

CITY OF LOCUST, NORTH CAROLINA

Audited Financial Statements

For the Fiscal Year Ended June 30, 2015

City Council Members

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

Administrative and Financial Staff

Tim Fesperman, City Administrator
Stephania Morton, Finance Director

CITY OF LOCUST, NORTH CAROLINA

Table of Contents *June 30, 2015*

	<u>Exhibit</u>	<u>Page</u>
FINANCIAL SECTION:		
Independent Auditor's Report		1-3
Management's Discussion and Analysis		4-12
BASIC FINANCIAL STATEMENTS:		
Government-Wide Financial Statements:		
Statement of Net Position.....1.....		13
Statement of Activities.....2.....		14-15
FUND FINANCIAL STATEMENTS:		
Balance Sheet - Governmental Fund.....3.....		16
Reconciliation of Balance Sheet of Governmental Funds to the Statement of Net Position.....3.....		17
Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds.....4.....		18
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities of Governmental Funds.....5.....		19
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual – General Fund.....6.....		20
Statement of Net Position - Proprietary Fund.....7.....		21
Statement of Revenues, Expenses and Changes in Fund Net Position - Proprietary Fund.....8.....		22
Statement of Cash Flows - Proprietary Fund.....9.....		23-24
Notes to Financial Statements.....		25-58

CITY OF LOCUST, NORTH CAROLINA

Table of Contents *June 30, 2015*

	<u>Statement/Schedule</u>	<u>Page</u>
REQUIRED SUPPLEMENTAL FINANCIAL DATA:		
Schedule of Funding Progress and Schedule of Employer Contributions for the Other Post-employment Benefits.....		59
Notes to the Required Schedules for the Other Post-employment Benefits.....		60
Schedule of Funding Progress and Schedule of Employer Contributions for the Law Enforcement Officers' Special Separation Allowance.....		61
Notes to the Required Schedules for the Law Enforcement Officers' Special Separation Allowance.....		62
City of Locust's Proportionate Share of Net Pension Liability (Asset) - Required Supplementary Information Last Two Years.....		63
City of Locust's Contributions - Required Supplementary Information - Last Two Years.....		64
SUPPLEMENTAL STATEMENTS:		
Individual Fund Statements and Schedules:		
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund.....	1.....	65-67
Statement of Revenues and Expenditures - Budget and Actual (Non-GAAP) - Water and Sewer Fund.....	2.....	68-69
OTHER SCHEDULES:		
Schedule of Ad Valorem Taxes Receivable.....	1.....	70
Analysis of Current Tax Levy.....	2.....	71

CITY OF LOCUST, NORTH CAROLINA

Table of Contents *June 30, 2015*

	<u>Statement/Schedule</u>	<u>Page</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 <i>Government Auditing Standards</i>		72-73
Findings and Questioned Costs.....	3.....	74-75
Summary Schedule of Prior Audit Findings.....	4.....	76
Schedule of Expenditures of Federal and State Awards.....	5.....	77

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, 2015, 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, 2015, 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 on pages 4 through 12, Other Post-employment Benefits' Schedules of Funding Progress and Schedules of Employer Contributions and the Law Enforcement Officers' Special Separation Allowance, on pages 59-60 and 61-62, respectively, and the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Asset and Contributions, on pages 63 and 64 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 the State Single Audit Implementation Act, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

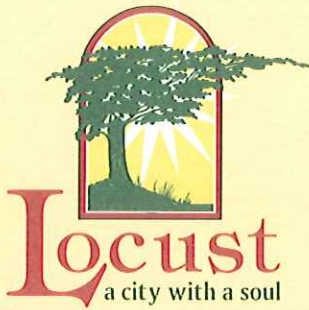
The combining and individual fund statements, budgetary schedules, other schedules, and the Schedule of Expenditures of Federal and State Awards are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial 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 November 23, 2015 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
November 23, 2015



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, 2015. 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

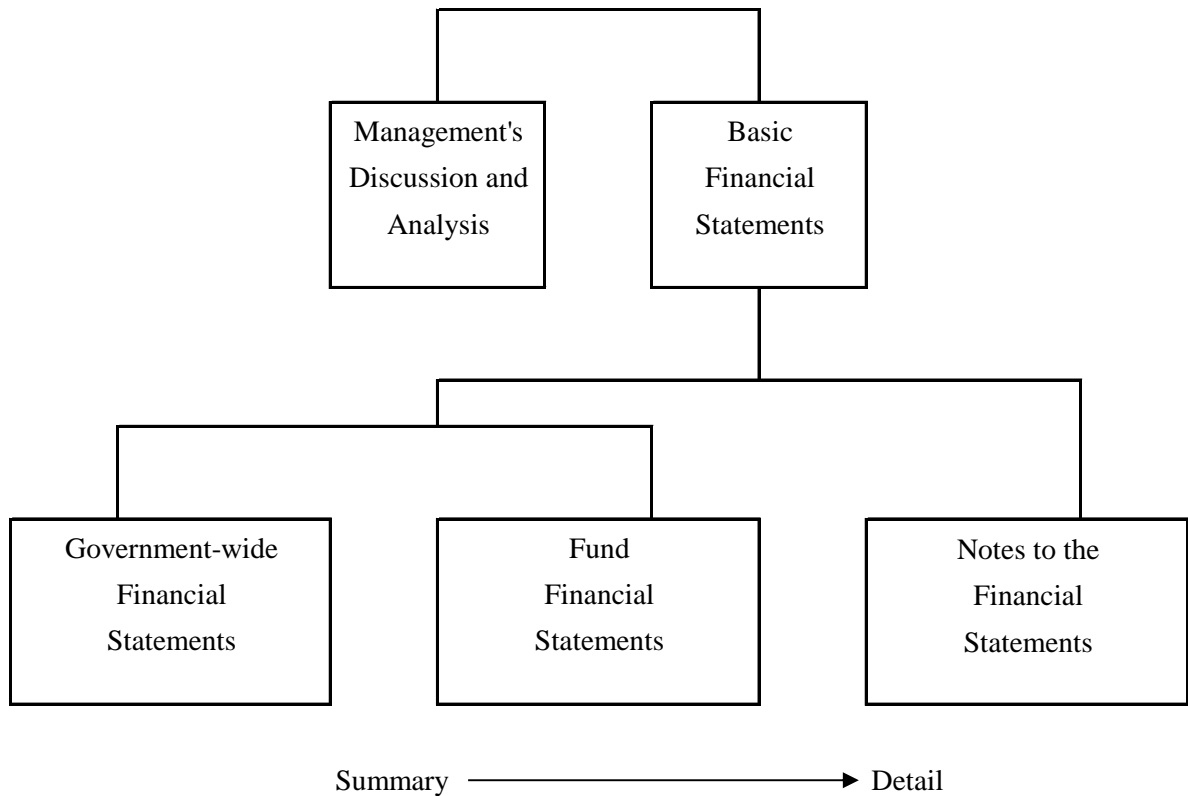
- The assets and deferred outflows of resources of the City of Locust exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$17,286,888 (net assets).
- The government's total net position increased by \$132,372 primarily due to steady revenues and decreased expenditures.
- As of the close of the current fiscal year, the City of Locust's governmental funds reported combined ending fund balances of \$1,507,164 an increase of \$288,626 in comparison with the prior year. Approximately 31.1% of this total amount or \$468,726 is restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$1,038,438, or 44.3% 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 25 of this report.

Other Information – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the 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 60 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	
	2015	2014	2015	2014	2015	2014
Current and other assets	\$ 1,660,414	\$ 1,393,466	\$ 147,561	\$ 131,724	\$ 1,807,975	\$ 1,525,190
Capital assets	10,861,994	11,288,465	10,263,432	10,539,399	21,125,426	21,827,864
Deferred outflows of resources	72,196	-	5,942	-	78,138	-
Total assets	12,594,604	12,681,931	10,416,935	10,671,123	23,011,539	23,353,054
Long-term liabilities						
outstanding	2,546,049	2,519,880	2,138,959	2,631,027	4,685,008	5,150,907
Other liabilities	81,390	177,877	656,840	700,968	738,230	878,845
Deferred inflows of resources	276,395	5,080	25,018	-	301,413	5,080
Total liabilities and deferred inflows of resources	2,903,834	2,702,837	2,820,817	3,331,995	5,724,651	6,034,832
Net position:						
Net investment in capital assets	8,775,130	9,162,144	7,632,407	7,424,683	16,407,537	16,586,827
Restricted	430,920	574,611	-	-	430,920	574,611
Unrestricted	484,720	242,339	(36,289)	(85,555)	448,431	156,784
Total net position	\$ 9,690,770	\$ 9,979,094	\$ 7,596,118	\$ 7,339,128	\$ 17,286,888	\$ 17,318,222

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 \$17,286,888 as of June 30, 2015. The City's net position increased \$132,372 for the fiscal year ended June 30, 2015. However, the largest portion (94.9%) 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 \$342,632 is unrestricted. Also, the City of Locust implemented GASB Statement 68 this year. With the new reporting change, the City is allocated its proportionate share of the Local Government Employees' Retirement System's net pension asset, deferred outflows of resources, deferred inflows of resources and pension expense. A restatement to record the effects of the new reporting guidance decreased beginning net position by \$163,706. Decisions regarding the allocations are made by the administrators of the pension plan, not by the City of Locust's management.

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 97%.
- Increase in 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	
	2015	2014	2015	2014	2015	2014
Revenues:						
Program revenues:						
Charges for services	\$ 61,209	\$ 69,114	\$ 1,133,735	\$ 1,056,865	\$ 1,194,944	\$ 1,125,979
Operating grants and contributions	109,119	103,968	-	-	109,119	103,968
Capital grants and contributions	-	142,510	-	-	-	142,510
General revenues:						
Property taxes	1,359,668	1,340,582	-	-	1,359,668	1,340,582
Other taxes	64,627	62,636	-	-	64,627	62,636
Grants and contributions not restricted to specific programs	996,701	885,139	-	-	996,701	885,139
Other	75,189	65,856	-	-	75,189	65,856
Total revenues	2,666,513	2,669,805	1,133,735	1,056,865	3,800,248	3,726,670
Expenses:						
General government	635,144	634,371	-	-	635,144	634,371
Public safety	912,863	949,158	-	-	912,863	949,158
Transportation	492,527	534,461	-	-	492,527	534,461
Environmental protection	240,514	234,433	-	-	240,514	234,433
Culture and recreation	388,552	378,018	-	-	388,552	378,018
Interest on long-term debt	74,319	71,871	-	-	74,319	71,871
Water and sewer	-	-	923,957	891,079	923,957	891,079
Total expenses	2,743,919	2,802,312	923,957	891,079	3,667,876	3,693,391
Increase(decrease) in net position before transfers	(77,406)	(132,507)	209,778	165,786	132,372	33,279
Transfers	(60,800)	-	60,800	-	-	-
Increase(decrease) in net position	(138,206)	(132,507)	270,578	165,786	132,372	33,279
Net position, July 1 (consolidated)	9,979,094	10,111,601	7,339,128	7,173,342	17,318,222	17,284,943
Net position, beginning, restated	9,828,976	10,111,601	7,325,540	7,173,342	17,154,516	17,284,943
Net position, June 30	\$ 9,690,770	\$ 9,979,094	\$ 7,596,118	\$ 7,339,128	\$ 17,286,888	\$ 17,318,222

Governmental Activities. Governmental activities decreased the City's net position by \$138,206.

Business-type Activities. Business-type activities increased the City of Locust's net position by \$270,578.

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 \$1,038,438, while total fund balance reached \$1,507,164. 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 44.3% of general fund expenditures, while total fund balance represents 64.3% of the same amount.

At June 30, 2015, the governmental funds of City of Locust reported a combined fund balance of \$1,507,164 with a net increase in fund balance of \$288,626. This increase represents only the general fund as there are no other governmental funds at June 30, 2015.

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 (\$36,289). 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, 2015, totals \$21,125,426 (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 2 vehicles for its police department
- City purchased 2 other motorized vehicles for its parks and streets use.
- City placed King Heights sewer additions and Highway 200N sidewalk improvements in service and began depreciating those assets.

City of Locust's Capital Assets Net of Depreciation

Figure 4

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Land	\$ 693,782	\$ 693,782	\$ -	\$ -	\$ 693,782	\$ 693,782
Buildings and systems	3,146,402	3,288,100	10,263,432	10,539,399	13,409,834	13,827,499
Machinery and equipment	110,958	145,587	-	-	110,958	145,587
Infrastructure	6,698,095	6,475,479	-	-	6,698,095	6,475,479
Vehicles and motorized equipment	212,757	208,344	-	-	212,757	208,344
Construction in progress	-	477,173	-	-	-	477,173
Total	\$ 10,861,994	\$ 11,288,465	\$ 10,263,432	\$ 10,539,399	\$ 21,125,426	\$ 21,827,864

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, 2015, the City of Locust had total debt outstanding of \$4,717,891.

Figure 5

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Capitalized leases	\$ 30,153	\$ 43,806	\$ -	\$ -	\$ 30,153	\$ 43,806
Construction loan	-	-	-	-	-	-
Governmental Center loan	2,056,711	2,082,515	-	-	2,056,711	2,082,515
Installment purchases	-	-	2,631,027	3,109,300	2,631,027	3,109,300
Total	\$2,086,864	\$2,126,321	\$2,631,027	\$3,109,300	\$4,717,891	\$5,235,621

City of Locust's Outstanding Debt

The City of Locust's total debt had a net decrease of \$517,730 during the past fiscal year.

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 \$30,204,067. 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 sales taxes collected.

Budget Highlights for the Fiscal Year Ending June 30, 2016

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 2015-2016.

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 2015-2016,

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, 2015*

	Primary Government			City of Locust ABC Board
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 1,127,829	\$ -	\$ 1,127,829	\$ 36,953
Taxes receivable	110,559	-	110,559	-
Accounts receivable (net)	3,113	108,431	111,544	-
Due from other governments	142,319		142,319	-
Prepaid items	1,536	-	1,536	6,862
Inventories	-	-	-	118,892
Restricted cash and cash equivalents	161,653	28,865	190,518	-
Total current assets	<u>\$ 1,547,009</u>	<u>\$ 137,296</u>	<u>\$ 1,684,305</u>	<u>\$ 162,707</u>
Non-current assets:				
Net pension asset	113,405	10,265	123,670	
Capital assets (Note 1):				
Land, non-depreciable improvements, and construction in progress	693,782	-	693,782	-
Other capital assets, net of depreciation	10,168,212	10,263,432	20,431,644	34,507
Total capital assets	<u>10,861,994</u>	<u>10,263,432</u>	<u>21,125,426</u>	<u>34,507</u>
Other Assets:	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,800</u>
Total assets	<u>12,522,408</u>	<u>10,410,993</u>	<u>22,933,401</u>	<u>200,014</u>
DEFERRED OUTFLOWS OF RESOURCES				
Contributions to pension plan in current fiscal year	67,589	5,525	73,114	-
Deferred outflows related to pensions	4,607	417	5,024	-
Total deferred outflows of resources	<u>72,196</u>	<u>5,942</u>	<u>78,138</u>	
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities	\$ 51,581	\$ -	\$ 51,581	\$ 97,677
Accrued interest payable	69,973	7,773	77,746	-
Internal balances	(122,299)	122,299	-	-
Customer deposits	-	34,700	34,700	-
Current portion of long-term liabilities	82,135	492,068	574,203	42,189
Total current liabilities	<u>81,390</u>	<u>656,840</u>	<u>738,230</u>	<u>139,866</u>
Long-term liabilities:				
Due in more than one year	2,546,049	2,138,959	4,685,008	14,576
Total liabilities	<u>2,627,439</u>	<u>2,795,799</u>	<u>5,423,238</u>	<u>154,442</u>
DEFERRED INFLOWS OF RESOURCES				
Pension deferrals	276,395	25,018	301,413	-
Total deferred inflows of resources	<u>276,395</u>	<u>25,018</u>	<u>301,413</u>	<u>-</u>
NET POSITION				
Net investment in capital assets	8,775,130	7,632,407	16,407,537	34,507
Restricted for:				
Stabilization by state statute	269,267	-	269,267	-
Streets - Powell Bill	161,653	-	161,653	-
Working capital	-	-	-	41,508
Unrestricted	484,720	(36,289)	448,431	(30,443)
Total net position	<u>\$ 9,690,770</u>	<u>\$ 7,596,118</u>	<u>\$ 17,286,888</u>	<u>\$ 45,572</u>

CITY OF LOCUST, NORTH CAROLINA

Statement of Activities For the Fiscal Year Ended June 30, 2015

Functions/Programs	Expenses	Program Revenues Charges for Services
Primary government:		
Governmental Activities:		
General government	\$ 635,144	\$ 5,765
Public safety	912,863	-
Transportation	492,527	-
Environmental protection	240,514	-
Cultural and recreational	388,552	55,444
Interest on long-term debt	74,319	-
	<u>2,743,919</u>	<u>61,209</u>
Total governmental activities		
Business-type activities:		
Water and sewer	<u>923,957</u>	<u>1,133,735</u>
	<u>923,957</u>	<u>1,133,735</u>
Total business-type activities		
Total primary government	<u><u>\$ 3,667,876</u></u>	<u><u>\$ 1,194,944</u></u>
 Component Unit:		
ABC Board	<u>\$ 1,000,499</u>	<u>\$ 1,079,193</u>
Total component unit	<u><u>\$ 1,000,499</u></u>	<u><u>\$ 1,079,193</u></u>

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		
\$ -	\$ -	\$ (629,379)	\$ -	\$ (629,379)	\$ -
4,532	-	(908,331)	-	(908,331)	-
104,587	-	(387,940)	-	(387,940)	-
-	-	(240,514)	-	(240,514)	-
-	-	(333,108)	-	(333,108)	-
-	-	(74,319)	-	(74,319)	-
109,119	-	(2,573,591)	-	(2,573,591)	-
-	-	-	209,778	209,778	-
-	-	-	209,778	209,778	-
<u>\$ 109,119</u>	<u>\$ -</u>	<u>\$ (2,573,591)</u>	<u>\$ 209,778</u>	<u>\$ (2,363,813)</u>	<u>\$ -</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 78,694
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 78,694
General revenues:					
Taxes					
Property taxes levied for general purposes		1,359,668	-	1,359,668	-
Other taxes and licenses		64,627	-	64,627	-
Unrestricted intergovernmental revenue		996,701	-	996,701	-
Unrestricted investment earnings		6,315	-	6,315	-
Miscellaneous		68,874	-	68,874	-
Total general revenues, not including transfers:		2,496,185	-	2,496,185	-
Transfers		(60,800)	60,800	-	-
Total general revenues and transfers		2,435,385	60,800	2,496,185	-
Change in net position		(138,206)	270,578	132,372	78,694
Net position, beginning, previously reported		9,979,094	7,339,128	17,318,222	(33,122)
Restatement		(150,118)	(13,588)	(163,706)	-
Net position, beginning restated		9,828,976	7,325,540	17,154,516	(33,122)
Net position, ending		<u>\$ 9,690,770</u>	<u>\$ 7,596,118</u>	<u>\$ 17,286,888</u>	<u>\$ 45,572</u>

CITY OF LOCUST, NORTH CAROLINA

Exhibit 3

Balance Sheet
Governmental Funds
June 30, 2015

	Major Funds	Non-Major Fund	Total
	General	Capital Project	Governmental
	Fund	Fund	Funds
ASSETS			
Cash and cash equivalents	\$ 1,127,829	\$ -	\$ 1,127,829
Restricted cash	161,653	-	161,653
Taxes receivable	113,673	-	113,673
Due from (to) other funds	122,300	-	122,300
Due from other governments	142,319	-	142,319
Prepaid expenses	1,534	-	1,534
	<u>1,669,308</u>	<u>-</u>	<u>1,669,308</u>
Total assets	<u>1,669,308</u>	<u>-</u>	<u>1,669,308</u>
LIABILITIES			
Accounts payable and accrued liabilities	51,585	-	51,585
Total liabilities	<u>51,585</u>	<u>-</u>	<u>51,585</u>
DEFERRED INFLOWS OF RESOURCES			
Property taxes receivable	110,559	-	110,559
Total deferred inflows of resources	<u>110,559</u>	<u>-</u>	<u>110,559</u>
FUND BALANCES			
Restricted			
Stabilization by state statue	269,267	-	269,267
Streets - Powell Bill	161,653	-	161,653
Unspendable			
USDA Reserves	28,780	-	28,780
Prepaid expenses	1,534	-	1,534
Assigned - Veterans Memorial	7,492	-	7,492
Unassigned	1,038,438	-	1,038,438
Total fund balances	<u>1,507,164</u>	<u>-</u>	<u>1,507,164</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 1,669,308</u>	<u>\$ -</u>	<u>\$ 1,669,308</u>

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, 2015*

resources and fund balances	\$ 1,669,308	\$ -
-----------------------------	--------------	------

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

Total Fund Balance, Governmental Funds

Capital assets used in governmental activities are not
financial resources and, therefore, are not reported
in the funds statement.

Gross capital assets at historical cost	14,408,197
Accumulated depreciation	(3,546,203)

Net pension asset

Contributions to the pension plan in the current fiscal
year are deferred outflows of resources on the
Statement of Net Position

Liabilities for earned revenues considered deferred inflows of resources

Accrued interest

Long-term liabilities used in governmental activities are not financial uses
and therefore are not reported in the funds

Pension related deferrals

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.

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, 2015*

	<u>Major Fund</u> <u>General</u> <u>Fund</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
REVENUES		
Ad valorem taxes	\$ 1,251,309	\$ 1,251,309
Other taxes and licenses	198,137	198,137
Unrestricted intergovernmental	996,701	996,701
Restricted intergovernmental	109,119	109,119
Sales and services	59,460	59,460
Investment earnings	6,315	6,315
Miscellaneous	71,529	71,529
	<u>2,692,570</u>	<u>2,692,570</u>
Total revenues		
EXPENDITURES		
Current:		
General government	532,390	532,390
Public safety	890,680	890,680
Transportation	249,608	249,608
Environmental protection	240,514	240,514
Economic and physical development	50	50
Culture and recreation	314,577	314,577
Debt Service:		
Principal retirement	39,451	39,451
Interest and other charges	75,874	75,874
	<u>2,343,144</u>	<u>2,343,144</u>
Total expenditures		
Excess (deficiency) of revenues over expenditures	<u>349,426</u>	<u>349,426</u>
OTHER FINANCING SOURCES (USES)		
Transfer to Water and Sewer Fund	(60,800)	(60,800)
Total other financing sources	<u>(60,800)</u>	<u>(60,800)</u>
Net change in fund balance	288,626	288,626
Fund balance, beginning	1,218,538	1,218,538
Fund balance, end of year	<u>\$ 1,507,164</u>	<u>\$ 1,507,164</u>

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

***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, 2015***

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

Net changes in fund balances - total governmental funds		\$ 288,626
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	\$ 69,880	
Construction in progress- current year	-	
Disposal of assets	(21,150)	
Gain on disposal	21,150	
Depreciation expense for governmental assets	<u>(496,350)</u>	(426,470)
Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities		67,589
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>(26,059)</u>	(26,059)
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	39,451	
Decrease in accrued interest payable	<u>1,556</u>	41,007
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	(13,596)	
Pension expense	(8,267)	
Other post-employment benefits	<u>(61,036)</u>	(82,899)
Total changes in net position of governmental activities		<u><u>\$ (138,206)</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, 2015

	General Fund			Variance with Final Budget- Positive (Negative)
	Original Budget	Final Budget	Actual Amounts	
Revenues:				
Ad valorem taxes	\$ 1,260,000	\$ 1,277,000	\$ 1,251,309	\$ (25,691)
Other taxes and licenses	66,000	91,008	198,137	107,129
Unrestricted intergovernmental	894,500	925,000	996,701	71,701
Restricted intergovernmental	103,900	107,900	109,119	1,219
Sales and services	59,000	55,000	59,460	4,460
Investment earnings	8,500	8,500	6,315	(2,185)
Miscellaneous	5,200	69,700	71,529	1,829
Total revenues	2,397,100	2,534,108	2,692,570	158,462
Expenditures:				
Current:				
General government	510,980	515,970	532,390	(16,420)
Public safety	897,760	951,010	890,680	60,330
Transportation	307,600	309,106	249,608	59,498
Environmental protection	240,000	240,500	240,514	(14)
Economic and physical development	25,000	25,000	50	24,950
Culture and recreation	300,260	337,022	314,577	22,445
Debt service:				
Principal retirement	39,500	39,500	39,451	49
Interest and other charges	76,000	76,000	75,874	126
Total expenditures	2,397,100	2,494,108	2,343,144	150,963
Revenues over (under) expenditures	-	40,000	349,426	309,425
Other financing sources (uses):				
Transfers from Capital Project Fund	-	-	-	-
Transfers to Water and Sewer Fund	(60,800)	(100,800)	(60,800)	40,000
Total other financing sources (uses)	(60,800)	(100,800)	(60,800)	40,000
Fund balance appropriated	60,800	60,800	-	(60,800)
Net change in fund balance	\$ -	\$ -	288,626	\$ 288,625
Fund balance, beginning			1,218,538	
Fund balance, end of year			\$ 1,507,164	

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, 2015

	<u>Major Enterprise Fund</u>
	<u>Water and Sewer Fund</u>
ASSETS	
Current assets:	
Restricted cash and cash equivalents	\$ 28,865
Accounts receivable, net	108,431
Due from other funds	5,416
Total current assets	<u>142,712</u>
Noncurrent assets:	
Net pension asset	10,265
Capital assets:	
Capital assets, net of depreciation	\$ 10,263,432
Total noncurrent assets	<u>10,273,697</u>
Total assets	<u><u>\$ 10,416,409</u></u>
DEFERRED OUTFLOWS OF RESOURCES	
Contributions to pension plan	5,942
Total deferred outflows of resources	<u>5,942</u>
LIABILITIES	
Current liabilities:	
Accrued liabilities	\$ 7,773
Customer deposits	34,700
Due to other funds	127,715
Installment obligations payable - current	492,068
Total current liabilities	<u>662,256</u>
Noncurrent liabilities:	
Installment obligations payable - noncurrent	2,138,959
Total liabilities	<u>2,801,215</u>
DEFERRED INFLOWS OF RESOURCES	
Pension deferrals	25,018
NET POSITION	
Net investment in capital assets	7,632,407
Restricted	-
Unrestricted	(36,289)
Total net position	<u><u>\$ 7,596,118</u></u>

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

Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Fund
For the Fiscal Year Ended June 30, 2015

	<u>Major Enterprise Fund</u>
	<u>Water and Sewer Fund</u>
OPERATING REVENUES	
Charges for services	\$ 815,981
Sewer taps and fees	224,549
Capacity fee collections	92,500
Other operating revenues	<u>705</u>
Total operating revenues	<u>1,133,735</u>
OPERATING EXPENSES	
Administration	139,761
Waste collection and treatment	432,264
Depreciation	<u>275,967</u>
Total operating expenses	<u>847,992</u>
Operating income	<u>285,743</u>
NON-OPERATING EXPENSES	
Interest and other charges	<u>75,965</u>
Total non-operating expenses	<u>75,965</u>
Income before contributions and transfers	<u>209,778</u>
Transfers from other funds	<u>60,800</u>
Change in net position	270,578
Total net position, previously reported	7,339,128
Restatement	(13,588)
Total net position, restated	<u>7,325,540</u>
Total net position, ending	<u><u>\$ 7,596,118</u></u>

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

Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended June 30, 2015

	<u>Major Enterprise Fund</u>
	<u>Water and Sewer Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 1,128,507
Cash paid for goods and services	(473,548)
Cash paid to or on behalf of employees for services	(103,171)
Customer deposits received	7,050
Other operating revenues	<u>705</u>
Net cash provided by operating activities	<u>559,543</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Net due to (from) other fund	<u>(988)</u>
Total cash flows provided by non-capital financing activities	<u>(988)</u>
CASH FLOWS FROM CAPITAL AND RELATED	
Acquisition of capital assets	-
Principal paid on installment financing agreements	(478,273)
Installment loan proceeds	-
Interest and fees paid on installment financing agreements	<u>(79,233)</u>
Net cash used by capital and related financing activities	<u>(557,506)</u>
Net increase in cash and cash equivalents	1,049
Balances, beginning	<u>27,816</u>
Balances, ending	<u>\$ 28,865</u>
Details on cash and cash equivalents:	
Restricted assets	<u>\$ 28,865</u>

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, 2015

	<u>Major Enterprise Fund</u>
	<u>Water and Sewer Fund</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 285,743
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	275,967
Pension expense	(13,505)
Change in assets, deferred outflows of resources and liabilities:	
Increase in accounts receivable	(4,523)
Increase in customer deposits	7,050
(Increase)in net pension asset	(10,265)
(Increase) in deferred outflows of resources for pensions	(5,942)
(Decrease) in accrued liabilities	25,018
Increase (decrease) in deferred inflows of resources for pensions	-
Net cash provided by operating activities	\$ <u>559,543</u>

CITY OF LOCUST, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2015

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, 2015

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.

CITY OF LOCUST, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2015

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.

CITY OF LOCUST, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2015

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. Sales taxes are considered a shared revenue for the City of Locust because the tax is levied by Stanly and Cabarrus Counties and then remitted to and distributed by the State. Most intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. 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.

-Continued-

CITY OF LOCUST, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2015

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.

City of Locust Restricted Cash

Governmental Activities

General Fund

	Streets	\$ 161,653
Total governmental activities		<u>\$ 161,653</u>
Business-type Activities		
Water and Sewer Fund		
	Customer deposits	<u>\$ 28,765</u>
Total Business-type Activities		<u>\$ 28,765</u>
Total Restricted Cash		<u><u>\$ 190,418</u></u>

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 6th. These taxes are based on the assessed values as of January 1, 2014. As allowed by State law, the City has established a schedule of discounts that apply to taxes that are paid prior to the due date. In the City's General Fund, ad valorem tax revenues are reported net of such discounts.

-Continued-

CITY OF LOCUST, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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.

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

CITY OF LOCUST, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

6. Capital Assets – continued

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, *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. The City of Locust has two items that meets this criterion, contributions made to the pension plan in the 2015 fiscal year and an unamortized pension expense. 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 two items that meet the criterion for this category – property taxes receivable and deferrals of pension expense that result from the implementation of GASB Statement 68.

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.

CITY OF LOCUST, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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.

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.

CITY OF LOCUST, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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.

CITY OF LOCUST, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2015

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.

11. Pensions

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

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

-Continued-

CITY OF LOCUST, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2015

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

A. ASSETS

1. Deposits – continued

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, 2015, the City's deposits had a carrying amount of \$1,291,832 and a bank balance of \$1,318,018. Bank balances of the City, totaling \$252,450 were fully covered by federal depository insurance. The remaining balance of \$1,065,568 was collateralized under the Pooling Method. The carrying amount of deposits for the ABC Board was \$35,453 and the bank balance was \$70,217. All of the bank balance was covered by federal depository insurance. As of June 30, 2015, the City's petty cash fund totaled \$100, and the ABC Board's cash on hand totaled \$2,500.

2. Investments

At June 30, 2015, the City of Locust had \$26,315 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.

CITY OF LOCUST, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2015

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

A. ASSETS

3. Capital Assets

Primary Government

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 693,782	\$ -	\$ -	\$ 693,782
Construction in Progress	477,172	-	477,172	-
Total capital assets not being depreciated	1,170,954	-	477,172	693,782
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	762,625	69,880	111,967	720,538
Infrastructure	7,764,305	477,172	-	8,241,477
Total capital assets being depreciated	13,279,330	547,052	111,967	13,714,415
Less accumulated depreciation for:				
Buildings	276,893	75,749	-	352,642
Other improvements	530,410	65,949	-	596,359
Furniture and equipment	311,080	32,571	-	343,651
Computer equipment	200,330	2,058	-	202,388
Vehicles and motorized equipment	554,281	65,467	111,967	507,781
Infrastructure	1,288,826	254,556	-	1,543,382
Total accumulated depreciation	3,161,820	496,350	111,967	3,546,203
Total capital assets being depreciated, net	10,117,510			10,168,212
Governmental activity capital assets, net	<u>\$ 11,288,464</u>			<u>\$ 10,861,994</u>

-Continued-

CITY OF LOCUST, NORTH CAROLINA

*Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2015*

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

A. ASSETS

3. Capital Assets – continued

Primary Government

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

General government	\$ 101,812
Public safety	58,811
Transportation	256,493
Culture and recreation	<u>79,234</u>
Total depreciation expense	<u><u>\$ 496,350</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	\$ 970,132	\$ -	\$ 970,132	\$ -
Total capital assets not being depreciated	<u>970,132</u>	<u>-</u>	<u>970,132</u>	<u>-</u>
Capital assets being depreciated:				
Plant and distribution system	12,634,655	970,132	-	13,604,787
Furniture and maintenance equipment	<u>53,551</u>	<u>-</u>	<u>-</u>	<u>53,551</u>
Total capital assets being depreciated	<u>12,688,206</u>	<u>970,132</u>	<u>-</u>	<u>13,658,338</u>
Less accumulated depreciation for:				
Plant and distribution system	3,067,638	274,928	-	3,342,566
Furniture and maintenance equipment	<u>51,302</u>	<u>1,038</u>	<u>-</u>	<u>52,340</u>
Total accumulated depreciation	<u>3,118,940</u>	<u>275,966</u>	<u>-</u>	<u>3,394,906</u>
Total capital assets being depreciated, net	<u>9,569,266</u>			<u>10,263,432</u>
Business-type activity capital assets, net	<u><u>\$ 10,539,398</u></u>			<u><u>\$ 10,263,432</u></u>

-Continued-

CITY OF LOCUST, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2015

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

A. ASSETS

4. Construction Commitments

The City of Locust has no significant active construction projects as of June 30, 2015.

5. Discretely presented component unit

Activity for the ABC Board for the year ended June 30, 2015, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
ABC Board				
Capital assets being depreciated:				
Furniture and fixtures	\$ 57,475	\$ 884	\$ -	\$ 58,359
Equipment	13,151	-	-	13,151
Leasehold improvements	30,015	-	-	30,015
Office equipment	23,370	3,535		26,905
Total capital assets				
being depreciated	124,011	4,419	-	128,430
Less accumulated depreciation for:				
Furniture and fixtures	35,042	5,514	-	40,556
Equipment	7,890	1,301	-	9,191
Leasehold improvements	18,010	3,002	-	21,012
Office equipment	22,123	1,041	-	23,164
Total accumulated depreciation	\$ 83,065	\$ 10,858	\$ -	\$ 93,923
Total capital assets being depreciated, net	40,946			34,507
ABC capital assets, net	<u>\$ 40,946</u>			<u>\$ 34,507</u>

-Continued-

CITY OF LOCUST, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2015

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 is a participating employer in the statewide Local Governmental Employees' Retirement System (LGERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS membership is comprised of general employees and local law enforcement officers (LEOs) of participating local governmental entities. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the State Senate, one appointed by the State House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. The Local 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, or at www.osc.nc.gov.

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

LGERS plan members who are LEOs are eligible to retire with full retirement benefits at age 55 with five years of creditable service as an officer, or at any age with 30 years of creditable service. LEO plan members are eligible to retire with partial retirement

CITY OF LOCUST, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2015

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

B. Liabilities

1. Pension Plan and Post-employment Obligations - continued

a. Local Governmental Employees' Retirement System - continued

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

Contributions. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. City of Locust employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The City of Locust's contractually required contribution rate for the year ended June 30, 2015, was 7.41% of compensation for law enforcement officers and 7.07% for general employees and firefighters, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the City of Locust were \$73,114 for the year ended June 30, 2015.

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

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

At June 30, 2015, the City reported an asset of \$123,670 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2014. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2013. The total pension liability was then rolled forward to the measurement date of June 30, 2014, utilizing update procedures incorporating the actuarial assumptions. The City's proportion of the net pension asset was based on a projection of the City's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2014, the City's proportion was

CITY OF LOCUST, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2015

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

B. Liabilities

1. Pension Plan and Post-employment Obligations - continued

a. Local Governmental Employees' Retirement System - continued

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

0.02097%, which was an increase of 0.0016% from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the City recognized pension expense of \$9,013. At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 13,513
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	287,900
Changes in proportion and differences between City of Locust contributions and proportionate share of contributions	5,024	-
City of Locust contributions subsequent to the measurement date	73,114	-
Total	\$ 78,138	\$ 301,413

\$73,114 reported as deferred outflows of resources related to pensions resulting from City of Locust contributions subsequent to the measurement date will be recognized as an increase of the net pension asset in the year ended June 30, 2016. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2016	\$ (74,103)
2017	(74,103)
2018	(74,103)
2019	(74,080)
2020	-
Thereafter	-
	\$ (296,389)

-Continued-

CITY OF LOCUST, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2015

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

B. Liabilities

1. Pension Plan and Post-employment Obligations - continued

a. Local Governmental Employees' Retirement System - continued

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

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

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

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

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

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

CITY OF LOCUST, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2015

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

B. Liabilities

1. Pension Plan and Post-employment Obligations - continued

a. Local Governmental Employees' Retirement System – continued

The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2014 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	36.0%	2.5%
Global Equity	40.5%	6.1%
Real Estate	8.0%	5.7%
Alternatives	6.5%	10.5%
Credit	4.5%	6.8%
Inflation Protection	4.5%	3.7%
Total	100.0%	

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

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

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

-Continued-

CITY OF LOCUST, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2015

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

B. Liabilities

1. Pension Plan and Post-employment Obligations - continued

a. Local Governmental Employees' Retirement System – continued

Sensitivity of the City of Locust share of the net pension asset to changes in the discount rate. The following presents the City of Locust's proportionate share of the net pension asset calculated using the discount rate of 7.25 percent, as well as what the City of Locust's proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.25 percent) or one percentage point higher (8.25 percent) than the current rate:

	1% Decrease (6.25%)	Discount Rate (7.25%)	1% Increase (8.25%)
City's proportionate share of the net pension liability (asset)	\$ 580,136	\$ (170,909)	\$ (803,263)

Pension Plan fiduciary net position. Detail information about the pension plan's fiduciary net position is available in the separately issued Comprehensive Annual Financial Report (CAFR) for the State of North Carolina.

b. 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, 2015 and 2014, and 2013 were \$37,819, \$43,783 and \$42,175, respectively.

-Continued-

CITY OF LOCUST, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2015

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	<u>12</u>
Total	<u><u>12</u></u>

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. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

-Continued-

CITY OF LOCUST, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2015

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

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

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

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 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.

CITY OF LOCUST, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2015

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 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	9,604
Adjustment to annual required contribution	<u>(15,650)</u>
Annual pension cost	\$ 7,768
Contributions made	<u>-</u>
Increase (decrease) in net pension obligation	\$ 7,768
Net pension obligation beginning of fiscal year	<u>192,092</u>
Net pension obligation end of fiscal year	<u><u>\$ 199,860</u></u>

Three Year Trend Information				
Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation	
6/30/2013	\$ 8,281	0.00%	\$	184,071
6/30/2014	\$ 8,022	0.00%	\$	192,093
6/30/2015	\$ 7,768	0.00%	\$	199,860

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%.

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.

-Continued-

CITY OF LOCUST, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2015

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

B. Liabilities

2. Other Post-employment Benefits

a. Healthcare Benefits

Plan Description. Under terms of a City resolution, the City administers a single-employer defined benefit Healthcare Benefits Plan (the HCB Plan). As of July 1, 2007, this plan provides post-employment healthcare benefits to retirees of the City, provided they participate in the North Carolina Local Governmental Employees' Retirement System (System) and have at least 20 years of creditable service with the City. Prior to July 1, 2007, employees qualified for similar level benefits after a minimum of five years of creditable service with the City. The City pays the full cost of coverage for employees' benefits through private insurers and employees have the option of purchasing dependent coverage at the City's group rates. Employees hired on or after July 1, 2007 who retire with a minimum of 20 years of creditable service also have the option of purchasing coverage for themselves and dependents at the City's group rate. Employees hired on or after July 1, 2007, who retire with less than 20 years of service, are not eligible for postemployment coverage. Retirees who qualify for coverage receive the same benefits as active employees. Coverage for all retirees who are eligible for Medicare will be transferred to a Medicare Supplemental plan after qualifying for Medicare. 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.

-Continued-

CITY OF LOCUST, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2015

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

B. Liabilities

2. Other Post-employment Benefits - continued

a. Healthcare Benefits

The current annual required contribution (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	\$ 52,899
Interest on net OPEB obligation	8,260
Adjustment to annual required contribution	<u>(7,891)</u>
Annual OPEB cost (expense)	53,268
Contributions made	<u>-</u>
Increase in net OPEB obligation	53,268
Net OPEB obligation, beginning of year	<u>206,501</u>
Net OPEB obligation, end of year	<u><u>\$ 259,769</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, 2015, were as follows:

For Year Ended	Annual	Percentage of Annual	Net OPEB
<u>June 30</u>	<u>OPEB Cost</u>	<u>OPEB Cost Contributed</u>	<u>Obligation</u>
2013	\$ 40,672	0.00%	\$ 154,296
2014	\$ 52,205	0.00%	\$ 206,501
2015	\$ 53,268	0.00%	\$ 259,769

-Continued-

CITY OF LOCUST, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2015

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

B. Liabilities

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, 2015

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

B. Liabilities

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. Deferred Outflows and Inflows of Resources

The City has several deferred outflows of resources. Deferred outflows of resources is comprised of the following:

Source	Amount
Contributions to pension plan in current fiscal year	\$ 73,114
Deferrals related to pensions	5,024
Total	<u>\$ 78,138</u>

The City has several deferred inflows of resources. Deferred inflows of resources at year-end is comprised of the following:

Source	Amount	
	Unavailable Revenue	Deferred Expense
Property taxes receivable	\$ 110,559	\$ -
Pension deferrals		301,413
	<u>\$ 110,559</u>	<u>\$ 301,413</u>

-Continued-

CITY OF LOCUST, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2015

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, 2015, 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, 2015*

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, 2015 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, 2015:

<u>Classes of Property</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Lighting system	122,074	34,588	87,486
Total	<u>\$ 122,074</u>	<u>\$ 34,588</u>	<u>\$ 87,486</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2015, were as follows:

<u>Year Ending June 30,</u>	
2016	16,633
2017	16,633
Total minimum lease payments	33,266
Less: Amount representing interest	<u>3,113</u>
Present value of minimum lease payments	<u>\$ 30,153</u>

-Continued-

CITY OF LOCUST, NORTH CAROLINA

*Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2015*

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%.

\$ 3,749,786

The future minimum principal and interest payments of the Governmental Center's installment purchase agreement as of June 30, 2015, are as follows:

Governmental Center Loan			
<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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
2020	30,647	68,045	98,692
Thereafter	<u>1,913,495</u>	<u>1,342,831</u>	<u>3,256,326</u>
Total	<u><u>\$2,056,711</u></u>	<u><u>\$ 1,693,075</u></u>	<u><u>\$ 3,749,786</u></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, 2015 involve separate agreements as described below:

CITY OF LOCUST, NORTH CAROLINA

*Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2015*

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. \$ 468,921

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%. 1,449,792

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. 1,057,791

Total installment purchase agreements serviced by the Enterprise Fund. \$ 2,976,504

The future minimum principal and interest payments of the Enterprise Fund's installment purchase agreements as of June 30, 2015, are as follows:

<u>Year Ending June 30</u>	<u>Business-Type Activities</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	
2016	492,068	56,838	548,906
2017	349,374	50,810	400,184
2018	203,397	44,668	248,065
2019	207,196	38,410	245,606
2020	211,088	32,034	243,122
2021-2034	<u>1,167,904</u>	<u>122,717</u>	<u>1,290,621</u>
Total	<u><u>\$ 2,631,027</u></u>	<u><u>\$ 345,477</u></u>	<u><u>\$ 2,976,504</u></u>

-Continued-

CITY OF LOCUST, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2015

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

6. Long-Term Obligations – continued

c. Changes in Long-Term Liabilities

	Balance <u>July 01, 2014</u>	Increases	Decreases	Balance <u>June 30, 2015</u>	Current Portion of Balance
Governmental Activities:					
Governmental Center loan	\$ 2,082,515	\$ -	\$ 25,804	\$ 2,056,711	\$ 26,707
Capitalized leases	43,806	-	13,653	30,153	14,582
Compensated absences	68,095	17,684	4,088	81,691	40,846
Other post-employment benefits	206,501	53,268	-	259,769	-
Net pension liability (LGERS)	214,434		214,434	-	
Law Enforcement Separation	192,093	7,768	-	199,861	-
Governmental Activity:					
Long-term liabilities	<u>\$ 2,807,444</u>	<u>\$ 78,720</u>	<u>\$ 257,979</u>	<u>\$ 2,628,185</u>	<u>\$ 82,135</u>
Business-type Activities:					
Installment purchases	\$ 3,109,300	\$ -	\$ 478,273	\$ 2,631,027	\$ 492,068
Net pension liability (LGERS)	<u>19,410</u>		<u>19,410</u>	<u>-</u>	
Business-type Activity:					
Long-term liabilities	<u>\$ 3,128,710</u>	<u>\$ -</u>	<u>\$ 497,683</u>	<u>\$ 2,631,027</u>	<u>\$ 492,068</u>
ABC Board:					
Term loan	<u>\$ 104,002</u>	<u>\$ -</u>	<u>\$ 44,680</u>	<u>\$ 59,322</u>	<u>\$ 42,189</u>

Compensated absences typically have been liquidated in the General Fund.

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

-Continued-

CITY OF LOCUST, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2015

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

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:

<u>Year Ending June 30</u>	<u>Principal</u>
2016	42,188
2017	14,560
Total	<u>\$ 56,748</u>

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	1,507,164
Less:	
Stabilization by state statute	269,267
Streets - Powell Bill	161,653
Unspendable - USDA Reserves	28,780
Unspendable - Prepaid expenses	1,534
Assigned - Veterans Memorial	7,492
Unassigned	1,038,438

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, 2015.

-Continued-

CITY OF LOCUST, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2015

NOTE 4 - SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES

Federal and State Assisted Programs

The City has received proceeds from several 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.

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	\$ 127,716	\$ 5,416
Water and Sewer Fund	<u>\$ 5,416</u>	<u>\$ 127,716</u>

NOTE 6 - CHANGE IN ACCOUNTING PRINCIPLES/RESTATEMENT

The City implemented Governmental Accounting Standards Board (GASB) Statement 68, *Accounting and Financial Reporting for Pensions (an amendment of GSB Statement No. 27)*, in the fiscal year ending June 30, 2015. The implementation of the statement required the City to record beginning net pension liability and the effects on net position of contributions made by the City during the measurement period (fiscal year ending June 30, 2014). As a result, net position for the governmental and business-type activities decreased by \$150,118 and \$13,588, respectively.

NOTE 7 - SUBSEQUENT EVENTS

The City of Locust has evaluated all subsequent events through November 23, 2015, the date the financial statements were available to be issued.

-Continued-

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's Proportionate Share of Net Pension Liability (Asset)
- City of Locust's Contributions

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				
<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>	
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

CITY OF LOCUST, NORTH CAROLINA

City of Locust's Proportionate Share of Net Pension Liability (Asset)
Required Supplementary Information
Last Two Fiscal Years*

Local Governmental Employees' Retirement System

	<u>2015</u>	<u>2014</u>
City of Locust's proportion of the net pension liability (asset) (%)	0.02097%	0.01940%
City of Locust's proportion of the net pension liability (asset) (\$)	\$ (123,670)	\$ 233,844
City of Locust's covered-employee payroll	\$ 1,010,818	\$ 983,047
City of Locust's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	(12.23%)	23.79%
Plan fiduciary net position as a percentage of the total pension liability**	102.64%	94.35%

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

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

CITY OF LOCUST, NORTH CAROLINA

***City of Locust's Contributions
Required Supplementary Information
Last Two Fiscal Years***

Local Governmental Employees' Retirement System

	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 73,114	\$ 70,137
Contributions in relation to the contractually required contribution	73,114	70,137
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
City of Locust's covered-employee payroll	\$ 1,010,818	\$ 983,047
Contributions as a percentage of covered- employee payroll	7.23%	7.13%

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, 2015**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Ad valorem taxes:			
Taxes	\$ 1,277,000	\$ 1,251,309	\$ (25,691)
Total	<u>1,277,000</u>	<u>1,251,309</u>	<u>(25,691)</u>
Other taxes and licenses:			
Motor vehicle tax	30,000	134,417	104,417
Vision cable franchise	17,500	18,354	854
Privilege licenses	<u>43,508</u>	<u>45,366</u>	<u>1,858</u>
Total	<u>91,008</u>	<u>198,137</u>	<u>107,129</u>
Unrestricted intergovernmental:			
Local option sales taxes	588,000	587,438	(562)
Utility franchise tax	154,000	206,916	52,916
Solid waste fee	169,000	187,881	18,881
Beer and wine tax	<u>14,000</u>	<u>14,466</u>	<u>466</u>
Total	<u>925,000</u>	<u>996,701</u>	<u>71,701</u>
Restricted intergovernmental:			
Powell Bill allocation	103,700	104,451	751
Powell Bill interest	200	136	(64)
Court fees	4,000	4,532	532
Federal grants	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>107,900</u>	<u>109,119</u>	<u>1,219</u>
Sales and service:			
Recreation proceeds	50,000	53,695	3,695
Building rental	<u>5,000</u>	<u>5,765</u>	<u>765</u>
Total	<u>55,000</u>	<u>59,460</u>	<u>4,460</u>
Investment earnings	<u>8,500</u>	<u>6,315</u>	<u>(2,185)</u>
Miscellaneous	<u>69,700</u>	<u>71,529</u>	<u>1,829</u>
Total revenues	<u>2,534,108</u>	<u>2,692,570</u>	<u>158,462</u>

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, 2015**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Expenditures:			
General government:			
Salaries and employee benefits	\$ 345,645	\$ 326,426	\$ 19,219
Professional services	24,650	21,489	3,161
Membership dues	9,300	9,145	155
Other operating expenditures	136,375	130,330	6,045
Claim settlement	-	45,000	(45,000)
Total general government	<u>515,970</u>	<u>532,390</u>	<u>(16,420)</u>
Public safety:			
Police:			
Salaries and employee benefits	744,510	728,615	15,895
Vehicle maintenance	57,000	44,676	12,324
Other operating expenditures	89,250	68,340	20,910
Capital outlay	<u>60,250</u>	<u>49,049</u>	<u>11,201</u>
Total public safety	<u>951,010</u>	<u>890,680</u>	<u>60,330</u>
Transportation:			
Streets and highways:			
Salaries and employee benefits	120,486	116,197	4,289
Paving and repairs	18,000	2,555	15,445
Other operating expenditures	170,620	121,656	48,964
Capital Outlay	<u>-</u>	<u>9,200</u>	<u>(9,200)</u>
Total transportation	<u>309,106</u>	<u>249,608</u>	<u>59,498</u>
Environmental protection:			
Solid waste contracted services	<u>240,500</u>	<u>240,514</u>	<u>(14)</u>
Total environmental protection	<u>240,500</u>	<u>240,514</u>	<u>(14)</u>
Economic and physical development:			
Planning and zoning	<u>25,000</u>	<u>50</u>	<u>24,950</u>
Total economic and physical development	<u>25,000</u>	<u>50</u>	<u>24,950</u>
Culture and recreation:			
Salaries and employee benefits	153,621	139,490	14,131
Other operating expenditures	183,401	163,456	19,945
Capital outlay	<u>-</u>	<u>11,631</u>	<u>(11,631)</u>
Total culture and recreation	<u>337,022</u>	<u>314,577</u>	<u>22,445</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, 2015*

	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Debt service:			
Principal retirement	39,500	39,451	49
Interest and other charges	<u>76,000</u>	<u>75,874</u>	<u>126</u>
Total debt service	<u>115,500</u>	<u>115,325</u>	<u>175</u>
Total expenditures	<u>2,494,108</u>	<u>2,343,144</u>	<u>150,964</u>
Revenues over (under) expenditures	<u>40,000</u>	<u>349,426</u>	<u>309,426</u>
Other financing sources (uses):			
Transfer to Water and Sewer Fund	<u>(100,800)</u>	<u>(60,800)</u>	<u>(40,000)</u>
Total other financing uses	<u>(100,800)</u>	<u>(60,800)</u>	<u>40,000</u>
Fund balance appropriated	<u>60,800</u>	<u>-</u>	<u>60,800</u>
Net change in fund balance	<u>\$ -</u>	288,626	<u>\$ 410,226</u>
Fund balance, beginning		<u>1,218,538</u>	
Fund balance, end of year		<u>\$ 1,507,164</u>	

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

CITY OF LOCUST, NORTH CAROLINA

Statement 2

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, 2015

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Sewer charges	\$ 818,000	\$ 815,979	\$ (2,021)
Sewer taps and fees	197,700	224,549	26,849
Capacity fee collections	80,000	92,500	12,500
Other operating revenues	600	705	105
Total operating revenues	1,096,300	1,133,733	37,433
Expenditures:			
Water and sewer administration:			
Salaries and employee benefits	120,100	98,478	(21,622)
Other operating expenditures	38,475	40,535	2,060
Total water and sewer administration	158,575	139,013	19,562
Waste collection and treatment:			
Sewage collection system:			
Maintenance	44,500	50,016	(5,516)
Other operating expenditures	59,500	56,230	3,270
Utility service fees	85,100	77,739	7,361
Primary waste treatment	252,000	248,279	3,721
Total waste collection and treatment	441,100	432,264	8,836
Debt service:			
Interest and other charges	79,275	79,233	(42)
Principal retirement	478,150	478,189	39
Total debt service	557,425	557,422	3
Total expenditures	1,157,100	1,128,699	28,401
Other financing sources:			
Transfers from other funds:			
General fund	\$ 60,800	60,800	\$ -
Total other financing sources	60,800	60,800	-
Revenues and other sources over expenditures and other uses	\$ -	\$ 65,834	\$ 65,834

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

CITY OF LOCUST, NORTH CAROLINA

Statement 2

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, 2015

Reconciliation from budgetary basis

(modified accrual) to full accrual:

Revenues and other sources over expenditures and other uses	\$ 65,834
Reconciling items:	
Principal retirement	478,189
Pension expense	(748)
Accrued interest payable	3,269
Depreciation	<u>(275,966)</u>
Total reconciling items	<u>204,744</u>
Net Income	<u><u>\$ 270,578</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, 2015

	Uncollected Balance June 30, 2014	Additions	Collections and Credits	Uncollected Balance June 30, 2015
2014 - 2015	\$ -	\$ 1,352,809	\$ 1,318,374	\$ 34,435
2013 - 2014	51,124	65	26,431	24,758
2012 - 2013	32,688	-	15,628	17,060
2011 - 2012	20,369	-	8,440	11,929
2010 - 2011	8,149	-	2,460	5,689
2009 - 2010	6,858	-	1,967	4,891
2008 - 2009	5,861	-	1,676	4,185
2007 - 2008	4,854	-	1,579	3,275
2006 - 2007	5,004	-	1,601	3,403
2005 - 2006	1,067	-	133	934
2004 - 2005	646	-	646	-
	<u>\$ 136,620</u>	<u>\$ 1,352,874</u>	<u>\$ 1,378,935</u>	<u>\$ 110,559</u>

Reconciliation with revenues:

Ad Valorem Taxes - General Fund \$ 1,385,726

Reconciling items:

Discounts allowed	6,623
Interest collected	(14,637)
Abatements - previous year(s) levy	607
Taxes written off	<u>616</u>

Total collections and credits \$ 1,378,935

CITY OF LOCUST, NORTH CAROLINA

Schedule 2

*Analysis of Current Tax Levy
For the Fiscal Year Ended June 30, 2015*

	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	\$ 338,907,778	0.36	\$ 1,220,068	\$ 1,220,068	\$ -
Registered motor vehicles taxed at current year's rate	36,741,389	0.36	132,269	-	132,269
Penalties	-		832	832	-
Total	<u>375,649,167</u>		<u>1,353,169</u>	<u>1,220,900</u>	<u>132,269</u>
Discoveries:					
Current year taxes	900,833	0.36	3,243	-	-
Prior years' taxes	<u>-</u>	0.36	<u>-</u>	<u>-</u>	<u>-</u>
Abatements					
Current year rate	1,000,833	0.36	(3,603)	(3,603)	-
Penalties	<u>-</u>		<u>-</u>	<u>-</u>	<u>-</u>
Total property valuation	<u><u>\$ 377,550,833</u></u>				
Net levy			1,352,809	1,217,297	132,269
Less, uncollected tax at June 30, 2015			<u>34,435</u>	<u>34,435</u>	<u>-</u>
Current year's taxes collected			<u><u>\$ 1,318,374</u></u>	<u><u>\$ 1,182,862</u></u>	<u><u>\$ 132,269</u></u>
Current levy collection percentage			<u><u>97.45%</u></u>	<u><u>97.17%</u></u>	<u><u>100.00%</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, 2015, which collectively comprise the City of Locust's basic financial statements, and have issued our report thereon dated November 20, 2015. 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.

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 internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. 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.

November 23, 2015
Charlotte, North Carolina

Schedule 3
Page 1 of 2

Section I. Summary of Auditors' Results

Noncompliance material to financial statements				
noted	<u> </u>	yes	<u> X </u>	no

CITY OF LOCUST, NORTH CAROLINA

Schedule 3
Page 2 of 2

Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2015

Section II. Financial Statement Findings

None Reported.

CITY OF LOCUST, NORTH CAROLINA

Schedule 4

***Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2015***

MATERIAL WEAKNESS

Finding: 2014-1 Failure to exercise control over federal awards passed through N.C. Department of Commerce.

Status: Procedures have been implemented to ensure all information is submitted for the audit process, regardless of activity in order to ensure all activity is properly accounted for 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, 2015***

	<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>
State Grants:					
N.C. Department of Transportation:					
Powell Bill			\$ -	\$ 104,451	\$ -
Total assistance- State programs			<u>-</u>	<u>104,451</u>	<u>-</u>
Total assistance			<u>\$ -</u>	<u>\$ 104,451</u>	<u>\$ -</u>

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.