

CITY OF LOCUST, NORTH CAROLINA

Audited Financial Statements

For the Fiscal Year Ended June 30, 2014

City Council Members

Stephen Huber, Mayor
David Walker, Mayor Pro Tem
Mike Hinson
Harry Fletcher
Mike Haigler
Larry Baucom
J.C. Burris
Roger Hypes

Administrative and Financial Staff

Tim Fesperman, City Administrator
Michael Rupp, Finance Director

CITY OF LOCUST, NORTH CAROLINA

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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Locust, North Carolina, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City'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 did not audit the financial statements of the City of Locust ABC Board. Those statements were audited by another auditor whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the City of Locust ABC Board, is based solely on the report of another auditor. 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. The financial statements of the City of Locust ABC Board were not audited in accordance with *Government Auditing Standards*.

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, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Locust, North Carolina as of June 30, 2014, and the respective changes in financial position, 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 Other Post-employment Benefits' Schedules of Funding Progress and Schedules of Employer Contributions and the Law Enforcement Officers' Special Separation Allowance, on pages 4-13, 52-53 and 54-55, respectively, be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and the other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to 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 City of Locust, North Carolina. The combining and individual fund statements, budgetary schedules, other schedules, and Schedule of Expenditures of Federal and State Awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of State and Local Governments and Non-Profit Organizations* and the State Single Audit Implementation Act, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

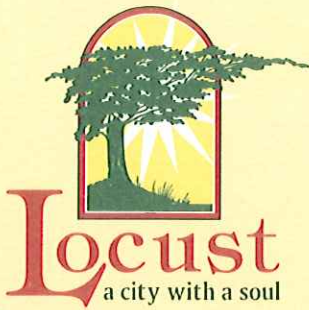
The combining and individual fund statements, budgetary schedules, other schedules, and the Schedule of Expenditures of Federal and State Awards are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, and the report of other auditors, the combining and individual fund statements, budgetary schedules, Schedule of Expenditures of Federal and State Awards, and other schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2014 on our consideration of City of Locust's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Locust's internal control over financial reporting and compliance.

Rowell, Craven & Short, P.A.

Rowell, Craven & Short P.A.
Charlotte, North Carolina
December 15, 2014



Vision: Locust is the preferred community where people fulfill their dreams of home, leisure, and work.

Mission: Our mission is to plan and prioritize for the citizens' well-being through equitable and quality services, focusing on cost-efficient government.

Core Values:

Preserve our community history
Encourage family values
Maintain quality of life
Stewardship of public resources
Promote sustainable and balanced growth

Management's Discussion

As management of the City of Locust, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City of Locust for the fiscal year ended June 30, 2014. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the City's financial statements, which follow this narrative.

Financial Highlights

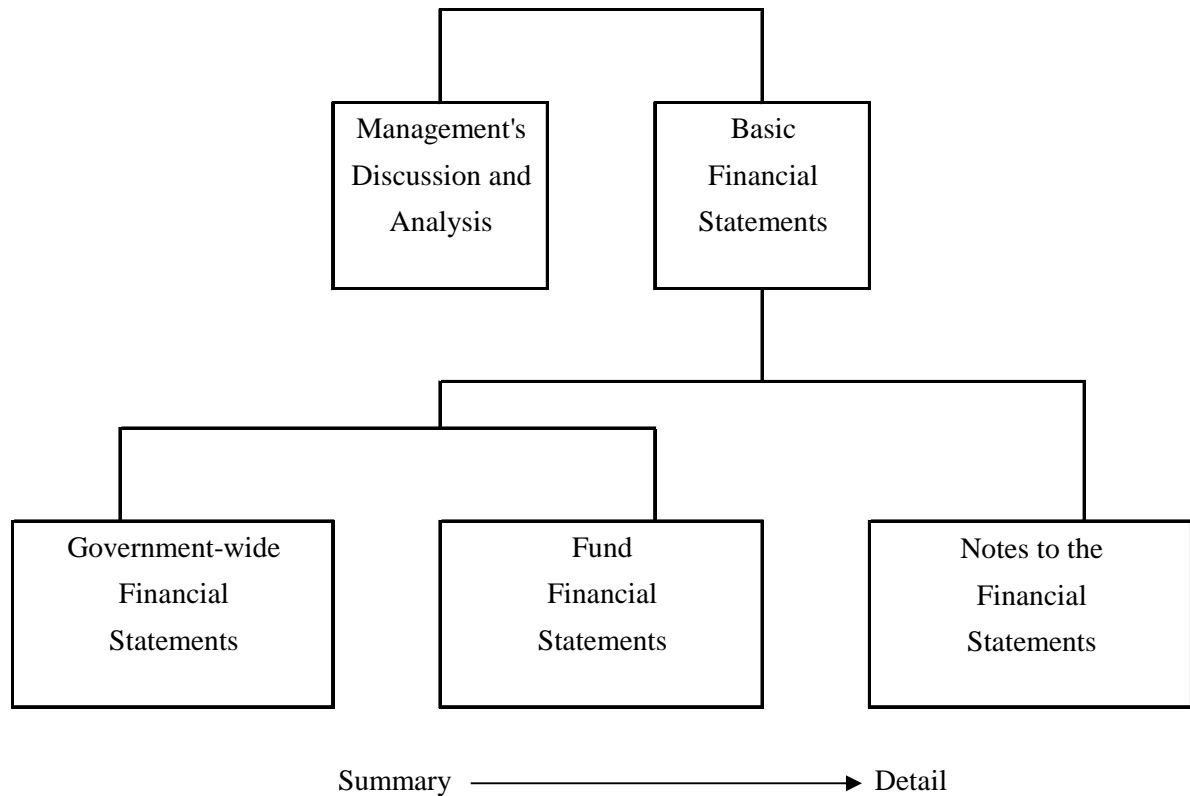
- The assets of the City of Locust exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$17,308,027 (net assets).
- The government's total net position increased by \$23,084 primarily due to an increase in actual revenues compared to budgeted revenues and expenditures remained steadfast throughout the year.
- As of the close of the current fiscal year, the City of Locust's governmental funds reported combined ending fund balances of \$1,218,538, an increase of \$183,494 in comparison with the prior year. Approximately 48.8% of this total amount or \$594,076 is restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$624,462, or 26.7% of total general fund expenditures for the fiscal year.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to City of Locust's basic financial statements. The City'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 City 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 City of Locust.

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

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

The next statements (Exhibits 3 through 9) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the City 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 City'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 City'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 financial status as a whole.

Government-wide Financial Statements - Continued

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

The government-wide statements are divided into three categories: 1) governmental activities; 2) business-type activities; and 3) component units. The governmental activities include most of the City's basic services such as public safety, parks and recreation, and general administration. Property taxes and state and federal grant funds finance most of these activities. The business-type activities are those that the City charges customers to provide. These include the sewer services offered by the City of Locust. The final category is the component unit. Although legally separate from the City, the ABC Board is important to the City. The City exercises control over the Board by appointing its members and because the Board is required to distribute its profits to the City.

The government-wide financial statements are on Exhibits 1 and 2 of this report.

Fund Financial Statements

The fund financial statements (see Figure 1) provide a more detailed look at the City'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 City of Locust, 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 City's budget ordinance. All of the funds of City of Locust 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 City's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash, 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 City's programs. The relationship between government activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The City of Locust 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 City, the management of the City, and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the City to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the City complied with the budget ordinance and whether or not the City 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 – City of Locust has one on-going proprietary fund. Enterprise Funds are used to report the same functions presented as business-type activities in the government-wide financial statements. City of Locust uses enterprise funds to account for its sewer activity. This fund is the same as those functions shown in the business-type activities in the Statement of Net Position and the Statement of Activities. A capital projects fund has been established to account for additions to the sewer infrastructure.

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 26 of this report.

Other Information – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the City of Locust’s progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 52 of this report.

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

Government-Wide Financial Analysis

The City of Locust’s Net Position

Figure 2

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$ 1,393,466	\$ 1,039,022	\$ 131,724	\$ 125,022	\$ 1,525,190	\$ 1,164,044
Capital assets	11,278,270	11,574,226	10,539,399	9,873,492	21,817,669	21,447,718
Total assets	12,671,736	12,613,248	10,671,123	9,998,514	23,342,859	22,611,762
Long-term liabilities						
outstanding	2,519,880	2,490,889	2,631,027	2,181,413	5,150,907	4,672,302
Other liabilities	177,877	5,685	700,968	643,759	878,845	649,444
Deferred inflows of resources	5,080	5,074	-	-	5,080	5,074
Total liabilities and deferred inflows of resources	2,702,837	2,501,647	3,331,995	2,825,172	6,034,832	5,326,819
Net position:						
Net investment in capital assets	9,151,949	9,406,747	7,424,683	7,273,556	16,576,632	16,680,303
Restricted	574,611	414,667	-	-	574,611	414,667
Unrestricted	242,339	290,187	(85,555)	(100,214)	156,784	189,973
Total net position	\$ 9,968,899	\$ 10,111,601	\$ 7,339,128	\$ 7,173,342	\$ 17,308,027	\$ 17,284,943

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 City of Locust exceeded liabilities and deferred inflows of resources by \$17,308,027 as of June 30, 2014. The City’s net position increased by \$23,084 for the fiscal year ended June

30, 2014. However, the largest portion (95.8%) reflects the City's investment in capital assets (e.g. land, buildings, machinery, and equipment). The City of Locust uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Locust'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. The remaining balance of \$156,784 is unrestricted.

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

- Continued diligence in the collection of property taxes by maintaining a relatively high tax collection percentage of just over 96%.
- Increase in privilege licenses and permits and sales tax due to business growth in the city.
- Increase in new development and sewer tap fees.

City of Locust Changes in Net Position
Figure 3

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Revenues:						
Program revenues:						
Charges for services	\$ 69,114	\$ 70,058	\$ 1,056,865	\$ 1,000,176	\$ 1,125,979	\$ 1,070,234
Operating grants and contributions	103,968	122,351	-	-	103,968	122,351
Capital grants and contributions	132,315	799,229	-	-	132,315	799,229
General revenues:						
Property taxes	1,340,582	1,309,833	-	-	1,340,582	1,309,833
Other taxes	62,636	85,317	-	-	62,636	85,317
Grants and contributions not restricted to specific programs	885,139	869,180	-	-	885,139	869,180
Other	65,856	38,139	-	-	65,856	38,139
Total revenues	2,659,610	3,294,107	1,056,865	1,000,176	3,716,475	4,294,283
Expenses:						
General government	634,371	539,534	-	-	634,371	539,534
Public safety	949,158	880,972	-	-	949,158	880,972
Transportation	534,461	528,460	-	-	534,461	528,460
Environmental protection	234,433	233,878	-	-	234,433	233,878
Culture and recreation	378,018	353,312	-	-	378,018	353,312
Interest on long-term debt	71,871	76,961	-	-	71,871	76,961
Water and sewer	-	-	891,079	883,742	891,079	883,742
Total expenses	2,802,312	2,613,117	891,079	883,742	3,693,391	3,496,859
Increase(decrease) in net position before transfers	(142,702)	680,990	165,786	116,434	23,084	797,424
Transfers	-	(80,700)	-	80,700	-	-
Increase(decrease) in net position	(142,702)	600,290	165,786	197,134	23,084	797,424
Net position, July 1 (consolidated)	10,111,601	9,511,311	7,173,342	6,976,208	17,284,943	16,487,519
Net position, June 30	\$ 9,968,899	\$ 10,111,601	\$ 7,339,128	\$ 7,173,342	\$ 17,308,027	\$ 17,284,943

Governmental Activities. Governmental activities decreased the City's net position by \$142,702.

Business-type Activities. Business-type activities increased the City of Locust's net position by \$165,786.

Financial Analysis of the City Funds

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

Governmental Funds. The focus of the City of Locust's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the City of Locust's financing requirements.

The general fund is the chief operating fund of the City of Locust. At the end of the current fiscal year, City of Locust's fund balance available in the General Fund was \$624,462, while total fund balance reached \$1,218,538. The City follows the Local Government Commission's recommendation in order to maintain an adequate cash flow in the General Fund. The Fund Balance available for appropriation should not drop below 8.0% of total expenditures. This represents approximately one month's average expenditures. The City currently has an available fund balance of 26.7% of general fund expenditures, while total fund balance represents 52.04% of the same amount.

At June 30, 2014, the governmental funds of City of Locust reported a combined fund balance of \$1,218,538 with a net increase in fund balance of \$183,494. This increase represents only the general fund as the Capital Project Fund balance was \$0.

General Fund Budgetary Highlights: During the fiscal year, the City 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. 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 object 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. Revenues were higher than budgeted amounts primarily due to the fact that the City historically budgets conservatively. Expenditures were held in check to comply with its budgetary requirements.

Proprietary Funds. The City's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the water sewer fund at the end of the fiscal year amounted to (\$85,555). The City Council is preparing a plan of action to correct this deficiency. Other factors concerning the finances of this fund have already been addressed in the discussion of the City's business-type activities.

Capital Asset and Debt Administration

Capital Assets. The City of Locust's investment in capital assets for its governmental and business-type activities as of June 30, 2014, totals \$21,817,669 (net of accumulated depreciation). These assets include buildings, roads and bridges, land, machinery and equipment, park facilities, and vehicles.

Major capital asset transactions during the year include the following additions:

- City purchased 3 vehicles for its police department
- Addition of sidewalks to City's maintenance system
- Addition of sewer infrastructure (King's Heights)

City of Locust's Capital Assets Net of Depreciation

Figure 4

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Land	\$ 693,782	\$ 693,782	\$ -	\$ -	\$ 693,782	\$ 693,782
Buildings and systems	3,288,100	3,430,408	10,539,399	9,873,492	13,827,499	13,303,900
Machinery and equipment	145,587	182,806	-	-	145,587	182,806
Infrastructure	6,475,479	6,714,129	-	-	6,475,479	6,714,129
Vehicles and motorized equipment	208,344	218,439	-	-	208,344	218,439
Construction in progress	466,978	334,662	-	47,661	466,978	382,323
Total	\$ 11,278,270	\$ 11,574,226	\$ 10,539,399	\$ 9,921,153	\$ 21,817,669	\$ 21,495,379

Additional information on the City's capital assets can be found in Note 2 of the Basic Financial Statements.

**City of Locust's Outstanding Debt
Capitalized Leases and Installment Purchases**

Long-term Debt. As of June 30, 2014, the City of Locust had total debt outstanding of \$5,235,621.

Figure 5

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Capitalized leases	\$ 43,806	\$ 60,033	\$ -	\$ -	\$ 43,806	\$ 60,033
Construction loan	-	2,107,446	-	-	-	2,107,446
Governmental Center loan	2,082,515	-	-	-	2,082,515	-
Installment purchases	-	-	3,109,300	2,599,936	3,109,300	2,599,936
Total	\$2,126,321	\$2,167,479	\$3,109,300	\$2,599,936	\$5,235,621	\$4,767,415

City of Locust's Outstanding Debt

The City of Locust's total debt had a net decrease of \$468,206 during the past fiscal year. The City closed on a loan for sewer infrastructure additions for \$927,887 with the NC DENR.

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for City of Locust is \$29,699,058. Additional information regarding City of Locust'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 City of Locust:

- The City's unemployment rate remained stable from the prior year.
- Occupancy rates on office and retail space remained steady through the year.
- Commercial growth is increasing as evidenced by the increased fees for privilege licenses and permits issued.

Budget Highlights for the Fiscal Year Ending June 30, 2014

Governmental Activities: Property taxes and revenues from permits and fees are expected to remain steady as compared to the current year. Budgeted expenditures in the General Fund are expected to remain steady for budget year 2014-2015.

Business – type Activities: The Enterprise Fund is expected to remain steady compared to the current year. General operating expenses will remain steady for budget year 2014-2015.

Requests for Information

This report is designed to provide an overview of the **City of Locust** finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the office of Tim Fesperman, P.O. Box 190, Locust N.C. 28097 or e-mail to tfesperman@locustnc.com.

BASIC FINANCIAL STATEMENTS

CITY OF LOCUST, NORTH CAROLINA

Exhibit 1

Statement of Net Position
June 30, 2014

	Primary Government			City of Locust ABC Board
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 866,322	\$ -	\$ 866,322	\$ 19,254
Taxes receivable	136,620	-	136,620	-
Accounts receivable (net)	-	103,908	103,908	-
Due from other governments	273,773		273,773	-
Prepaid expenses	-	-	-	6,491
Inventories	-	-	-	113,611
Restricted cash and cash equivalents	116,751	27,816	144,567	-
Total current assets	\$ 1,393,466	\$ 131,724	\$ 1,525,190	\$ 139,356
Non-current assets:				
Capital assets (Note 1):				
Land, non-depreciable improvements, and construction in progress	1,160,760	-	1,160,760	-
Other capital assets, net of depreciation	10,117,510	10,539,399	20,656,909	40,946
Total capital assets	11,278,270	10,539,399	21,817,669	40,946
Other Assets:	-	-	-	3,221
Total assets	12,671,736	10,671,123	23,342,859	183,523
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities	\$ 217,312	\$ -	\$ 217,312	\$ 120,378
Accrued interest payable	71,523	10,958	82,481	-
Internal balances	(184,087)	184,087	-	-
Customer deposits	-	27,650	27,650	-
Current portion of long-term liabilities	73,129	478,273	551,402	39,507
Total current liabilities	177,877	700,968	878,845	159,885
Long-term liabilities:				
Due in more than one year	2,519,880	2,631,027	5,150,907	56,760
Total liabilities	2,697,757	3,331,995	6,029,752	216,645
DEFERRED INFLOWS OF RESOURCES				
Unearned revenues	5,080	-	5,080	-
Total deferred inflows of resources	5,080		5,080	-
NET POSITION				
Net investment in capital assets	9,151,949	7,424,683	16,576,632	40,946
Restricted for:				
Stabilization by state statue	457,860	-	457,860	-
Streets - Powell Bill	116,751	-	116,751	-
Working capital	-	-	-	37,517
Unrestricted	242,339	(85,555)	156,784	(111,585)
Total net position	\$ 9,968,899	\$ 7,339,128	\$ 17,308,027	\$ (33,122)

CITY OF LOCUST, NORTH CAROLINA

***Statement of Activities
For the Fiscal Year Ended June 30, 2014***

		Program Revenues
		Charges
	Expenses	for
<u>Functions/Programs</u>		Services
Primary government:		
Governmental Activities:		
General government	\$ 634,371	\$ 11,284
Public safety	949,158	4,225
Transportation	534,461	-
Environmental protection	234,433	-
Cultural and recreational	378,018	53,605
Interest on long-term debt	71,871	-
	<hr/>	<hr/>
Total governmental activities	2,802,312	69,114
	<hr/>	<hr/>
Business-type activities:		
Water and sewer	891,079	1,056,865
	<hr/>	<hr/>
Total business-type activities	891,079	1,056,865
	<hr/>	<hr/>
Total primary government	\$ 3,693,391	\$ 1,125,979
	<hr/>	<hr/>
Component Unit:		
ABC Board	\$ 918,195	\$ 975,457
Total component unit	\$ 918,195	\$ 975,457
	<hr/>	<hr/>

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

Exhibit 2

Operating Grants and Contributions	Capital Grants and Contributions	Changes in Net Position Primary Government		Total	City of Locust ABC Board
		Governmental Activities	Business Type Activities		
\$ -	\$ 132,315	\$ (490,772)	\$ -	\$ (490,772)	\$ -
-	-	(944,933)	-	(944,933)	-
103,968	-	(430,493)	-	(430,493)	-
-	-	(234,433)	-	(234,433)	-
-	-	(324,413)	-	(324,413)	-
-	-	(71,871)	-	(71,871)	-
103,968	132,315	(2,496,915)	-	(2,496,915)	-
-	-	-	165,786	165,786	-
-	-	-	165,786	165,786	-
\$ 103,968	\$ 132,315	\$ (2,496,915)	\$ 165,786	\$ (2,331,129)	\$ -
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 57,262
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 57,262
General revenues:					
Taxes					
Property taxes levied for general purposes		1,340,582	-	1,340,582	-
Other taxes and licenses		62,636	-	62,636	-
Unrestricted intergovernmental revenue		885,139	-	885,139	-
Unrestricted investment earnings		12,110	-	12,110	-
Miscellaneous		53,746	-	53,746	-
Total general revenues, not including transfers:		2,354,213	-	2,354,213	-
Change in net position		(142,702)	165,786	23,084	57,262
Net position, beginning		10,111,601	7,173,342	17,284,943	(90,384)
Net position, ending		\$ 9,968,899	\$ 7,339,128	\$ 17,308,027	\$ (33,122)

CITY OF LOCUST, NORTH CAROLINA

Exhibit 3

Balance Sheet
Governmental Funds
June 30, 2014

	Major Funds	Non-Major Fund	Total
	General	Capital Project	Governmental
	Fund	Fund	Funds
ASSETS			
Cash and cash equivalents	\$ 866,322	\$ -	\$ 866,322
Restricted cash	116,751	-	116,751
Taxes receivable	136,619	-	136,619
Due from (to) other funds	184,087	-	184,087
Due from other governments	273,773	-	273,773
	<hr/>	<hr/>	<hr/>
Total assets	1,577,552	-	1,577,552
	<hr/>	<hr/>	<hr/>
LIABILITIES			
Accounts payable and accrued liabilities	217,314	-	217,314
Total liabilities	217,314	-	217,314
	<hr/>	<hr/>	<hr/>
DEFERRED INFLOWS OF RESOURCES			
Property taxes receivable	136,620	-	136,620
Donations	5,080	-	5,080
Total deferred inflows of resources	141,700	-	141,700
	<hr/>	<hr/>	<hr/>
FUND BALANCES			
Restricted			
Stabilization by state statue	457,860	-	457,860
Streets - Powell Bill	116,751	-	116,751
Unspendable - USDA Reserves	10,956		10,956
Assigned - Veterans Memorial	8,509		8,509
Unassigned	624,462	-	624,462
	<hr/>	<hr/>	<hr/>
Total fund balances	1,218,538	-	1,218,538
Total liabilities, deferred inflows of resources and fund balances	\$ 1,577,552	\$ -	\$ 1,577,552
	<hr/>	<hr/>	<hr/>

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

CITY OF LOCUST, NORTH CAROLINA

**Exhibit 3
Continued**

***Reconciliation of Balance Sheet of
Governmental Funds to the Statement of Net Position
June 30, 2014***

statement of net position (Exhibit 1) are different because:

Total fund balance - governmental funds	\$ 1,218,538
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds statement.	11,278,270
Liabilities for earned revenues considered deferred inflows of resources	136,620
Accrued interest	(71,524)
Some liabilities, including leases payable, installment loan, compensated absences payable, and other postemployment benefits are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(2,593,005)</u>
Net position governmental activities	<u><u>\$ 9,968,899</u></u>

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

CITY OF LOCUST, NORTH CAROLINA

Exhibit 4

*Statement of Revenues, Expenditures and
Changes in Fund Balance – Governmental Funds
June 30, 2014*

	Major Fund		Total Governmental Funds
	General Fund	Capital Project Fund	
REVENUES			
Ad valorem taxes	\$ 1,299,087	\$ -	\$ 1,299,087
Other taxes and licenses	100,507	-	100,507
Unrestricted intergovernmental	885,139	-	885,139
Restricted intergovernmental	108,193	132,315	240,508
Sales and services	58,668	-	58,668
Investment earnings	12,110	-	12,110
Miscellaneous	61,363	-	61,363
Total revenues	<u>2,525,067</u>	<u>132,315</u>	<u>2,657,382</u>
EXPENDITURES			
Current:			
General government	499,546	132,315	631,861
Public safety	917,286	-	917,286
Transportation	266,113	-	266,113
Environmental protection	234,433	-	234,433
Economic and physical development	18,876	-	18,876
Culture and recreation	289,994	-	289,994
Debt Service:			
Principal retirement	37,709	-	37,709
Interest and other charges	77,616	-	77,616
Total expenditures	<u>2,341,573</u>	<u>132,315</u>	<u>2,473,888</u>
Excess (deficiency) of revenues over expenditures	<u>183,494</u>	<u>-</u>	<u>183,494</u>
Fund balance, beginning	<u>1,035,044</u>	<u>-</u>	<u>1,035,044</u>
Fund balance, end of year	<u><u>\$ 1,218,538</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,218,538</u></u>

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

CITY OF LOCUST, NORTH CAROLINA

Exhibit 5

***Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance
to the Statement of Activities of Governmental Funds
For the Fiscal Year Ended June 30, 2014***

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

Net changes in fund balances - total governmental funds	\$ 183,494
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Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital outlay expenditures which were capitalized	\$ 74,737	
Construction in progress- current year	132,316	
Disposal of assets	(3,750)	
Gain on disposal	3,750	
Depreciation expense for governmental assets	<u>(503,009)</u>	(295,956)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Change in unavailable revenue for tax revenues	<u>2,227</u>	2,227
--	--------------	-------

The issuance of long-term debt provides current financial resources to governmental funds while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

New long-term debt issued	-	
Principal payments on long-term debt	41,158	
Decrease in accrued interest payable	<u>2,295</u>	43,453

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

Compensated absences	(15,694)	
Other post-employment benefits	<u>(60,226)</u>	<u>(75,920)</u>
Total changes in net position of governmental activities		<u><u>\$ (142,702)</u></u>

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

CITY OF LOCUST, NORTH CAROLINA

Exhibit 6

General Fund
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
For the Fiscal Year Ended June 30, 2014

	General Fund			Variance with Final Budget- Positive (Negative)
	Original Budget	Final Budget	Actual Amounts	
Revenues:				
Ad valorem taxes	\$ 1,240,000	\$ 1,268,000	\$ 1,299,087	\$ 31,087
Other taxes and licenses	77,000	79,000	100,507	21,507
Unrestricted intergovernmental	855,000	882,000	885,139	3,139
Restricted intergovernmental	101,400	104,900	108,193	3,293
Sales and services	76,700	76,700	58,668	(18,032)
Investment earnings	7,000	8,750	12,110	3,360
Miscellaneous	13,900	51,450	61,363	9,913
Total revenues	2,371,000	2,470,800	2,525,067	54,267
Expenditures:				
Current:				
General government	499,050	522,850	499,546	23,304
Public safety	882,650	936,200	917,286	18,914
Transportation	299,500	301,500	266,113	35,387
Environmental protection	235,000	237,000	234,433	2,567
Economic and physical development	25,000	25,000	18,876	6,124
Culture and recreation	295,350	296,850	289,994	6,856
Debt service:				
Principal retirement	37,750	37,750	37,709	41
Interest and other charges	77,650	77,650	77,616	34
Total expenditures	2,351,950	2,434,800	2,341,573	93,227
Revenues over (under) expenditures	19,050	36,000	183,494	147,494
Other financing sources (uses):				
Transfers from Capital Project Fund	(5,800)	-	-	-
Transfers to Water and Sewer Fund	(13,250)	(36,000)	-	36,000
Total other financing sources (uses)	(19,050)	(36,000)	-	36,000
Fund balance appropriated	-	-	-	-
Net change in fund balance	\$ -	\$ -	183,494	\$ 183,494
Fund balance, beginning			1,035,044	
Fund balance, end of year			\$ 1,218,538	

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

CITY OF LOCUST, NORTH CAROLINA

Exhibit 7

*Statement of Net Position
Proprietary Fund
June 30, 2014*

	<u>Major Enterprise Fund</u>
	<u>Water and Sewer Fund</u>
ASSETS	
Current assets:	
Restricted cash and cash equivalents	\$ 27,816
Accounts receivable, net	103,908
Due from other funds	5,416
Total current assets	<u>137,140</u>
Capital assets:	
Capital assets, net of depreciation	\$ 10,539,399
Total noncurrent assets	<u>10,539,399</u>
Total assets	<u>\$ 10,676,539</u>
LIABILITIES	
Current liabilities:	
Accrued liabilities	\$ 10,958
Customer deposits	27,650
Due to other funds	189,503
Installment obligations payable - current	478,273
Total current liabilities	<u>706,384</u>
Noncurrent liabilities:	
Installment obligations payable - noncurrent	<u>2,631,027</u>
Total liabilities	<u>3,337,411</u>
NET POSITION	
Net investment in capital assets	7,424,683
Restricted	-
Unrestricted	<u>(85,555)</u>
Total net position	<u>\$ 7,339,128</u>

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

CITY OF LOCUST, NORTH CAROLINA

Exhibit 8

*Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Fund
For the Fiscal Year Ended June 30, 2014*

	<u>Major Enterprise Fund</u>
	<u>Water and Sewer Fund</u>
OPERATING REVENUES	
Charges for services	\$ 768,849
Sewer taps and fees	200,454
Capacity fee collections	87,500
Other operating revenues	<u>62</u>
Total operating revenues	<u>1,056,865</u>
OPERATING EXPENSES	
Administration	147,681
Waste collection and treatment	410,465
Depreciation	<u>256,564</u>
Total operating expenses	<u>814,710</u>
Operating income	<u>242,155</u>
NON-OPERATING EXPENSES	
Interest and other charges	<u>76,369</u>
Total non-operating expenses	<u>76,369</u>
Income before contributions and transfers	<u>165,786</u>
Transfers from other fund	<u>-</u>
Change in net position	165,786
Total net position, beginning	<u>7,173,342</u>
Total net position, ending	<u><u>\$ 7,339,128</u></u>

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

CITY OF LOCUST, NORTH CAROLINA

Exhibit 9

Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended June 30, 2014

	<u>Major Enterprise Fund</u>
	<u>Water and Sewer Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 1,051,998
Cash paid for goods and services	(447,160)
Cash paid to or on behalf of employees for services	(110,986)
Customer deposits received	2,250
Other operating revenues	62
	<hr/>
Net cash provided by operating activities	496,164
	<hr/>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Net due to (from) other fund	(9,321)
	<hr/>
Total cash flows provided by non-capital financing activities	(9,321)
	<hr/>
CASH FLOWS FROM CAPITAL AND RELATED	
Acquisition of capital assets	(922,471)
Principal paid on installment financing agreements	(418,050)
Installment loan proceeds	927,887
Interest and fees paid on installment financing agreements	(72,312)
	<hr/>
Net cash used by capital and related financing activities	(484,946)
	<hr/>
Net increase in cash and cash equivalents	1,897
Balances, beginning	25,919
	<hr/>
Balances, ending	\$ 27,816
	<hr/>
Details on cash and cash equivalents:	
Restricted assets	\$ 27,816
	<hr/>

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

CITY OF LOCUST, NORTH CAROLINA

Exhibit 9
Continued

Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended June 30, 2014

	<u>Major Enterprise Fund</u>	
	<u>Water and Sewer Fund</u>	
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$	242,155
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation		256,564
Change in assets and liabilities:		
Decrease in accounts receivable		(4,805)
Increase in customer deposits		2,250
		<hr/>
Net cash provided by operating activities	\$	<u><u>496,164</u></u>

CITY OF LOCUST, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The City of Locust, North Carolina, in Stanly County is a municipal corporation that is governed by an elected mayor and a seven member council. As required by generally accepted accounting principles, these financial statements present the City and its component unit, a legally separate entity for which the City is financially accountable. The discretely presented component unit presented below is reported in a separate column in the City's financial statements in order to emphasize that it is legally separate from the City.

City of Locust ABC Board

The members of the ABC Board's governing board are appointed by the City. In addition, the ABC Board is required by state statute to distribute its surpluses to the General Fund of the City. The ABC Board, which has a June 30 year-end, is presented as if it were a proprietary fund (discrete presentation). Complete financial statements for the ABC Board may be obtained from the entity's administrative offices at City of Locust ABC Board, 1772 Main Street West, Locust, NC 28097.

B. Basis of Presentation

Government-wide Statements: The statement of net position and the statement of activities display information about the primary government and its component unit. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between *governmental* and *business-type activities* of the City. 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 City and for each function of the City'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.

CITY OF LOCUST, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

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

The City reports the following major governmental funds:

General Fund. The General Fund is the general operating fund of the City. 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 public safety, street maintenance and construction, and sanitation services.

Capital Project Fund. This fund is used to account for the construction of a new government center.

The City reports the following major enterprise fund:

Water and Sewer Fund. This fund is used to account for the City's wastewater operations.

C. Measurement Focus and Basis of Accounting

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

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

- Continued -

CITY OF LOCUST, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 principal ongoing operations. The principal operating revenues of the City's enterprise fund are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the sewer system. Operating expenses for the enterprise fund includes 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 City 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 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 property taxes on registered motor vehicles on behalf of all municipalities and special tax districts. Property taxes are due when vehicles are registered. The billed taxes are applicable to the fiscal year in which they are received. Uncollected taxes that were billed in periods prior to September 1, 2013 and for limited registration plates are shown as a receivable in these financial statements and are offset by deferred inflows of resources.

- Continued -

CITY OF LOCUST, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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

D. Budgetary Data

The City's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund and Enterprise Fund. All annual appropriations lapse at the fiscal-year end. Project ordinances are adopted for the Capital Project Fund. 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 object level for the multi-year funds. 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.

E. Assets, Liabilities, Deferred inflows of Resources, and Fund Equity

1. Deposits and Investments

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

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

CITY OF LOCUST, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

The securities of the NCCMT Cash Portfolio, a SEC-registered (2a-7) money market mutual fund, are valued at fair value, which is the NCCMT's share price. The NCCMT Term Portfolio's securities are valued at fair value.

2. Cash and Cash Equivalents

The City pools money from several funds to facilitate disbursement and investment and to maximize investment income. Therefore, all cash and investments are essentially demand deposits and are considered cash and cash equivalents. The ABC Board considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash and cash equivalents.

3. Restricted Assets

Customer deposits held by the City 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 it can be expended only for purposes of maintaining, repairing, constructing, reconstructing or widening of local streets per G.S. 136-41.1 through 136.41.4.

4. Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the City levies ad valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, interest does not accrue until the following January 6. These taxes are based on the assessed values as of January 1, 2013. The City reports ad valorem tax revenues in the General Fund.

5. Inventory and Prepaid Items

The inventory of the ABC Board is valued at lower of cost (first-in, first out), which approximates market.

The inventory of the ABC Board consists of materials and supplies held for subsequent use. The cost of this inventory is expensed when consumed rather than when purchased.

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

CITY OF LOCUST, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

6. 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, buildings, and improvements, \$20,000; infrastructure, \$100,000; equipment and furniture, \$5,000; computer software and computer equipment, \$500; vehicles and motorized equipment, \$10,000. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. The City has elected not to report major general infrastructure assets, such as the road network, retroactively as permitted for Phase Three governments. Thus, any amounts expended for infrastructure prior to July 1, 2003, are not reported as capital assets. 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:

Asset Class	Estimated Useful Lives
Infrastructure	50
Buildings	30
Improvements	25
Vehicles	6
Furniture and equipment	10
Computer equipment	5
Computer software	3

Property and equipment of the ABC Board are stated at cost and are being depreciated over their useful lives on a straight-line basis as follows:

Asset Class	Estimated Useful Lives
Equipment	10
Leasehold improvements	10
Furniture and fixtures	5-10
Office equipment	3-7

7. Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element,

CITY OF LOCUST, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Deferred outflows/inflows of resources - continued

Deferred Outflows of Resources, represents consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then.

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

The City of Locust has no deferred outflows of resources, but does have two items that meet the criterion of deferred inflows of resources – property taxes receivable and donation.

8. 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.

9. Compensated Absences

The vacation policy of the City provides for the accumulation of leave without any maximum until December 31 of each year. Effective with the last payroll in the calendar year, any employee with more than 5 days of accumulated leave shall have the excess accumulation removed so that only 5 days are carried forward to January 1 of the next calendar year. For the City's government-wide funds and proprietary funds, an expense and a liability for compensated absences and the salary-related payments are recorded as the leave is earned. The City has assumed a first-in, first-out method of using accumulated compensated time. The portion of that time that is estimated to be used in the next fiscal year has been designated as a current liability in the government-wide financial statements.

The City'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 City does not have any obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

CITY OF LOCUST, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

10. Net Position/Fund Balances

Net Position

Net position in government-wide and proprietary fund financial statements are classified as 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:

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

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

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

Restricted for Working Capital – North Carolina Alcoholic Beverage Control Commission Rule [.0902] defines working capital as the total of cash, investments and inventory less all unsecured liabilities. An ABC board shall set its working capital requirements at not less than two weeks' average gross sales of the last fiscal year or greater than four months' average gross sales of the last fiscal year. Average gross sales mean gross receipts from the sale of alcoholic beverages less distributions required by State law [G.S. 18B-805(b), (2), (3), (4)].

Assigned fund balance – portion of fund balance that City of Locust intends to use for specific purposes.

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

The City of Locust 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.

- Continued -

CITY OF LOCUST, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

10. Net Position/Fund Balances

Fund Balances – continued

The City of Locust follows the Local Government Commission's recommendation in order to maintain an adequate cash flow in the General Fund. The Fund Balance available for appropriation should not drop below 8.0% of total expenditures. This represents approximately one month's average expenditures.

NOTE 2 - DETAIL NOTES ON ALL FUNDS

A. ASSETS

1. Deposits

All the deposits of the City of Locust and the ABC Board are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the City's or the ABC Board's agent in these unit's name. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the City and the ABC Board, these deposits are considered to be held by the City's and the ABC Board's agent in their names. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the City, the ABC Board, or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the City and the ABC Board under the Pooling Method, the potential exists for under-collateralization and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The City 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 City complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured. The ABC Board has no formal policy regarding custodial risk for deposits.

At June 30, 2014, the City's deposits had a carrying amount of \$985,263 and a bank balance of \$1,029,996. Bank balances of the City, totaling \$374,457 were fully covered by federal depository insurance. The remaining balance of \$655,539 was collateralized under the Pooling Method. The carrying amount of deposits for the ABC Board was \$19,254 and the bank balance was \$58,413. All of the bank balance was covered by federal depository insurance. As of June 30, 2014, the City's petty cash fund totaled \$100.

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CITY OF LOCUST, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2014

NOTE 2 - **DETAIL NOTES ON ALL FUNDS – Continued**

A. ASSETS

2. Investments

At June 30, 2014, the City of Locust had \$25,266 invested with the North Carolina Capital Management Trust's Cash Portfolio, which carried a credit rating of AAAM by Standard and Poor's. The City has no policy regarding credit risk or interest rate risk.

3. Capital Assets

Primary Government

Capital asset activity for the Primary Government for the year ended June 30, 2014, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 693,782	\$ -	\$ -	\$ 693,782
Construction in Progress	334,662	132,316	-	466,978
Total capital assets not being depreciated	1,028,444	132,316	-	1,160,760
Capital assets being depreciated:				
Buildings	2,408,514	-	-	2,408,514
Other improvements	1,686,889	-	-	1,686,889
Furniture and equipment	454,077	-	-	454,077
Computer equipment	202,920	-	-	202,920
Vehicles and motorized equipment	708,870	74,737	20,982	762,625
Infrastructure	7,764,305	-	-	7,764,305
Total capital assets being depreciated	13,225,575	74,737	20,982	13,279,330
Less accumulated depreciation for:				
Buildings	201,144	75,749	-	276,893
Other improvements	463,851	66,559	-	530,410
Furniture and equipment	277,988	33,092	-	311,080
Computer equipment	196,203	4,127	-	200,330
Vehicles and motorized equipment	490,431	84,832	20,982	554,281
Infrastructure	1,050,176	238,650	-	1,288,826
Total accumulated depreciation	2,679,793	503,009	20,982	3,161,820
Total capital assets being depreciated, net	10,545,782			10,117,510
Governmental activity capital assets, net	<u>\$ 11,574,226</u>			<u>\$ 11,278,270</u>

CITY OF LOCUST, NORTH CAROLINA

*Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2014*

NOTE 2 - **DETAIL NOTES ON ALL FUNDS – Continued**

A. ASSETS

3. Capital Assets

Primary Government

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

General government	\$ 90,041
Public safety	69,720
Transportation	264,218
Culture and recreation	79,030
Total depreciation expense	<u><u>\$ 503,009</u></u>

Business-type activities

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<i>Water and Sewer Fund</i>				
Capital assets not being depreciated:				
Construction in progress	\$ 47,661	\$ 922,471	\$ -	\$ 970,132
Total capital assets not being depreciated	<u>47,661</u>	<u>922,471</u>	<u>-</u>	<u>970,132</u>
Capital assets being depreciated:				
Plant and distribution system	12,634,656	-	-	12,634,656
Furniture and maintenance equipment	<u>53,551</u>	<u>-</u>	<u>-</u>	<u>53,551</u>
Total capital assets being depreciated	<u>12,688,207</u>	<u>-</u>	<u>-</u>	<u>12,688,207</u>
Less accumulated depreciation for:				
Plant and distribution system	2,812,113	255,525	-	3,067,638
Furniture and maintenance equipment	<u>50,263</u>	<u>1,039</u>	<u>-</u>	<u>51,302</u>
Total accumulated depreciation	<u>2,862,376</u>	<u>256,564</u>	<u>-</u>	<u>3,118,940</u>
Total capital assets being depreciated, net	<u>9,825,831</u>			<u>9,569,267</u>
Business-type activity capital assets, net	<u><u>\$ 9,873,492</u></u>			<u><u>\$ 10,539,399</u></u>

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CITY OF LOCUST, NORTH CAROLINA

*Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2014*

NOTE 2 - **DETAIL NOTES ON ALL FUNDS – Continued**

A. ASSETS

4. Construction Commitments

The City of Locust has active construction projects as of June 30, 2014. At year-end, the City's commitments with contractors are as follows:

		Actual			
	Project Authorization	Prior Years	Current Year	Total Spent-to-date	Remaining Commitment
Water and Sewer Improvements	78,938	3,750	-	3,750	75,188
Total	\$ 78,938	\$ 3,750	\$ -	\$ 3,750	\$ 75,188

5. Discretely presented component unit

Activity for the ABC Board for the year ended June 30, 2014, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
ABC Board				
Capital assets being depreciated:				
Furniture and fixtures	\$ 57,296	\$ 179	\$ -	\$ 57,475
Equipment	13,151	-	-	13,151
Leasehold improvements	30,015	-	-	30,015
Office equipment	21,938	1,432		23,370
Total capital assets being depreciated	122,400	1,611	-	124,011
Less accumulated depreciation for:				
Furniture and fixtures	29,190	5,852	-	35,042
Equipment	6,575	1,315	-	7,890
Leasehold improvements	15,008	3,002	-	18,010
Office equipment	21,265	858	-	22,123
Total accumulated depreciation	\$ 72,038	\$ 11,027	\$ -	\$ 83,065
Total capital assets being depreciated, net	50,362			40,946
ABC capital assets, net	\$ 50,362			\$ 40,946

- Continued -

CITY OF LOCUST, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2014

NOTE 2 - DETAIL NOTES ON ALL FUNDS – Continued

B. Liabilities

1. Pension Plan and Post-employment Obligations

a. Local Governmental Employees' Retirement System

Plan Description. The City of Locust contributes to the statewide Local Governmental Employees' Retirement System (LGERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS provides retirement and disability benefits to plan member and beneficiaries. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Local Government 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 or by calling (919) 981-5454.

Funding Policy. Plan members are required to contribute six percent of their annual covered salary. The City is required to contribute at an actuarially determined rate. For the City, the current rate for employees not engaged in law enforcement and for law enforcement officers is 7.07% and 7.28%, respectively, of annual covered payroll. The contribution requirements of members and of the City of Locust are established and may be amended by the North Carolina General Assembly. The City's contributions to LGERS for the years ended June 30, 2014, 2013 and 2012, were \$70,137, \$62,230, and \$63,807 respectively. The contributions made by the City equaled the required contributions for each year.

b. Supplemental Retirement Income Plan

Plan Description. The City of Locust 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 and other full-time City employees. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

Funding Policy. Article 12E of G.S. Chapter 143 requires the City to contribute each month an amount equal to five percent of each employee's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers and other full-time City employees may make voluntary contributions to the plan. Contributions for the year ended June 30, 2014 and 2013, and 2012 were \$43,783, \$42,175 and \$42,362, respectively.

CITY OF LOCUST, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2014

NOTE 2 - DETAIL NOTES ON ALL FUNDS – Continued

B. Liabilities

1. Pension Plan and Post-employment Obligations - continued

c. Law Enforcement Officers Special Separation Allowance

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

All full time law enforcement officers of the City are covered by the Separation Allowance. At December 31, 2012, the Separation Allowance’s membership consisted of:

Retirees receiving benefits.	-
Terminated plan members entitled to but not yet receiving benefits.	-
Active plan members	12
	<hr/>
Total	12
	<hr/> <hr/>

A separate report was not issued for the plan.

Summary of Significant Accounting Policies:

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

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

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

CITY OF LOCUST, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2014

NOTE 2 - **DETAIL NOTES ON ALL FUNDS – Continued**

B. Liabilities

1. Pension Plan and Post-employment Obligations - continued

c. Law Enforcement Officers Special Separation Allowance

annual required contribution for the current year was determined as part of the December 31, 2012 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 5.00% investment rate of return (net of administrative expenses) and (b) projected salary increases ranging from 4.25% to 7.85% per year. Both (a) and (b) included inflation component of 3.00%. The assumptions did not include post-employment benefit increases.

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

Employer annual required contribution	\$ 13,814
Interest on net pension obligation	9,205
Adjustment to annual required contribution	<u>(14,997)</u>
Annual pension cost	\$ 8,022
Contributions made	<u>-</u>
Increase (decrease) in net pension obligation	\$ 8,022
Net pension obligation beginning of fiscal year	<u>184,071</u>
Net pension obligation end of fiscal year	<u><u>\$ 192,093</u></u>

Three Year Trend Information				
Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation	
6/30/2012	\$ 8,551	0.00%	\$	175,790
6/30/2013	\$ 8,281	0.00%	\$	184,071
6/30/2014	\$ 8,022	0.00%	\$	192,093

Funded Status and Funding Progress. As of December 31, 2012, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and the unfunded actuarial accrued liability (UAAL) was \$ 70,253. The covered payroll (annual payroll of active employees covered by the plan) was \$471,506 and the ratio of the UAAL to covered payroll was 14.90%.

CITY OF LOCUST, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2014

NOTE 2 - **DETAIL NOTES ON ALL FUNDS** – Continued

B. Liabilities

1. Pension Plan and Post-employment Obligations - continued

c. Law Enforcement Officers Special Separation Allowance

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

2. Other Post-employment Benefits

a. Healthcare Benefits

Plan Description. According to a City resolution, the City administers a single-employer defined benefit Healthcare Benefits Plan (the HCB Plan). The City provides post-employment health care benefits to retirees of the City, provided the retiree has completed at least five years of creditable service and has at least five years in the North Carolina Local Government Employees' Retirement System. The health care plan will cease for the retiree when the retiree is eligible for Medicare and the previous health care insurance will convert to Medicare Supplemental insurance. The City Council may amend the benefit provisions. A separate report was not issued for the plan.

Membership of the HCB Plan consisted of the following at December 31, 2012, the date of the latest actuarial valuation:

	General Employees	Law Enforcement Officer
Retirees and dependents receiving benefits.	-	-
Terminated plan members entitled to but not yet receiving benefits.	-	-
Active plan members	14	12
Total	14	12

Funding Policy. The City pays the full cost of coverage for the healthcare benefits paid to qualified retirees under a City resolution that can be amended by City Council. The City's retirees may continue dependent coverage, and pay the full cost of this coverage, if enrolled in dependent coverage at the time of retirement. Currently there are no retirees receiving post-employment health benefits. The City has chosen to fund the healthcare benefits on a pay as you go basis.

CITY OF LOCUST, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2014

NOTE 2 - **DETAIL NOTES ON ALL FUNDS** – Continued

B. Liabilities

2. Other Post-employment Benefits - continued

a. Healthcare Benefits

The current ARC rate is 5.02% of annual covered payroll. For the current year, the City did not contribute to the plan. The City obtains health care coverage through private insurers. The City's obligation to contribute to HCB Plan is established and may be amended by the City Council.

Summary of Significant Accounting Policies. Post-employment expenditures are made from the General Fund, which is maintained on the modified accrual basis of accounting. No funds are set aside to pay benefits and administration costs. These expenditures are paid as they come due.

Annual OPEB Cost and Net OPEB Obligation. The City's annual OPEB cost (expense) is calculated based on *the annual required contribution of the employer* (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost. The City's annual pension cost and net pension obligation to the Health Care Benefit Plan for the current year were as follows:

Annual required contribution	\$ 51,358
Interest on net OPEB obligation	6,172
Adjustment to annual required contribution	(5,325)
Annual OPEB cost (expense)	<u>52,205</u>
Contributions made	<u>-</u>
Increase in net OPEB obligation	52,205
Net OPEB obligation, beginning of year	<u>154,296</u>
Net OPEB obligation, end of year	<u><u>\$ 206,501</u></u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30, 2014, were as follows:

For Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2012	\$ 39,010	0.00%	\$ 113,624
2013	\$ 40,672	0.00%	\$ 154,296
2014	\$ 52,205	0.00%	\$ 206,501

- Continued -

CITY OF LOCUST, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2014

NOTE 2 - **DETAIL NOTES ON ALL FUNDS** – Continued

2. Other Post-employment Benefits - continued

a. Healthcare Benefits

Funded Status and Funding Progress. As of December 31, 2012 the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and, thus, the unfunded actuarial accrued liability (UAAL) was \$171,653. The covered payroll (annual payroll of active employees covered by the plan) was \$741,889 and the ratio of the UAAL to the covered payroll was 23.1%. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities and benefits.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members at that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value assets, consistent with the long-term perspective of the calculations. In the December 31, 2012 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.00% investment rate of return (net of administrative expenses), which is the expected long-term investment returns on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual medical cost trend increase of 8.50% to 5.00% annually. The investment rate included a 3.00% inflation assumption. The actuarial value of assets, if any, was determined using techniques that spread the effects of short-term volatility in the market value of investments over a 5 year period. The UAAL is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period, at December 30, 2012, was 30 years.

CITY OF LOCUST, NORTH CAROLINA

*Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2014*

NOTE 2 - **DETAIL NOTES ON ALL FUNDS – Continued**

2. Other Post-employment Benefits - continued

b. Other Employment Benefits

The City has elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Government Employee's Retirement System (Death Benefit Plan), a multiple-employer, State-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest months' salary in a row during the 24 months prior to the employee's death, but the benefit may not exceed \$50,000 or be less than \$25,000. All death benefit payments are made from the Death Benefit Plan. The City has no liability beyond the payment of monthly contributions. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount. The City considers these contributions to be immaterial.

3. Outflows and Inflows of Resources

Deferred inflows of resources at year-end is comprised of the following unavailable revenue:

	Unavailable Revenue	Unearned Revenue
Property taxes receivable	\$ 136,620	\$ -
Donations (General Fund)	-	5,080
	<u>\$ 136,620</u>	<u>\$ 5,080</u>

CITY OF LOCUST, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2014

NOTE 2 - **DETAIL NOTES ON ALL FUNDS – Continued**

4. Risk Management

The City 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 City participates in three self-funded risk financing pools administered by the North Carolina League of Municipalities. Through these pools, the City obtains general liability and auto liability coverage of \$1 million per occurrence, property coverage up to the total insurance values of the property policy, workers' compensation coverage up to statutory limits, and employee health coverage up to a \$2 million lifetime limit. The pools are reinsured through commercial companies for single occurrence claims against general liability, auto liability and property in excess of \$500,000 and \$300,000 up to statutory limits for workers' compensation. The pools are reinsured for annual employee health claims in excess of \$150,000. The property liability pool has an aggregate limit for the total property losses in a single year, with the reinsurance limit based upon a percentage of the total insurance values.

The City 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 City of Locust does not hold any flood insurance. The City is not located in an area of the State that is designated as a flood plain or located close to a river, lake, or stream.

In accordance with G.S. 159-29, the City's employee who handles or has in his custody more than one hundred dollars (\$100) at any given time shall, before being entitled to assume his duties, give a faithful performance bond with sufficient sureties payable to the City. The finance officer is bonded for \$50,000. The remaining employees that have access to funds are insured against theft in the amount of \$5,000 per occurrence.

5. Claims, Judgments and Contingent Liabilities

At June 30, 2014, the City was a defendant to a lawsuit on appeal. In the opinion of the City's management and the City attorney, the ultimate effect of this legal matter will not have a material adverse effect on the City's financial position.

CITY OF LOCUST, NORTH CAROLINA

*Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2014*

NOTE 2 - **DETAIL NOTES ON ALL FUNDS – Continued**

6. Long-Term Obligations

a. Capital Leases

The City has entered into agreements to lease certain equipment. The lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception. At June 30, 2014 there was only one lease still open.

The agreement was executed on February 20, 2007 to lease a lighting system for the ball fields and requires 10 annual payments of \$16,633. In all agreements, title passes to the City at the end of the lease term.

The following is an analysis of the assets recorded under capital leases at June 30, 2014:

<u>Classes of Property</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Lighting system	122,074	24,822	97,252
Total	<u>\$ 122,074</u>	<u>\$ 24,822</u>	<u>\$ 97,252</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2014, were as follows:

<u>Year Ending June 30,</u>	
2015	16,633
2016	16,633
2017	16,633
Total minimum lease payments	49,899
Less: Amount representing interest	<u>6,093</u>
Present value of minimum lease payments	<u>\$ 43,806</u>

CITY OF LOCUST, NORTH CAROLINA

*Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2014*

NOTE 2 - **DETAIL NOTES ON ALL FUNDS – Continued**

6. Long-Term Obligations – continued

b. Installment Purchases

On July 18, 2012, the City converted the construction loan for its Government Center into a long-term loan of \$2,107,446 with the U.S. Department of Agriculture, payable on July 18 of each year consisting of principal and interest with total annual payments for each fiscal year of \$98,692 through July 2052 including interest at 3.5%.

\$ 2,082,515

The future minimum principal and interest payments of the Governmental Center's installment purchase agreement as of June 30, 2014, are as follows:

Governmental Center Loan			
Year Ending June 30	Principal	Interest	Total
2015	25,804	72,888	98,692
2016	26,707	71,985	98,692
2017	27,642	71,050	98,692
2018	28,609	70,083	98,692
2019	29,611	69,081	98,692
Thereafter	1,944,142	1,410,877	3,355,019
Total	<u>\$2,082,515</u>	<u>\$ 1,765,964</u>	<u>\$ 3,848,479</u>

The City has entered into agreements to finance the acquisition and/or construction of certain assets such as land, facilities, sewer lines and equipment for use in the City's sewer operations. Installment purchase agreements at June 30, 2014 involve separate agreements as described below:

CITY OF LOCUST, NORTH CAROLINA

*Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2014*

NOTE 2 - **DETAIL NOTES ON ALL FUNDS – Continued**

6. Long-Term Obligations – continued

b. Installment Purchases - continued

Installment purchase agreement for expansion of the wastewater disposal system, payable on December 29 and June 29 of each year in installments of \$117,649 through December, 2016, including interest at 3.50%, secured by equipment. \$ 1,007,275

In July, 2003, the City entered into an installment purchase agreement to refinance an existing installment purchase agreement and an existing settlement agreement for expansion of the wastewater disposal system, payable on November 1 and May 1 of each year in installments consisting of interest only payments in November and installments consisting of interest and principal payments in May, with the total annual payments for each fiscal year \$181,224 through June, 2024 including interest at 2.42%. 1,592,661

Installment purchase agreement for expansion of the wastewater disposal system, payable on May 1 of each year in installments of \$46,394 through May 2034, including interest at 2.0%, secured by equipment. 927,887

Total installment purchase agreements serviced by the Enterprise Fund. \$ 3,527,823

The future minimum principal and interest payments of the Enterprise Fund's installment purchase agreements as of June 30, 2014, are as follows:

<u>Year Ending June 30</u>	<u>Business-Type Activities</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	
2015	478,273	79,357	557,630
2016	492,068	62,524	554,592
2017	349,374	47,061	396,435
2018	203,397	39,996	243,393
2019	207,196	35,268	242,464
2020-2033	1,332,598	153,389	1,485,987
2034	46,394	928	47,322
Total	<u><u>\$ 3,109,300</u></u>	<u><u>\$ 418,523</u></u>	<u><u>\$ 3,527,823</u></u>

- Continued -

CITY OF LOCUST, NORTH CAROLINA

***Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2014***

NOTE 2 - DETAIL NOTES ON ALL FUNDS – Continued

6. Long-Term Obligations – continued

c. Legal Debt Margin

At June 30, 2014, the City of Locust had a legal debt margin of \$29,699,058.

d. Changes in Long-Term Liabilities

	Balance July 01, 2013	Increases	Decreases	Balance June 30, 2014	Current Portion of Balance
Governmental Activities:					
Governmental Center loan	\$ 2,107,446	\$ -	\$ 24,931	\$ 2,082,515	\$ 25,804
Capitalized leases	60,033	-	16,227	43,806	13,654
Compensated absences	52,401	41,145	26,204	68,095	33,671
Other post-employment benefits	154,296	52,205	-	206,501	-
Law Enforcement Separation	184,072	8,021	-	192,093	-
Governmental Activity:					
Long-term liabilities	<u>\$ 2,558,248</u>	<u>\$ 101,371</u>	<u>\$ 67,362</u>	<u>\$ 2,593,010</u>	<u>\$ 73,129</u>
Business-type Activities:					
Installment purchases	<u>\$ 2,599,936</u>	<u>\$ 927,887</u>	<u>\$ 418,523</u>	<u>\$ 3,109,300</u>	<u>\$ 478,273</u>
Business-type Activity:					
Long-term liabilities	<u>\$ 2,599,936</u>	<u>\$ 927,887</u>	<u>\$ 418,523</u>	<u>\$ 3,109,300</u>	<u>\$ 478,273</u>
ABC Board:					
Term loan	<u>\$ 133,254</u>	<u>\$ -</u>	<u>\$ 36,987</u>	<u>\$ 96,267</u>	<u>\$ 39,507</u>

Compensated absences typically have been liquidated in the General Fund.

7. ABC Board

The ABC Board is obligated to one local financial institution under a seven year term loan with a maturity date of October 8, 2016. The interest rate on the term loan is 6.5%, fixed, for the life of the loan. The term loan is unsecured. Future maturities, for the years ending June 30th, on the long term debt are:

ABC Board	
<u>Year Ending June 30</u>	<u>Principal</u>
2015	39,519
2016	42,188
2017	14,560
Total	<u>\$ 96,267</u>

- Continued -

CITY OF LOCUST, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2014

NOTE 2 - **DETAIL NOTES ON ALL FUNDS – Continued**

8. Fund Balance

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

Total fund balance-General Fund	1,218,538
Less:	
Stabilization by state statute	457,860
Streets - Powell Bill	116,751
Unspendable - USDA Reserves	10,956
Assigned - Veterans Memorial	8,509
Unassigned	624,462

NOTE 3 - **JOINTLY GOVERNED ORGANIZATION**

Centralina Council of Government was formed in 1968 and is one of the seventeen North Carolina COGs. Funding comes from member dues, state and federal grants, and fees for services. The Board of Delegates comprising elected officials from the (Member Governments) counties, cities, and towns in the nine counties set COG policies. The City paid membership fees to the Council during the fiscal year ended June 30, 2014.

NOTE 4 - **SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES**

Federal and State Assisted Programs

The City 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 would be immaterial. No provision has been made in the accompanying financial statements for the refund of grant monies.

- Continued -

CITY OF LOCUST, NORTH CAROLINA

***Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2014***

NOTE 5 - INTERFUND BALANCES AND ACTIVITY

These internal balances represent the net receivables and payables remaining after the elimination of all interfund activity within governmental and business-type activities.

	<u>Receivable</u>	<u>Payable</u>
General Fund	\$ 189,503	\$ 5,416
Water and Sewer Fund	<u>\$ 5,416</u>	<u>\$ 189,503</u>

NOTE 6 - SUBSEQUENT EVENTS

The City of Locust has evaluated all subsequent events through December 15, 2014, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTAL FINANCIAL DATA

This section contains additional information required by generally accepted accounting principles.
--

- Schedule of Funding Progress and Schedule of Employer Contributions for the Other Post-employment Benefits
- Notes to the Required Schedules for the Other Post-employment Benefits
- Schedule of Funding Progress and Schedule of Employer Contributions for the Law Enforcement Officers' Special Separation Allowance
- Notes to the Required Schedules for the Law Enforcement Officers' Special Separation Allowance

CITY OF LOCUST, NORTH CAROLINA

***Other Post-employment Benefits
Required Supplementary Information
Schedule of Funding Progress***

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b - a)/c)
12/31/2009	-	\$171,653	\$171,653	0.00%	\$ 741,889	23.14%
12/31/2012	-	\$243,799	\$ 243,799	0.00%	\$ 877,304	27.79%

Schedule of Employer Contributions

Trend Information			
	Annual OPEB Cost	Percentage of AOC	
Fiscal Year Ending	(AOC)	Contributed	Net OPEB Obligation
6/30/2012	39,010	0.00%	\$ 113,624
6/30/2013	40,672	0.00%	\$ 154,296
6/30/2014	52,205	0.00%	\$ 206,501

CITY OF LOCUST, NORTH CAROLINA

***Other Post-employment Benefits
Required Supplementary Information
Notes to the Required Schedules***

The information presented in the required supplementary schedule was determined as part of an actuarial valuation as follows:

Valuation date:	December 31, 2012
Actuarial cost method:	Projected unit credit
Amortization method:	Level percent of pay, Open
Remaining amortization period:	30 years
Amortization factor	26.1695
Asset valuation method:	Market Value of Assets
Actuarial assumptions:	
Investment rate of return*	4.00%
Medical Trend Assumptions	
Pre-medicare Trend Rate	8.50% - 5.00%
Year of Ultimate Trend Rate	2018
*Includes inflation at	3.00%

CITY OF LOCUST, NORTH CAROLINA

***Law Enforcement Officers' Special Separation Allowance
Required Supplementary Information
Schedule of Funding Progress***

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b - a)/c)
12/31/2012	-	70,253	70,253	0.00%	471,506	14.90%

Note: Actuarial valuation done at December 31, 2012 determined annual required contributions for June 30, 2014. No actuarial valuation done in prior years.

Schedule of Employer Contributions

Three Year Trend Information				
Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation	
6/30/2012	\$ 8,551	0.00%	\$	175,790
6/30/2013	\$ 8,281	0.00%	\$	184,071
6/30/2014	\$ 8,022	0.00%	\$	192,093

CITY OF LOCUST, NORTH CAROLINA

***Law Enforcement Officers' Special Separation Allowance
Required Supplementary Information
Notes to the Required Schedules***

The information presented in the required supplementary schedule was determined as part of an actuarial valuation as follows:

Valuation date:	12/31/2012
Actuarial cost method:	Projected unit credit
Amortization method:	Level dollar closed
Remaining amortization period	18 years
Asset valuation method:	Market Value
Actuarial Assumptions:	
Investment rate of return*	5.00%
Projected salary increases*	4.25-7.85%
*Includes inflation at	3.00%
Cost-of-living adjustments	N/A

SUPPLEMENTAL STATEMENTS

CITY OF LOCUST, NORTH CAROLINA

*Statement 1
Page 1 of 3*

General Fund

**Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
For the Fiscal Year Ended June 30, 2014**

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Ad valorem taxes:			
Taxes	\$ 1,268,000	\$ 1,299,087	\$ 31,087
Total	1,268,000	1,299,087	31,087
Other taxes and licenses:			
Motor vehicle tax	22,000	39,267	17,267
Vision cable franchise	17,000	17,918	918
Privilege licenses	40,000	43,322	3,322
Total	79,000	100,507	21,507
Unrestricted intergovernmental:			
Local option sales taxes	544,000	540,580	(3,420)
Utility franchise tax	156,000	158,688	2,688
Solid waste fee	168,000	172,744	4,744
Beer and wine tax	14,000	13,127	(873)
Total	882,000	885,139	3,139
Restricted intergovernmental:			
Powell Bill allocation	101,250	103,740	2,490
Powell Bill interest	150	228	78
Court fees	3,500	4,225	725
Total	104,900	108,193	3,293
Sales and service:			
Recreation proceeds	71,700	53,605	(18,095)
Building rental	5,000	5,063	63
Total	76,700	58,668	(18,032)
Investment earnings	8,750	12,110	3,360
Miscellaneous	51,450	61,363	9,913
Total revenues	2,470,800	2,525,067	54,267

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

CITY OF LOCUST, NORTH CAROLINA

Statement 1

Page 2 of 3

General Fund

**Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
For the Fiscal Year Ended June 30, 2014**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Expenditures:			
General government:			
Salaries and employee benefits	\$ 324,500	\$ 313,042	\$ 11,458
Professional services	23,000	21,561	1,439
Membership dues	9,000	8,770	230
Other operating expenditures	166,350	156,173	10,177
Total general government	<u>522,850</u>	<u>499,546</u>	<u>23,304</u>
Public safety:			
Police:			
Salaries and employee benefits	711,900	704,275	7,625
Vehicle maintenance	53,000	52,963	37
Other operating expenditures	71,300	85,311	(14,011)
Capital outlay	100,000	74,737	25,263
Total public safety	<u>936,200</u>	<u>917,286</u>	<u>18,914</u>
Transportation:			
Streets and highways:			
Salaries and employee benefits	115,150	110,715	4,435
Paving and repairs	23,000	12,249	10,751
Other operating expenditures	163,350	143,149	20,201
Total transportation	<u>301,500</u>	<u>266,113</u>	<u>35,387</u>
Environmental protection:			
Solid waste contracted services	237,000	234,433	2,567
Total environmental protection	<u>237,000</u>	<u>234,433</u>	<u>2,567</u>
Economic and physical development:			
Planning and zoning	25,000	18,876	6,124
Total economic and physical development	<u>25,000</u>	<u>18,876</u>	<u>6,124</u>
Culture and recreation:			
Salaries and employee benefits	132,600	126,275	6,325
Other operating expenditures	164,250	163,719	531
Total culture and recreation	<u>296,850</u>	<u>289,994</u>	<u>6,856</u>

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

CITY OF LOCUST, NORTH CAROLINA

Statement 1

Page 3 of 3

General Fund

*Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
For the Fiscal Year Ended June 30, 2014*

Debt service:			
Principal retirement	37,750	37,709	41
Interest and other charges	<u>77,650</u>	<u>77,616</u>	<u>34</u>
Total debt service	<u>115,400</u>	<u>115,325</u>	<u>75</u>
Total expenditures	<u>2,434,800</u>	<u>2,341,573</u>	<u>93,227</u>
Revenues over (under) expenditures	<u>36,000</u>	<u>183,494</u>	<u>147,494</u>
Other financing sources (uses):			
Transfer to Water and Sewer Fund	<u>(36,000)</u>	<u>-</u>	<u>(36,000)</u>
Total other financing uses	<u>(36,000)</u>	<u>-</u>	<u>36,000</u>
Net change in fund balance	<u><u>\$ -</u></u>	183,494	<u><u>\$ 183,494</u></u>
Fund balance, beginning		<u>1,035,044</u>	
Fund balance, end of year		<u><u>\$ 1,218,538</u></u>	

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

CITY OF LOCUST, NORTH CAROLINA

Statement 2

***Capital Projects Fund – NC Highway 200 N Sidewalks
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
From Inception and For the Fiscal Year Ended June 30, 2014***

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Actual Current Year</u>	<u>Total To Date</u>	<u>Variance Positive Negative</u>
Revenues - Sewer Project:					
NC Department of Transportation Grant	\$ 175,000	\$ -	\$ 132,315	\$ 132,315	\$ 42,685
Total revenues	<u>175,000</u>	<u>-</u>	<u>132,315</u>	<u>132,315</u>	<u>42,685</u>
Expenditures - Sewer Project:					
Construction	160,000	-	132,315	132,315	27,685
Engineering	<u>15,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,000</u>
Total expenditures	<u>175,000</u>	<u>-</u>	<u>132,315</u>	<u>132,315</u>	<u>42,685</u>
Revenues over expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>	<u>\$ -</u>
Fund Balance, beginning			-		
Fund Balance, end of year			<u>\$ -</u>		

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

CITY OF LOCUST, NORTH CAROLINA

*Statement 3
Page 1 of 2*

***Water and Sewer Fund
Statement of Revenues and Expenditures - Budget and Actual (Non-GAAP)
For the Fiscal Year Ended June 30, 2014***

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Sewer charges	\$ 763,000	\$ 768,849	\$ 5,849
Sewer taps and fees	197,500	200,454	2,954
Capacity fee collections	85,000	87,500	2,500
Other operating revenues	300	62	(238)
Total operating revenues	<u>1,045,800</u>	<u>1,056,865</u>	<u>11,065</u>
Expenditures:			
Water and sewer administration:			
Salaries and employee benefits	118,450	110,986	
Other operating expenditures	36,700	36,695	
Total water and sewer administration	<u>155,150</u>	<u>147,681</u>	<u>7,469</u>
Waste collection and treatment:			
Sewage collection system:			
Maintenance	37,000	40,563	(3,563)
Other operating expenditures	49,000	38,212	10,788
Utility service fees	81,150	71,808	9,342
Primary waste treatment	269,000	259,883	9,117
Total waste collection and treatment	<u>436,150</u>	<u>410,466</u>	<u>25,684</u>
Debt service:			
Interest and other charges	72,000	72,310	
Principal retirement	418,500	418,050	
Total debt service	<u>490,500</u>	<u>490,360</u>	<u>140</u>
Total expenditures	<u>1,081,800</u>	<u>1,048,507</u>	<u>33,293</u>
Revenues and other sources over expenditures and other uses	<u>\$ -</u>	<u>\$ 8,358</u>	<u>\$ 8,358</u>

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

CITY OF LOCUST, NORTH CAROLINA

Statement 3

Page 2 of 2

Water and Sewer Fund

Statement of Revenues and Expenditures - Budget and Actual (Non-GAAP)

For the Fiscal Year Ended June 30, 2014

Reconciliation from budgetary basis

(modified accrual) to full accrual:

Revenues and other sources over
expenditures and other uses

\$ 8,358

Reconciling items:

Principal retirement

418,050

Accrued interest payable

(4,058)

Depreciation

(256,564)

Total reconciling items

157,428

Net Income

\$ 165,786

CITY OF LOCUST, NORTH CAROLINA

Statement 4

Water and Sewer Fund Capital Projects Fund
Statement of Revenues and Expenditures - Budget and Actual (Non-GAAP)
For the Fiscal Year Ended June 30, 2014

	Project Authorization	Prior Years	Actual Current Year	Total To Date	Variance Positive Negative
Expenditures - Sewer Project:					
Construction	\$ -	\$ -	\$ 796,397	\$ 796,397	\$ -
Engineering	-	-	-	-	-
Legal and administration	-	-	126,074	126,074	-
	<u>927,887</u>	<u>-</u>	<u>922,471</u>	<u>922,471</u>	<u>-</u>
Total expenditures					
	<u>(927,887)</u>	<u>-</u>	<u>(922,471)</u>	<u>(922,471)</u>	<u>(5,416)</u>
Expenditures over revenues					
Other financing sources and (uses):					
Loan proceeds	927,887	-	927,887	927,887	-
Transfer to Water and Sewer fund	-	-	(5,416)	(5,416)	5,416
Total financing sources and (uses)	<u>927,887</u>	<u>-</u>	<u>922,471</u>	<u>922,471</u>	<u>5,416</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	-	<u>\$ -</u>	<u>\$ -</u>
Fund Balance, beginning			-		
Fund Balance, end of year			<u>\$ -</u>		

OTHER SCHEDULES

This section contains additional information required on property taxes.

- Schedule of Ad Valorem Taxes Receivable
- Analysis of Current Tax Levy

CITY OF LOCUST, NORTH CAROLINA

Schedule 1

Schedule of Ad Valorem Taxes Receivable
June 30, 2014

	Uncollected Balance June 30, 2013	Additions	Collections and Credits	Uncollected Balance June 30, 2014
2013 - 2014	\$ -	\$ 1,323,046	\$ 1,271,922	\$ 51,124
2012 - 2013	64,325	2,933	34,570	32,688
2011 - 2012	28,097	-	7,728	20,369
2010 - 2011	12,291	-	4,142	8,149
2009 - 2010	8,227	-	1,369	6,858
2008 - 2009	7,446	-	1,585	5,861
2007 - 2008	5,248	-	394	4,854
2006 - 2007	5,247	-	243	5,004
2005 - 2006	1,462	-	395	1,067
2004 - 2005	943	-	297	646
2003 - 2004	1,106	-	1,106	-
	<u>\$ 134,392</u>	<u>\$ 1,325,979</u>	<u>\$ 1,323,751</u>	<u>\$ 136,620</u>

Reconcilement with revenues:

Ad Valorem Taxes - General Fund	\$ 1,299,087
Reconciling items:	
Interest collected	(4,677)
Discounts allowed	6,178
Reclass out assessments included beginning of year	22,071
Miscellaneous adjustments	238
Taxes written off	854
Total collections and credits	<u>\$ 1,323,751</u>

CITY OF LOCUST, NORTH CAROLINA

Schedule 2

*Analysis of Current Tax Levy
For the Fiscal Year Ended June 30, 2014*

	City-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	\$ 334,199,068	0.36	\$ 1,203,117	\$ 1,203,117	\$ -
Registered motor vehicles taxed at current year's rate	34,660,651	0.36	124,778	-	124,778
Penalties	-		1,149	1149	-
Total	<u>368,859,719</u>		<u>1,329,044</u>	<u>1,204,266</u>	<u>124,778</u>
Discoveries:					
Current year taxes	-	0.36	-	-	-
Prior years' rate	<u>361,010</u>	0.36	<u>1,300</u>	<u>-</u>	<u>1,300</u>
Abatements					
Current year rate	2,017,500	0.36	(7,263)	(6,225)	(1,038)
Penalties	<u>-</u>		<u>(35)</u>	<u>(35)</u>	<u>-</u>
Total property valuation	<u><u>\$ 371,238,229</u></u>				
Net levy			1,323,046	1,198,006	125,040
Less, uncollected tax at June 30, 2014			<u>51,124</u>	<u>46,610</u>	<u>4,514</u>
Current year's taxes collected			<u><u>\$ 1,271,922</u></u>	<u><u>\$ 1,151,396</u></u>	<u><u>\$ 120,526</u></u>
Current levy collection percentage			<u><u>96.14%</u></u>	<u><u>96.11%</u></u>	<u><u>96.39%</u></u>

COMPLIANCE SECTION

**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 City Council
City of Locust, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregated remaining fund information of the City of Locust, North Carolina as of and for the year ended June 30, 2014, which collectively comprise the City of Locust's basic financial statements, and have issued our report thereon dated December 15, 2014. Our report includes a reference to other auditors who audited the financial statements of the City of Locust ABC Board, as described in our report on the City of Locust's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the City of Locust ABC Board were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Locust's internal control over financial reporting 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 City of Locust's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

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

Rowell, Craven & Short, P.A.

December 15, 2014
Charlotte, North Carolina

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133

INDEPENDENT AUDITOR'S REPORT

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

Report on Compliance for Each Major Federal Program

We have audited City of Locust, North Carolina's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of City of Locust, North Carolina's major federal programs for the year ended June 30, 2014. City of Locust, North Carolina's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of City of Locust, North Carolina's compliance.

Opinion on Each Major Federal Program

In our opinion, City of Locust, North Carolina complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

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

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

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

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

Rowell, Craven & Short, P.A.

Charlotte, North Carolina
December 15, 2014

CITY OF LOCUST, NORTH CAROLINA

Schedule 3
Page 1 of 2*Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2014***Section I. Summary of Auditors' Results****Financial Statements**

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

• Material weakness(es) identified?	_____	yes	<u> X </u>	no
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• Significant Deficiency(ies) identified that are are not considered to be material weaknesses	_____	yes	<u> X </u>	no
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Noncompliance material to financial statements noted	_____	yes	<u> X </u>	no
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Federal Awards

Internal control over major federal programs:

• Material weakness(es) identified?	_____	yes	<u> X </u>	no
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• Significant Deficiency(ies) identified that are are not considered to be material weaknesses	_____	yes	<u> X </u>	None Reported
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Type of auditors' report issued on compliance for major federal programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	_____	yes	<u> X </u>	no
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Identification of major federal programs:

<u>CFDA No.</u>	<u>Names of Federal Program or Cluster</u>
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10.766	Water Quality Grants and Loans
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Dollar threshold used to distinguish between Type A and Type B Programs	\$ <u> 300,000 </u>
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Auditee qualified as low-risk auditee?	_____	yes	<u> X </u>	no
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CITY OF LOCUST, NORTH CAROLINA

Schedule 3

Page 2 of 2

*Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2014*

Section II. Financial Statement Findings

Finding: None Noted

Section III. Federal Award Findings and Questioned Costs

None reported.

*Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2014*

MATERIAL WEAKNESS

- Finding:** 2013-1 Failure to exercise control over the Law Enforcement Separation Allowance liability.
- Status:** Procedures have been implemented to ensure that an actuarial study is conducted every two years and that the expense for the Law enforcement Separation Allowance liability is properly accrued for the each fiscal year. We found no issues of noncompliance with this control procedure.

CITY OF LOCUST, NORTH CAROLINA

Schedule 5

***Schedule of Expenditures of Federal and State Awards
For the Fiscal Year Ended June 30, 2014***

	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Federal (Direct and Pass-Through) Expenditures</u>	<u>State Expenditures</u>	<u>Local Expenditures</u>
<u>Grantor/Pass-Through</u>					
<u>Grantor/Program Title</u>					
Loan Guarantee:					
United States Department of Agriculture					
Passed-through N.C. DENR					
Water Quality Grants and Loans	10.766		\$ 927,887	\$ -	\$ -
Total assistance- Federal programs			\$ 927,887	\$ -	\$ -
 State Grants:					
N.C. Department of Transportation:					
Powell Bill			\$ -	\$ 103,740	\$ -
Sidewalk Construction			-	132,315	-
Total assistance- State programs			-	236,055	-
Total assistance			\$ 927,887	\$ 236,055	\$ -

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

The accompanying schedule of expenditures of federal and state awards includes the federal and state grant activity of the City of Locust and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of *Audits of States, Local Governments and Non-Profit Organizations*.