

CITY OF LOCUST, NORTH CAROLINA

Audited Financial Statements

For the Fiscal Year Ended June 30, 2016

City Council Members

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

Administrative and Financial Staff

Cesar Correa, City Administrator
Stephanie Morton, Finance Director

CITY OF LOCUST, NORTH CAROLINA

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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Locust, North Carolina, as of and for the year ended June 30, 2016, 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, 2016, 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 and the Law Enforcement Officers' Special Separation Allowance, on pages 61-62, 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.

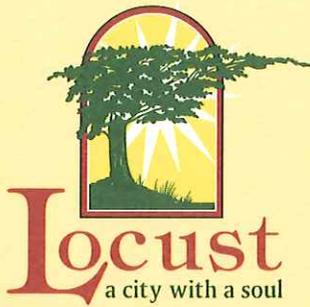
The combining and individual fund statements, budgetary schedules, other schedules, and the Schedule of Expenditures of Federal and State Awards are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial 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 28, 2016 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 28, 2016



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 and Analysis

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, 2016. 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

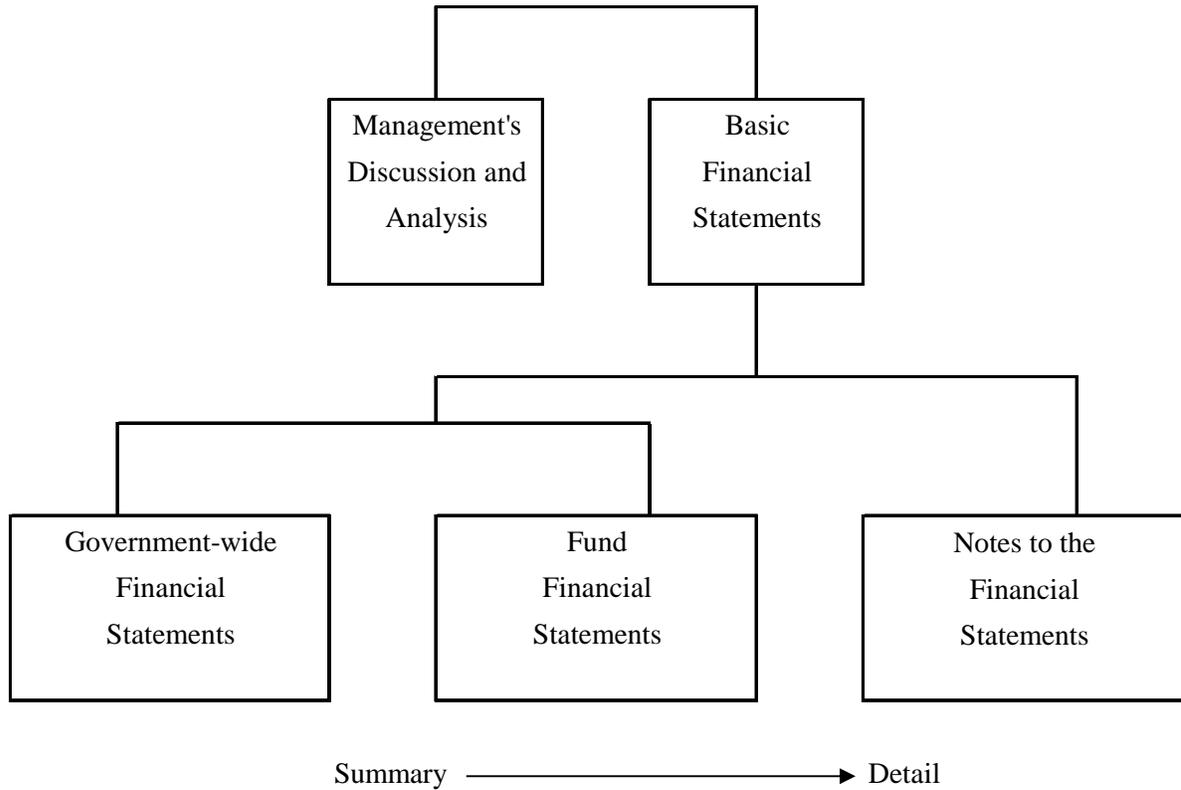
- The assets and deferred outflows of resources of the City of Locust exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$18,207,675 (net assets).
- The government's total net position increased by \$920,787 primarily due to steady revenues and decreased expenditures.
- As of the close of the current fiscal year, the City of Locust's governmental funds reported combined ending fund balances of \$2,005,102, an increase of \$497,938 in comparison with the prior year. Approximately 24.2% of this total amount or \$484,257 is restricted.
- At the end of the current fiscal year, unassigned fund balance for the governmental funds was \$1,486,375, or 64.0% of total governmental fund expenditures for the fiscal year.
- The lighting system, installed for the ball fields under a lease agreement executed in February 2007, was paid in full on June 16, 2016, and title has passed to the City.

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	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 2,302,535	\$ 1,660,414	\$ 134,041	\$ 147,561	\$ 2,436,576	\$ 1,807,975
Capital assets	10,506,057	10,861,994	9,987,467	10,263,432	20,493,524	21,125,426
Deferred outflows of resources	111,718	72,196	9,694	5,942	121,412	78,138
Total assets	12,920,310	12,594,604	10,131,202	10,416,935	23,051,512	23,011,539
Long-term liabilities						
outstanding	2,406,313	2,546,049	1,796,968	2,138,959	4,203,281	4,685,008
Other liabilities	378,291	81,390	206,533	656,840	584,824	738,230
Deferred inflows of resources	50,448	276,395	5,284	25,018	55,732	301,413
Total liabilities and deferred inflows of resources	2,835,052	2,903,834	2,008,785	2,820,817	4,843,837	5,724,651
Net position:						
Net investment in capital assets	8,391,203	8,775,130	7,848,229	7,632,407	16,239,432	16,407,537
Restricted	404,042	430,920	-	-	404,042	430,920
Unrestricted	1,290,013	484,720	274,188	(36,289)	1,564,201	448,431
Total net position	\$10,085,258	\$ 9,690,770	\$ 8,122,417	\$ 7,596,118	\$18,207,675	\$17,286,888

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 \$18,207,675 as of June 30, 2016. The City's net position increased \$920,787 for the fiscal year ended June 30, 2016. However, the largest portion (89.28%) 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 \$1,564,201 is unrestricted.

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

- Continued diligence in the collection of property taxes by maintaining a relatively high tax collection percentage of just over 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	
	2016	2015	2016	2015	2016	2015
Revenues:						
Program revenues:						
Charges for services	\$ 65,829	\$ 61,209	\$ 1,420,673	\$ 1,133,735	\$ 1,486,502	\$ 1,194,944
Operating grants and contributions	110,105	109,119	-	-	110,105	109,119
Capital grants and contributions	-	-	-	-	-	-
General revenues:						
Property taxes	1,355,843	1,359,668	-	-	1,355,843	1,359,668
Other taxes	50,739	64,627	-	-	50,739	64,627
Grants and contributions not restricted to specific programs	1,151,973	996,701	-	-	1,151,973	996,701
Other	67,523	75,189	-	-	67,523	75,189
Total revenues	2,802,012	2,666,513	1,420,673	1,133,735	4,222,685	3,800,248
Expenses:						
General government	575,510	635,144	-	-	575,510	635,144
Public safety	682,022	912,863	-	-	682,022	912,863
Transportation	491,683	492,527	-	-	491,683	492,527
Environmental protection	219,272	240,514	-	-	219,272	240,514
Culture and recreation	357,191	388,552	-	-	357,191	388,552
Interest on long-term debt	81,846	74,319	-	-	81,846	74,319
Water and sewer	-	-	894,374	923,957	894,374	923,957
Total expenses	2,407,524	2,743,919	894,374	923,957	3,301,898	3,667,876
Increase(decrease) in net position before transfers	394,488	(77,406)	526,299	209,778	920,787	132,372
Transfers	-	(60,800)	-	60,800	-	-
Increase(decrease) in net position	394,488	(138,206)	526,299	270,578	920,787	132,372
Net position, July 1 (consolidated)	9,690,770	9,979,094	7,596,118	7,339,128	17,286,888	17,318,222
Net position, beginning, restated	-	9,828,976	-	7,325,540	-	17,154,516
Net position, June 30	\$ 10,085,258	\$ 9,690,770	\$ 8,122,417	\$ 7,596,118	\$ 18,207,675	\$ 17,286,888

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 \$1,528,726, while total fund balance reached \$2,047,453. 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 67.04% of general fund expenditures, while total fund balance represents 89.8% of the same amount.

At June 30, 2016, the governmental funds of City of Locust reported a combined fund balance of \$2,005,102 with a net increase in fund balance of \$497,938.

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 \$274,188. 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, 2016, totals \$20,493,525 (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 1 vehicle for its police department.

City of Locust’s Capital Assets Net of Depreciation

Figure 4

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land	\$ 693,782	\$ 693,782	\$ -	\$ -	\$ 693,782	\$ 693,782
Buildings and systems	3,004,772	3,146,401	9,987,467	10,263,432	12,992,239	13,409,833
Machinery and equipment	175,710	110,958	-	-	175,710	110,958
Infrastructure	6,443,540	6,698,096	-	-	6,443,540	6,698,096
Vehicles and motorized equipment	188,254	212,757	-	-	188,254	212,757
Construction in progress	-	-	-	-	-	-
Total	\$ 10,506,057	\$ 10,861,994	\$ 9,987,467	\$ 10,263,432	\$ 20,493,525	\$ 21,125,426

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, 2016, the City of Locust had total debt outstanding of \$4,254,092.

Figure 5

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Capitalized leases	\$ 84,844	\$ 30,153	\$ -	\$ -	\$ 84,844	\$ 30,153
Construction loan	-	-	-	-	-	-
Governmental Center loan	2,030,010	2,056,711	-	-	2,030,010	2,056,711
Installment purchases	-	-	2,139,238	2,631,027	2,139,238	2,631,027
Total	\$2,114,854	\$2,086,864	\$2,139,238	\$2,631,027	\$4,254,092	\$4,717,891

City of Locust's Outstanding Debt

The City of Locust's total debt had a net decrease of \$463,799 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 \$30,100,733. 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, 2017

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 2016-2017.

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 2016-2017.

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 Cesar Correa, P.O. Box 190, Locust N.C. 28097 or e-mail to CityAdmin@locustnc.com.

BASIC FINANCIAL STATEMENTS

CITY OF LOCUST, NORTH CAROLINA

Exhibit 1

Statement of Net Position
June 30, 2016

	Primary Government			City of Locust ABC Board
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 1,773,206	\$ -	\$ 1,773,206	\$ 90,129
Taxes receivable	87,411	-	87,411	-
Accounts receivable (net)	3,138	103,208	106,346	-
Due from other governments	262,443	-	262,443	-
Prepaid items	41,562	-	41,562	6,476
Inventories	-	-	-	187,585
Restricted cash and cash equivalents	134,775	30,833	165,608	-
Total current assets	<u>\$ 2,302,535</u>	<u>\$ 134,041</u>	<u>\$ 2,436,576</u>	<u>\$ 284,190</u>
Non-current assets:				
Capital assets (Note 1):				
Land, non-depreciable improvements, and construction in progress	693,782	-	693,782	-
Other capital assets, net of depreciation	9,812,275	9,987,467	19,799,742	25,750
Total capital assets	<u>10,506,057</u>	<u>9,987,467</u>	<u>20,493,524</u>	<u>25,750</u>
Other Assets:	-	-	-	40
Total assets	<u>12,808,592</u>	<u>10,121,508</u>	<u>22,930,100</u>	<u>309,980</u>
DEFERRED OUTFLOWS OF RESOURCES				
Contributions to pension plan in current fiscal year	63,973	5,174	69,147	-
Deferred outflows related to pensions	47,745	4,520	52,265	-
Total deferred outflows of resources	<u>111,718</u>	<u>9,694</u>	<u>121,412</u>	
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities	\$ 51,925	\$ -	\$ 51,925	\$ 168,369
Accrued interest payable	69,476	7,423	76,899	-
Internal balances	158,093	(158,093)	-	-
Customer deposits	-	7,550	7,550	-
Current portion of long-term liabilities	98,797	349,653	448,450	14,586
Total current liabilities	<u>378,291</u>	<u>206,533</u>	<u>584,824</u>	<u>182,955</u>
Long-term liabilities:				
Due in more than one year	2,321,423	1,789,585	4,111,008	-
Net pension liability	84,890	7,383	92,273	-
Total long-term liabilities	<u>2,406,313</u>	<u>1,796,968</u>	<u>4,203,281</u>	<u>-</u>
Total liabilities	<u>2,784,604</u>	<u>2,003,501</u>	<u>4,788,105</u>	<u>182,955</u>
DEFERRED INFLOWS OF RESOURCES				
Pension deferrals	50,448	5,284	55,732	-
Total deferred inflows of resources	<u>50,448</u>	<u>5,284</u>	<u>55,732</u>	<u>-</u>
NET POSITION				
Net investment in capital assets	8,391,203	7,848,229	16,239,432	25,750
Restricted for:				
Stabilization by state statute	269,267	-	269,267	-
Streets - Powell Bill	134,775	-	134,775	-
Working capital	-	-	-	44,970
Unrestricted	1,290,013	274,188	1,564,201	56,305
Total net position	<u>\$ 10,085,258</u>	<u>\$ 8,122,417</u>	<u>\$ 18,207,675</u>	<u>\$ 127,025</u>

CITY OF LOCUST, NORTH CAROLINA

*Statement of Activities
For the Fiscal Year Ended June 30, 2016*

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues Charges for Services</u>
Primary government:		
Governmental Activities:		
General government	\$ 575,510	\$ 5,265
Public safety	682,022	-
Transportation	491,683	-
Environmental protection	219,272	-
Cultural and recreational	357,191	60,564
Interest on long-term debt	81,846	-
	<hr/>	<hr/>
Total governmental activities	2,407,524	65,829
	<hr/>	<hr/>
Business-type activities:		
Water and sewer	894,374	1,420,673
	<hr/>	<hr/>
Total business-type activities	894,374	1,420,673
	<hr/>	<hr/>
Total primary government	<u>\$ 3,301,898</u>	<u>\$ 1,486,502</u>
Component Unit:		
ABC Board	\$ 1,087,757	\$ 1,169,210
Total component unit	<u>\$ 1,087,757</u>	<u>\$ 1,169,210</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		
\$ 666	\$ -	\$ (569,579)	\$ -	\$ (569,579)	\$ -
4,541	-	(677,481)	-	(677,481)	-
104,898	-	(386,785)	-	(386,785)	-
-	-	(219,272)	-	(219,272)	-
-	-	(296,627)	-	(296,627)	-
-	-	(81,846)	-	(81,846)	-
<u>110,105</u>	<u>-</u>	<u>(2,231,590)</u>	<u>-</u>	<u>(2,231,590)</u>	<u>-</u>
-	-	-	526,299	526,299	-
-	-	-	526,299	526,299	-
<u>\$ 110,105</u>	<u>\$ -</u>	<u>\$ (2,231,590)</u>	<u>\$ 526,299</u>	<u>\$ (1,705,291)</u>	<u>\$ -</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 81,453</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 81,453</u>
General revenues:					
Taxes					
Property taxes levied for general purposes		1,355,843	-	1,355,843	-
Other taxes and licenses		50,739	-	50,739	-
Unrestricted intergovernmental revenue		1,151,973	-	1,151,973	-
Unrestricted investment earnings		6,096	-	6,096	-
Miscellaneous		61,427	-	61,427	-
Total general revenues, not including transfers:		<u>2,626,078</u>	<u>-</u>	<u>2,626,078</u>	<u>-</u>
Transfers		-	-	-	-
Total general revenues and transfers		<u>2,626,078</u>	<u>-</u>	<u>2,626,078</u>	<u>-</u>
Change in net position		394,488	526,299	920,787	81,453
Net position, beginning, previously reported		9,690,770	7,596,118	17,286,888	45,572
Restatement		-	-	-	-
Net position, beginning restated		9,690,770	7,596,118	17,286,888	45,572
Net position, ending		<u>\$ 10,085,258</u>	<u>\$ 8,122,417</u>	<u>\$ 18,207,675</u>	<u>\$ 127,025</u>

Balance Sheet
Governmental Funds
June 30, 2016

	<u>Major Funds</u> <u>General</u> <u>Fund</u>	<u>Non-Major Fund</u> <u>Capital Project</u> <u>Fund</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
ASSETS			
Cash and cash equivalents	\$ 1,773,206	\$ -	\$ 1,773,206
Restricted cash	134,775	-	134,775
Taxes receivable	90,548	-	90,548
Due from other governments	262,443	-	262,443
Prepaid expenses	41,562	-	41,562
	<u>2,302,534</u>	<u>-</u>	<u>2,302,534</u>
LIABILITIES			
Accounts payable and accrued liabilities	51,929	-	51,929
Due to other funds	115,742	42,351	158,093
Total liabilities	<u>167,671</u>	<u>42,351</u>	<u>210,022</u>
DEFERRED INFLOWS OF RESOURCES			
Property taxes receivable	87,411	-	87,411
Total deferred inflows of resources	<u>87,411</u>	<u>-</u>	<u>87,411</u>
FUND BALANCES			
Restricted			
Stabilization by state statue	269,267	-	269,267
Streets - Powell Bill	134,775	-	134,775
Unspendable			
USDA Reserves	38,653	-	38,653
Prepaid expenses	41,562	-	41,562
Assigned - Veterans Memorial	34,470	-	34,470
Unassigned	1,528,726	(42,351)	1,486,375
Total fund balances	<u>2,047,453</u>	<u>(42,351)</u>	<u>2,005,102</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 2,302,534</u>	<u>\$ -</u>	<u>\$ 2,302,534</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, 2016*

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

Total Fund Balance, Governmental Funds		\$	2,005,102
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	14,511,373		
Accumulated depreciation	<u>(4,005,316)</u>		10,506,057
Contributions to the pension plan in the current fiscal year are deferred outflows of resources on the Statement of Net Position.			63,973
Liabilities for earned revenues considered deferred inflows of resources			87,411
Accrued interest			(69,477)
Long-term liabilities used in governmental activities are not financial uses and, therefore, are not reported in the funds:			
Pension related deferrals			(87,593)
Some liabilities, including leases payable, installment loan, compensated absences payable, and other postemployment benefits are not due and payable in the current period and, therefore, are not reported in the funds.			<u>(2,420,215)</u>
Net position of governmental activities		\$	<u><u>10,085,258</u></u>

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

CITY OF LOCUST, NORTH CAROLINA

Exhibit 4

*Statement of Revenues, Expenditures and
Changes in Fund Balance – Governmental Funds
June 30, 2016*

	<u>Major Fund</u> <u>General</u> <u>Fund</u>	<u>Non-Major Fund</u> <u>Safe Route School</u> <u>Capital Project Fund</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
REVENUES			
Ad valorem taxes	\$ 1,378,992	\$	\$ 1,378,992
Other taxes and licenses	47,384		47,384
Unrestricted intergovernmental	1,151,973		1,151,973
Restricted intergovernmental	109,438		109,438
Sales and services	65,829		65,829
Investment earnings	6,096		6,096
Miscellaneous	60,613		60,613
	<u>2,820,325</u>	<u>-</u>	<u>2,820,325</u>
EXPENDITURES			
Current:			
General government	523,439	42,351	565,790
Public safety	807,350		807,350
Transportation	263,397		263,397
Environmental protection	219,272		219,272
Economic and physical development	-		-
Culture and recreation	304,670		304,670
Debt Service:			
Principal retirement	79,572		79,572
Interest and other charges	82,337		82,337
	<u>2,280,036</u>	<u>42,351</u>	<u>2,322,387</u>
Excess (deficiency) of revenues over expenditures	<u>540,289</u>	<u>(42,351)</u>	<u>497,938</u>
OTHER FINANCING SOURCES (USES)			
Transfer to Water and Sewer Fund	-	-	-
Total other financing sources	-	-	-
Net change in fund balance	540,289	(42,351)	497,938
Fund balance, beginning	1,507,164	-	1,507,164
Fund balance, end of year	<u>\$ 2,047,453</u>	<u>\$ (42,351)</u>	<u>\$ 2,005,102</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, 2016***

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

Net changes in fund balances - total governmental funds		\$ 497,938
<p>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.</p>		
Capital outlay expenditures which were capitalized	\$ 28,120	
Construction in progress- current year	-	
Disposal of assets	(3,700)	
Gain on disposal	3,700	
Depreciation expense for governmental assets	<u>(491,613)</u>	(463,493)
Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities.		63,973
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
Change in unavailable revenue for tax revenues	<u>(23,150)</u>	(23,150)
<p>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.</p>		
New long-term debt issued	(107,556)	
Principal payments on long-term debt	79,565	
Decrease in accrued interest payable	<u>498</u>	(27,493)
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures.</p>		
Compensated absences	(6,006)	
Pension expense	92,949	
Other post-employment benefits	<u>259,769</u>	<u>346,712</u>
Total changes in net position of governmental activities		<u>\$ 394,488</u>

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

General Fund
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
For the Fiscal Year Ended June 30, 2016

	General Fund			Variance with Final Budget- Positive (Negative)
	Original Budget	Final Budget	Actual Amounts	
Revenues:				
Ad valorem taxes	\$ 1,260,000	\$ 1,260,000	\$ 1,378,992	\$ 118,992
Other taxes and licenses	44,500	83,875	47,384	(36,491)
Unrestricted intergovernmental	934,000	950,680	1,151,973	201,293
Restricted intergovernmental	185,275	185,275	109,438	(75,837)
Sales and services	55,500	66,050	65,829	(221)
Investment earnings	5,500	5,500	6,096	596
Miscellaneous	17,000	33,130	60,613	27,483
Total revenues	2,501,775	2,584,510	2,820,325	235,815
Expenditures:				
Current:				
General government	542,750	578,500	523,439	55,061
Public safety	913,876	927,061	807,350	119,711
Transportation	384,895	393,895	263,397	130,498
Environmental protection	218,854	218,854	219,272	(418)
Economic and physical development	-	-	-	-
Culture and recreation	295,850	320,650	304,670	15,980
Debt service:				
Principal retirement	64,000	64,000	79,572	(15,572)
Interest and other charges	81,550	81,550	82,337	(787)
Total expenditures	2,501,775	2,584,510	2,280,036	304,473
Revenues over (under) expenditures	-	-	540,289	540,288
Other financing sources (uses):				
Transfers from Capital Project Fund	-	-	-	-
Transfers to Water and Sewer Fund	(27,010)	(27,010)	-	27,010
Total other financing sources (uses)	(27,010)	(27,010)	-	27,010
Fund balance appropriated	27,010	27,010	-	(27,010)
Net change in fund balance	\$ -	\$ -	540,289	\$ 540,288
Fund balance, beginning			1,507,164	
Fund balance, end of year			\$ 2,047,453	

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

*Statement of Net Position
Proprietary Fund
June 30, 2016*

		<u>Major Enterprise Fund</u>	
		<u>Water and Sewer Fund</u>	
ASSETS			
Current assets:			
Restricted cash and cash equivalents	\$	30,833	
Accounts receivable, net		103,208	
Due from other funds		158,093	
Total current assets		<u>292,134</u>	
Noncurrent assets:			
Capital assets:			
Capital assets, net of depreciation	\$	9,987,467	
Total noncurrent assets		<u>9,987,467</u>	
Total assets	\$	<u>10,279,601</u>	
DEFERRED OUTFLOWS OF RESOURCES			
Contributions to pension plan		5,174	
Deferred outflows related to pensions		4,520	
Total deferred outflows of resources		<u>9,694</u>	
LIABILITIES			
Current liabilities:			
Accrued liabilities	\$	7,423	
Customer deposits		7,550	
Installment obligations payable - current		349,653	
Total current liabilities		<u>364,626</u>	
Noncurrent liabilities:			
Net pension liability		7,383	
Installment obligations payable - noncurrent		1,789,585	
Total noncurrent liabilities		<u>1,796,968</u>	
Total liabilities		<u>2,161,594</u>	
DEFERRED INFLOWS OF RESOURCES			
Pension deferrals		5,284	
NET POSITION			
Net investment in capital assets		7,848,229	
Restricted		-	
Unrestricted		274,188	
Total net position	\$	<u>8,122,417</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, 2016*

	Major Enterprise Fund
	Water and Sewer Fund
OPERATING REVENUES	
Charges for services	\$ 883,399
Sewer taps and fees	300,537
Capacity fee collections	210,000
Other operating revenues	26,737
Total operating revenues	1,420,673
OPERATING EXPENSES	
Administration	128,239
Waste collection and treatment	427,921
Depreciation	275,967
Total operating expenses	832,127
Operating income	588,546
NON-OPERATING EXPENSES	
Interest and other charges	62,247
Total non-operating expenses	62,247
Income before contributions and transfers	526,299
Transfers from other funds	0
Change in net position	526,299
Total net position, previously reported	7,596,118
Total net position, ending	\$ 8,122,417

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, 2016

	Water and Sewer Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 1,399,159
Cash paid for goods and services	(446,529)
Cash paid to or on behalf of employees for services	(115,472)
Customer deposits received	(27,150)
Other operating revenues	26,737
Net cash provided by operating activities	836,745
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Net due to (from) other fund	(280,393)
Total cash flows provided by non-capital financing activities	(280,393)
CASH FLOWS FROM CAPITAL AND RELATED	
Acquisition of capital assets	-
Principal paid on installment financing agreements	(491,789)
Installment loan proceeds	-
Interest and fees paid on installment financing agreements	(62,595)
Net cash used by capital and related financing activities	(554,384)
Net increase in cash and cash equivalents	1,968
Balances, beginning	28,865
Balances, ending	\$ 30,833
Details on cash and cash equivalents:	
Restricted assets	\$ 30,833

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

CITY OF LOCUST, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2016

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, 1008 Main Street, 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, 2016

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, 2016

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, 2016

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.

CITY OF LOCUST, NORTH CAROLINA

*Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016*

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	\$ 134,775
Total governmental activities		<u>\$ 134,775</u>
Business-type Activities		
Water and Sewer Fund		
	Customer deposits	<u>\$ 30,833</u>
Total Business-type Activities		<u>\$ 30,833</u>
Total Restricted Cash		<u><u>\$ 165,608</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, 2015. 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, 2016*

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, \$5000; 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:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
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, 2016*

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 2016 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, 2016*

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, 2016*

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, 2016*

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

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CITY OF LOCUST, NORTH CAROLINA

*Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016*

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, 2016, the City's deposits had a carrying amount of \$1,938,613 and a bank balance of \$1,436,786. Bank balances of the City, totaling \$280,733 were fully covered by federal depository insurance. The remaining balance of \$1,156,053 was collateralized under the Pooling Method. The carrying amount of deposits for the ABC Board was \$88,629 and the bank balance was \$111,866. All of the bank balance was covered by federal depository insurance. As of June 30, 2016, the City's petty cash fund totaled \$100, and the ABC Board's cash on hand totaled \$2,500.

2. Investments

At June 30, 2016, the City of Locust had \$28,283 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, 2016*

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, 2016, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 693,782	\$ -	\$ -	\$ 693,782
Total capital assets not being depreciated	<u>693,782</u>	<u>-</u>	<u>-</u>	<u>693,782</u>
Capital assets being depreciated:				
Buildings	2,408,514	-	-	2,408,514
Other improvements	1,686,889	-	-	1,686,889
Furniture and equipment	454,077	107,556	-	561,633
Computer equipment	202,920	-	-	202,920
Vehicles and motorized equipment	720,538	28,120	32,500	716,158
Infrastructure	8,241,477	-	-	8,241,477
Total capital assets being depreciated	<u>13,714,416</u>	<u>135,676</u>	<u>32,500</u>	<u>13,817,591</u>
Less accumulated depreciation for:				
Buildings	352,643	75,749	-	428,392
Other improvements	596,359	65,880	-	662,239
Furniture and equipment	343,651	42,273	-	385,924
Computer equipment	202,388	531	-	202,920
Vehicles and motorized equipment	507,781	52,623	32,500	527,904
Infrastructure	1,543,382	254,556	-	1,797,938
Total accumulated depreciation	<u>3,546,203</u>	<u>491,613</u>	<u>32,500</u>	<u>4,005,316</u>
Total capital assets being depreciated, net	<u>10,168,212</u>			<u>9,812,275</u>
Governmental activity capital assets, net	<u>\$ 10,861,994</u>			<u>\$ 10,506,057</u>

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

General government	\$ 96,069
Public safety	58,685
Transportation	256,493
Culture and recreation	80,365
Total depreciation expense	<u>\$ 491,613</u>

-Continued-

CITY OF LOCUST, NORTH CAROLINA

*Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016*

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

A. ASSETS

3. Capital Assets – continued

Business-type activities

	Beginning Balance	Increases	Decreases	Ending Balance
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
<i>Water and Sewer Fund</i>				
Capital assets not being depreciated:				
Construction in progress	\$ -	\$ -	\$ -	\$ -
Total capital assets not being depreciated	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Capital assets being depreciated:				
Plant and distribution system	13,604,788	-	-	13,604,788
Furniture and maintenance equipment	53,551	-	-	53,551
Total capital assets being depreciated	<u>13,658,339</u>	<u>-</u>	<u>-</u>	<u>13,658,339</u>
Less accumulated depreciation for:				
Plant and distribution system	3,342,566	274,928	-	3,617,494
Furniture and maintenance equipment	52,340	1,038	-	53,378
Total accumulated depreciation	<u>3,394,906</u>	<u>275,966</u>	<u>-</u>	<u>3,670,871</u>
Total capital assets being depreciated, net	<u>10,263,433</u>			<u>9,987,467</u>
Business-type activity capital assets, net	<u><u>\$ 10,263,433</u></u>			<u><u>\$ 9,987,467</u></u>

CITY OF LOCUST, NORTH CAROLINA

*Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016*

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, 2016.

5. Discretely presented component unit

Activity for the ABC Board for the year ended June 30, 2016, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
ABC Board				
Capital assets being depreciated:				
Furniture and fixtures	\$ 58,359	\$ -	\$ -	\$ 58,359
Equipment	13,151	-	-	13,151
Leasehold improvements	30,015	-	-	30,015
Office equipment	26,905	3,237		30,142
Total capital assets being depreciated	<u>128,430</u>	<u>3,237</u>		<u>131,667</u>
Less accumulated depreciation for:				
Furniture and fixtures	40,556	5,734	-	46,290
Equipment	9,191	1,315	-	10,506
Leasehold improvements	21,012	3,002	-	24,014
Office equipment	23,164	1,943	-	25,107
Total accumulated depreciation	<u>\$ 93,923</u>	<u>\$ 11,994</u>	<u>\$ -</u>	<u>\$ 105,917</u>
 Total capital assets being depreciated, net	 <u>34,507</u>			 <u>25,750</u>
ABC capital assets, net	<u><u>\$ 34,507</u></u>			<u><u>\$ 25,750</u></u>

-Continued-

CITY OF LOCUST, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2016

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, 2016*

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, 2016, was 7.15% of compensation for law enforcement officers and 6.67% 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 \$69,147 for the year ended June 30, 2016.

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, 2016, the City reported a liability of \$92,273 for its proportionate share of the net pension liability. The net pension asset was measured as of June 30, 2015. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2014. The total pension liability was then rolled forward to the measurement date of June 30, 2015, utilizing update procedures incorporating the actuarial 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, 2015, the City's proportion was

CITY OF LOCUST, NORTH CAROLINA

*Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016*

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

0.02056%, which was an increase of 0.00041% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the City recognized pension expense of \$40,366. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 21,689
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	26,270
Changes in proportion and differences between City of Locust contributions and proportionate share of contributions	3,765	11,539
City of Locust contributions subsequent to the measurement date	69,147	-
Total	<u>\$ 72,912</u>	<u>\$ 59,498</u>

\$69,147 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	\$ (32,370)
2017	(32,370)
2018	(32,350)
2019	41,357
2020	-
Thereafter	-
	<u>\$ (55,733)</u>

-Continued-

CITY OF LOCUST, NORTH CAROLINA

*Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016*

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, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

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

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

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

CITY OF LOCUST, NORTH CAROLINA

*Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016*

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:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed Income	29.0%	2.2%
Global Equity	42.0%	5.8%
Real Estate	8.0%	5.2%
Alternatives	8.0%	9.8%
Credit	7.0%	6.8%
Inflation Protection	6.0%	3.4%
Total	100.0%	

The information above is based on 30 year expectations developed with the consulting actuary for the 2014 asset liability and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.19%. All rates of return and inflation are annualized.

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

CITY OF LOCUST, NORTH CAROLINA

*Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016*

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)	\$ 643,426	\$ 92,272	\$ (372,063)

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, 2016 and 2015, and 2014 were \$44,364, \$37,819 and \$43,783 respectively.

CITY OF LOCUST, NORTH CAROLINA

*Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016*

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, 2015, 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.

CITY OF LOCUST, NORTH CAROLINA

*Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016*

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, 2015 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 an 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, 2016*

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	\$ 28,658
Interest on net pension obligation	7,114
Adjustment to annual required contribution	<u>(17,965)</u>
Annual pension cost	\$ 17,807
Contributions made	<u>-</u>
Increase (decrease) in net pension obligation	\$ 17,807
Net pension obligation beginning of fiscal year	<u>199,861</u>
Net pension obligation end of fiscal year	<u><u>\$ 217,668</u></u>

Three Year Trend Information				
Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation	
6/30/2014	\$ 8,022	0.00%	\$	192,093
6/30/2015	\$ 7,768	0.00%	\$	199,860
6/30/2016	\$ 17,807	0.00%	\$	217,668

Funded Status and Funding Progress. As of December 31, 2015, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and the unfunded actuarial accrued liability (UAAL) was \$ 182,271. The covered payroll (annual payroll of active employees covered by the plan) was \$505,898 and the ratio of the UAAL to covered payroll was 36.03%.

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.

CITY OF LOCUST, NORTH CAROLINA

*Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016*

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

B. Liabilities

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	\$ 69,147
Deferrals related to pensions	52,265
Total	\$ 121,412

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	\$ 87,409	\$ -
Pension deferrals		55,732
	\$ 87,409	\$ 55,732

CITY OF LOCUST, NORTH CAROLINA

*Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016*

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

During the previous fiscal year, the City was a defendant to a lawsuit on appeal. As of June 30, 2016, all appeals have been withdrawn and there are no further pending appeals.

CITY OF LOCUST, NORTH CAROLINA

*Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016*

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, 2016 there was only one lease still open.

The agreement was executed on September 12, 2013, to lease a digital radio equipment for the police department and requires 4 annual payments of \$30,217. According to the agreement, 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, 2016:

<u>Classes of Property</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Digital radio equipment	107,556	10,756	96,800
Total	<u>\$ 107,556</u>	<u>\$ 10,756</u>	<u>\$ 96,800</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2016, were as follows:

<u>Year Ending June 30,</u>	
2017	30,217
2018	30,217
2019	30,217
Total minimum lease payments	90,651
Less: Amount representing interest	<u>5,807</u>
Present value of minimum lease payments	<u>\$ 84,844</u>

CITY OF LOCUST, NORTH CAROLINA

*Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016*

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%.

\$ 3,651,101

The future minimum principal and interest payments of the Governmental Center's installment purchase agreement as of June 30, 2016, are as follows:

Governmental Center Loan			
<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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
2021	31,720	66,972	98,692
Thereafter	<u>1,881,781</u>	<u>1,275,860</u>	<u>3,157,641</u>
Total	<u><u>\$2,030,010</u></u>	<u><u>\$ 1,621,091</u></u>	<u><u>\$ 3,651,101</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, 2016 involve separate agreements as described below:

CITY OF LOCUST, NORTH CAROLINA

*Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016*

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, 2016, are as follows:

<u>Year Ending June 30</u>	<u>Business-Type Activities</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	
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	211,088	29,521	240,609
2022-2034	957,095	80,205	1,037,300
Total	<u>\$ 2,139,238</u>	<u>\$ 275,649</u>	<u>\$ 2,414,886</u>

-Continued-

CITY OF LOCUST, NORTH CAROLINA

*Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016*

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

6. Long-Term Obligations – continued

c. Changes in Long-Term Liabilities

	<u>Balance</u>			<u>Balance</u>	<u>Current Portion</u>
	<u>July 01, 2015</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2016</u>	<u>of Balance</u>
Governmental Activities:					
Governmental Center loan	\$ 2,056,711	\$ -	\$ 26,701	\$ 2,030,010	\$ 27,642
Capitalized leases	30,153	107,556	52,865	84,844	27,306
Net pension liability (LGERS)	-	84,890	-	84,890	-
Compensated absences	81,691	7,267	1,261	87,697	43,849
Other post-employment benefits	259,769	-	259,769	-	-
Law Enforcement Separation	199,861	17,808	-	217,669	-
<hr/>					
Governmental Activity:					
Long-term liabilities	<u>\$ 2,628,185</u>	<u>\$ 217,521</u>	<u>\$ 340,596</u>	<u>\$ 2,505,110</u>	<u>\$ 98,797</u>
<hr/>					
Business-type Activities:					
Installment purchases	\$ 2,631,027	\$ -	\$ 491,789	\$ 2,139,238	\$ 349,653
Net pension liability (LGERS)	-	7,383	-	7,383	-
<hr/>					
Business-type Activity:					
Long-term liabilities	<u>\$ 2,631,027</u>	<u>\$ 7,383</u>	<u>\$ 491,789</u>	<u>\$ 2,146,621</u>	<u>\$ 349,653</u>
<hr/>					
ABC Board:					
Term loan	<u>\$ 42,189</u>	<u>\$ -</u>	<u>\$ 27,603</u>	<u>\$ 14,586</u>	<u>\$ 14,586</u>

Compensated absences typically have been liquidated in the General Fund.

7. ABC Board

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

<u>Year Ending June 30</u>	<u>Principal</u>
2017	14,586
Total	<u>\$ 14,586</u>

-Continued-

CITY OF LOCUST, NORTH CAROLINA

*Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016*

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

8. Fund Balance

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

Total fund balance-General Fund	2,047,453
Less:	
Stabilization by state statute	269,267
Streets - Powell Bill	134,775
Unspendable - USDA Reserves	38,653
Unspendable - Prepaid expenses	41,562
Assigned - Veterans Memorial	34,470
Unassigned	1,528,726

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, 2016.

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	\$ 42,351	\$ 158,093
Water and Sewer Fund	158,093	-
Safe Route to School Capital Project Fund	-	42,351
	<u>\$ 200,444</u>	<u>\$ 200,444</u>

-Continued-

CITY OF LOCUST, NORTH CAROLINA

*Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016*

NOTE 6 - SUBSEQUENT EVENTS

The City of Locust has evaluated all subsequent events through November 28, 2016, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTAL FINANCIAL DATA

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

- Schedule of Funding Progress and Schedule of Employer Contributions for the 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

*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) (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%
12/31/2015	-	182,271	182,271	0.00%	505,898	36.03%

Schedule of Employer Contributions

Three Year Trend Information				
Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation	
6/30/2014	\$ 8,022	0.00%	\$	192,093
6/30/2015	\$ 7,768	0.00%	\$	199,860
6/30/2016	\$ 17,807	0.00%	\$	217,668

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:	12/31/2015
Actuarial cost method:	Entry Age Normal
Amortization method:	Level dollar closed
Remaining amortization period:	15 years
Asset valuation method:	Market Value
Actuarial Assumptions:	
Investment rate of return*	3.57%
Projected salary increases*	3.5 - 7.35%
*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 Three Fiscal Years**

Local Governmental Employees' Retirement System

	<u>2016</u>	<u>2015</u>	<u>2014</u>
City of Locust's proportion of the net pension liability (asset) (%)	0.02056%	0.02097%	0.01940%
City of Locust's proportion of the net pension liability (asset) (\$)	\$ 92,273	\$ (123,670)	\$ 233,844
City of Locust's covered-employee payroll	\$ 1,010,818	\$ 983,047	\$ 860,277
City of Locust's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	9.13%	(12.58%)	27.18%
Plan fiduciary net position as a percentage of the total pension liability**	98.09%	102.64%	94.35%

* The amounts presented for each fiscal year were determined as of the prior fiscal year 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 Three Fiscal Years*

Local Governmental Employees' Retirement System

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 69,147	\$ 70,138	\$ 70,137
Contributions in relation to the contractually required contribution	69,147	70,138	70,137
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City of Locust's covered-employee payroll	\$ 1,001,802	\$ 1,010,818	\$ 983,047
Contributions as a percentage of covered-employee payroll	6.90%	6.94%	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, 2016

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Ad valorem taxes:			
Taxes	\$ 1,260,000	\$ 1,225,341	\$ (34,659)
Total	1,260,000	1,225,341	(34,659)
Other taxes and licenses:			
Motor vehicle tax	33,700	153,651	119,951
Vision cable franchise	17,500	13,059	(4,441)
Privilege licenses	32,675	34,325	1,650
Total	83,875	201,035	117,160
Unrestricted intergovernmental:			
Local option sales taxes	589,820	778,296	188,476
Utility franchise tax	160,000	165,770	5,770
Solid waste fee	186,860	194,354	7,494
Beer and wine tax	14,000	13,553	(447)
Total	950,680	1,151,973	201,293
Restricted intergovernmental:			
Powell Bill allocation	104,450	104,784	334
Powell Bill interest	200	113	(87)
Court fees	5,000	4,541	(459)
Powell Rund Reserve	75,625	-	(75,625)
Total	185,275	109,438	(75,837)
Sales and service:			
Recreation proceeds	60,550	60,564	14
Building rental	5,500	5,265	(235)
Total	66,050	65,829	(221)
Investment earnings	5,500	6,096	596
Miscellaneous	33,130	60,613	27,483
Total revenues	2,584,510	2,820,325	235,815

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, 2016

	Budget	Actual	Variance Positive (Negative)
Expenditures:			
General government:			
Salaries and employee benefits	\$ 356,450	\$ 343,105	\$ 13,345
Professional services	29,000	23,888	5,112
Membership dues	9,150	9,102	48
Other operating expenditures	183,900	147,344	36,556
Claim settlement	-	-	-
Total general government	<u>578,500</u>	<u>523,439</u>	<u>55,061</u>
Public safety:			
Police:			
Salaries and employee benefits	743,501	692,442	51,059
Vehicle maintenance	60,000	33,465	26,535
Other operating expenditures	92,360	53,323	39,037
Capital outlay	31,200	28,120	3,080
Total public safety	<u>927,061</u>	<u>807,350</u>	<u>119,711</u>
Transportation:			
Streets and highways:			
Salaries and employee benefits	124,925	112,515	12,410
Paving and repairs	29,000	31,636	(2,636)
Other operating expenditures	169,970	119,246	50,724
Capital outlay	70,000		70,000
Total transportation	<u>393,895</u>	<u>263,397</u>	<u>130,498</u>
Environmental protection:			
Solid waste contracted services	218,854	219,272	(418)
Total environmental protection	<u>218,854</u>	<u>219,272</u>	<u>(418)</u>
Culture and recreation:			
Salaries and employee benefits	155,700	150,051	5,649
Other operating expenditures	164,950	154,619	10,331
Capital outlay	-		-
Total culture and recreation	<u>320,650</u>	<u>304,670</u>	<u>15,980</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, 2016

	Budget	Actual	Variance Positive (Negative)
Debt service:			
Principal retirement	64,000	79,572	(15,572)
Interest and other charges	81,550	82,337	(787)
Total debt service	145,550	161,909	(16,359)
Total expenditures	2,584,510	2,280,036	304,474
Revenues over (under) expenditures	-	540,289	540,289
Other financing sources (uses):			
Transfer to Water and Sewer Fund	(27,010)	-	(27,010)
Total other financing uses	(27,010)	-	(27,010)
Fund balance appropriated	27,010	-	27,010
Net change in fund balance	\$ -	540,289	\$ 540,289
Fund balance, beginning		1,507,164	
Fund balance, end of year		\$ 2,047,453	

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, 2016

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Sewer charges	\$ 815,000	\$ 883,397	\$ 68,397
Sewer taps and fees	200,600	300,537	99,937
Capacity fee collections	102,160	210,000	107,840
Other operating revenues	210	26,738	26,528
Total operating revenues	<u>1,117,970</u>	<u>1,420,672</u>	<u>302,702</u>
Expenditures:			
Water and sewer administration:			
Salaries and employee benefits	114,250	109,980	(4,270)
Other operating expenditures	41,240	24,180	(17,060)
Total water and sewer administration	<u>155,490</u>	<u>134,160</u>	<u>21,330</u>
Waste collection and treatment:			
Sewage collection system:			
Maintenance	60,000	46,946	13,054
Other operating expenditures	28,200	26,121	2,079
Utility service fees	80,900	69,469	11,431
Primary waste treatment	266,000	285,387	(19,387)
Total waste collection and treatment	<u>435,100</u>	<u>427,923</u>	<u>7,177</u>
Debt service:			
Interest and other charges	72,705	62,595	(10,110)
Principal retirement	481,685	491,789	10,104
Total debt service	<u>554,390</u>	<u>554,384</u>	<u>6</u>
Total expenditures	<u>1,144,980</u>	<u>1,116,467</u>	<u>28,513</u>
Other financing sources:			
Transfers from other funds:			
General fund	27,010	-	(27,010)
Total other financing sources	<u>27,010</u>	<u>-</u>	<u>(27,010)</u>
Revenues and other sources over expenditures and other uses	<u>\$ -</u>	<u>\$ 304,205</u>	<u>\$ 304,205</u>

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, 2016

**Reconciliation from budgetary basis
(modified accrual) to full accrual:**

Revenues and other sources over expenditures and other uses	\$ 304,205
Reconciling items:	
Principal retirement	491,789
Pension expense	5,841
Accrued interest payable	348
Compensated absences accrual	80
Depreciation	<u>(275,966)</u>
Total reconciling items	<u>222,092</u>
Net Income	<u><u>\$ 526,298</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, 2016

	Uncollected Balance June 30, 2015	Additions	Collections and Credits	Uncollected Balance June 30, 2016
2015 - 2016	\$ -	\$ 1,350,076	\$ 1,321,306	\$ 28,770
2014 - 2015	34,435	-	18,783	15,652
2013 - 2014	24,758	-	12,524	12,234
2012 - 2013	17,060	-	9,648	7,412
2011 - 2012	11,929	-	5,782	6,147
2010 - 2011	5,689	-	917	4,772
2009 - 2010	4,891	-	1,105	3,786
2008 - 2009	4,185	-	948	3,237
2007 - 2008	3,275	-	523	2,752
2006 - 2007	3,403	-	754	2,649
2005 - 2006	934	-	934	-
	<u>\$ 110,559</u>	<u>\$ 1,350,076</u>	<u>\$ 1,373,225</u>	<u>\$ 87,410</u>

Reconciliation with revenues:

Ad Valorem Taxes - General Fund \$ 1,378,992

Reconciling items:

Discounts allowed	6,651
Interest collected	(13,352)
Taxes written off	934
	<u>934</u>

Total collections and credits \$ 1,373,225

CITY OF LOCUST, NORTH CAROLINA

Schedule 2

*Analysis of Current Tax Levy
For the Fiscal Year Ended June 30, 2016*

	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	\$ 344,179,444	0.36	\$ 1,239,046	\$ 1,239,046	\$ -
Registered motor vehicles taxed at current year's rate	31,326,389	0.36	112,775	-	112,775
Penalties	-		967	967	-
Total	375,505,833		1,352,788	1,240,013	112,775
Abatements					
Current year rate	753,333	0.36	(2,712)	(2,712)	-
Penalties	-		-	-	-
Total property valuation	\$ 376,259,166				
Net levy			1,350,076	1,237,301	112,775
Less, uncollected tax at June 30, 2015			28,770	28,770	-
Current year's taxes collected			\$ 1,321,306	\$ 1,208,531	\$ 112,775
Current levy collection percentage			97.87%	97.67%	100.00%

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, 2016, which collectively comprise the City of Locust's basic financial statements, and have issued our report thereon dated November 28, 2016. 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 28, 2016
Charlotte, North Carolina

CITY OF LOCUST, NORTH CAROLINA

*Schedule 3
Page 2 of 2*

*Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2016*

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, 2016*

MATERIAL WEAKNESS

Finding: None

Status:

CITY OF LOCUST, NORTH CAROLINA

Schedule 5

*Schedule of Expenditures of Federal and State Awards
For the Fiscal Year Ended June 30, 2016*

	<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			\$ -	\$ 104,784	\$ -
Total assistance- State programs			<u>-</u>	<u>104,784</u>	<u>-</u>
Total assistance			<u>\$ -</u>	<u>\$ 104,784</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.