Finance Officer, management expects a reduction in the number of audit adjustments required at year-end

Finding 2017-004

Status: Corrected.

Finding 2017-005

Status: Corrected.

Finding 2017-006

Status: Corrected.