

**TOWN OF LAKE LURE
NORTH CAROLINA**

BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

This page left blank intentionally.

TOWN OF LAKE LURE, NORTH CAROLINA

BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

TABLE OF CONTENTS

<u>Exhibit</u>		<u>Page</u>
	Independent Auditor's Report	1-3
	Management's Discussion and Analysis	4-12
	Basic Financial Statements:	
	Government-Wide Financial Statements:	
A	Statement of Net Position	13
B	Statement of Activities	14-15
	Fund Financial Statements:	
C	Balance Sheet - Governmental Funds	16
D	Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	17
E	Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds to the Statement of Activities	18
F	Major Governmental Fund - Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual	19
G	Statement of Net Position - Proprietary Funds	20
H	Statement of Revenues, Expenses, and Changes in Fund Net Position - Proprietary Funds	21
I	Statement of Cash Flows - Proprietary Funds	22
J	Statement of Fiduciary Net Position - Fiduciary Fund	23
	Notes to the Financial Statements	24-59
	Required Supplemental Financial Data:	
A-1	Law Enforcement Officers' Special Separation Allowance - Required Supplementary Information	60

TOWN OF LAKE LURE, NORTH CAROLINA

BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

TABLE OF CONTENTS

<u>Schedule</u>		<u>Page</u>
A-2	Other Post-Employment Benefits - Required Supplementary Information	61
A-3	Local Government Employees' Retirement System Town of Lake Lure's Proportionate Share of Net Pension Liability (Asset) Last Three Fiscal Years	62
A-4	Local Government Employees' Retirement System Town of Lake Lure's Contributions Last Three Fiscal Years	63
	Supplementary Financial Data:	
	Major Governmental Funds:	
	General Fund:	
1	Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual	64-67
	Nonmajor Governmental Funds:	
2	Combining Balance Sheet	68
3	Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	69
4	Bridge Preservation Reserve Special Revenue Fund - Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual	70
5	Nonmajor Capital Project Funds - Combining Balance Sheet	71
6	Nonmajor Capital Project Funds - Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	72
7	Capital Reserve and Silt Removal Fund - Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual	73

TOWN OF LAKE LURE, NORTH CAROLINA

BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

TABLE OF CONTENTS

<u>Schedule</u>		<u>Page</u>
8	Capital Reserve Capital Project Fund - Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual	74
9	Buffalo Creek Park Capital Project Fund - Schedule of Revenues and Expenditures - Budget and Actual	75
10	Strip Center Mall Capital Project Fund - Schedule of Revenues and Expenditures - Budget and Actual	76
	Major Enterprise Funds:	
11	Electric Fund - Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)	77
12	Water and Sewer Fund - Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)	78-79
	Fiduciary Funds:	
13	Agency Funds - Combining Schedule of Changes in Assets and Liabilities	80
14	Schedule of Ad Valorem Taxes Receivable	81
15	Analysis of Current Tax Levy - Town-Wide Levy	82
	Compliance Section	
	Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit of Financial Statements Performed In Accordance With <i>Government Auditing Standards</i>	83-84
	Schedule of Findings and Responses	85-88
	Corrective Action Plan	89
	Schedule of Prior Year Audit Findings	90

This page left blank intentionally.

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

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

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the Town Council
Town of Lake Lure, 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 Town of Lake Lure, North Carolina, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Town of Lake Lure'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 Town of Lake Lure ABC Board. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Town of Lake Lure ABC Board, is based solely on the report of the other auditors. 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 from material misstatement. The financial statements of the Lake Lure 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 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 auditor, 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 Town of Lake Lure, North Carolina, as of June 30, 2016, and the respective changes in financial position and cash flows, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Law Enforcement Officers' Special Separation Allowance Schedule of Funding Progress, Other Post-Employment Benefits' Schedules of Funding Progress and Employer Contributions, and Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Liability and Contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economical, 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 consist 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 Town of Lake Lure's basic financial statements. The combining and individual fund financial statements, budget and actual schedules, and supplemental ad valorem schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements, budget and actual schedules, and supplemental ad valorem tax schedules are the responsibility of management, and were derived from, and relate directly to, the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to

the basic financial statements themselves and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and the other auditors. In our opinion based on our audit, the procedures performed as described above, and the report of the other auditor, the combining and individual fund financial statements, budget and actual schedules, and supplemental ad valorem tax 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 29, 2016, on our consideration of the Town of Lake Lure's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Lake Lure's internal control over financial reporting and compliance.

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
Hickory, North Carolina
November 29, 2016

This page left blank intentionally.

Management's Discussion and Analysis

As management of the Town of Lake Lure, we offer readers of the Town of Lake Lure's financial statements this narrative overview and analysis of the financial activities of the Town of Lake Lure for the fiscal year ended June 30, 2016. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

Financial Highlights

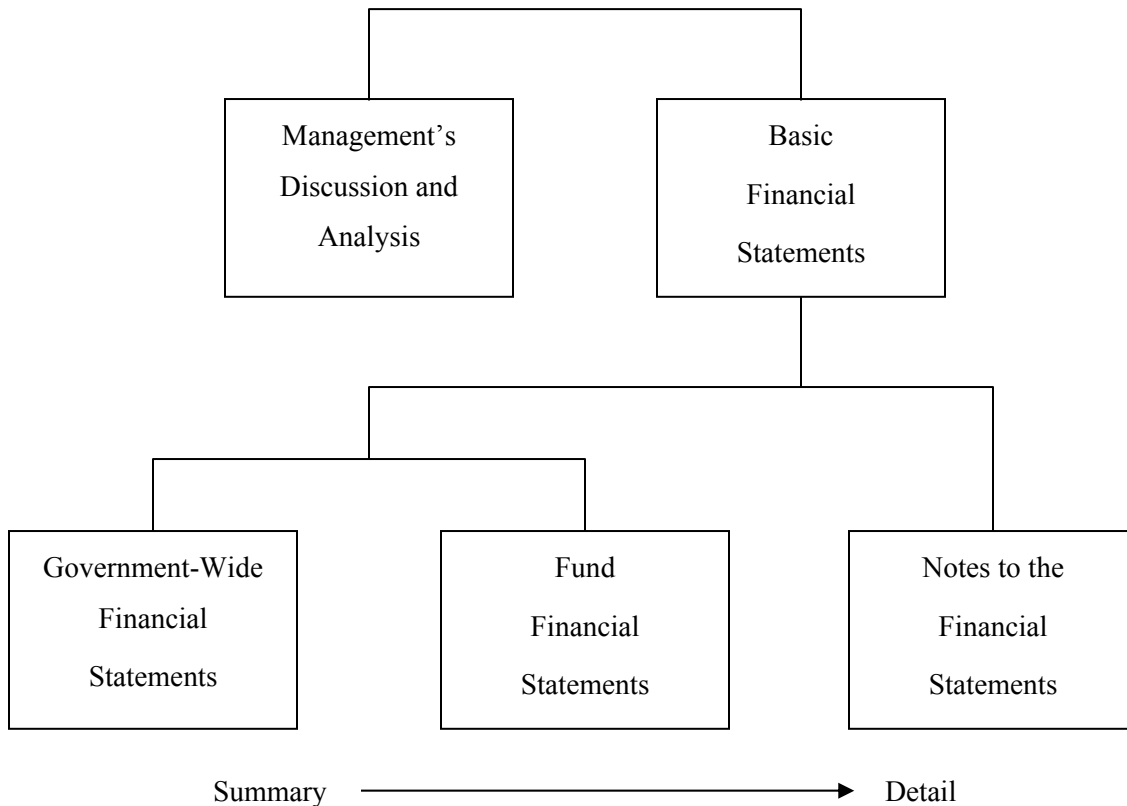
- The assets and deferred outflows of resources of the Town of Lake Lure exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$15,940,321 (*net position*).
- The government's total net position increased by \$639,687, primarily due to increases in the governmental activities net position.
- As of the close of the current fiscal year, the Town of Lake Lure's governmental funds reported an ending fund balance of \$2,643,640, an increase of \$202,394 in comparison with the prior year. Approximately 86.3% of this total amount, or \$2,282,684, is available for spending at the government's discretion (*available fund balance*).
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$1,622,409, or 37%, of total General Fund expenditures for the fiscal year.

Overview of the Financial Statements

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

Required Components of the Annual Financial Report

Figure 1



Basic Financial Statements

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

The next statements (Exhibits C through J) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the Town's government. These statements provide more detail than the government-wide statements. There are three parts to the fund financial statements: (1) the governmental funds statements, (2) the budgetary comparison statements, and (3) the proprietary fund statements.

The next section of the basic financial statements is the **Notes to the Financial Statements**. The notes explain in detail some of the data contained in those statements. After the notes, **Supplemental Information** is provided to show details about the Town's individual funds. Budgetary information required by the General Statutes also can be found in this part of the statements.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the Town's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the Town's financial status as a whole.

The two government-wide statements report the Town's net position and how it has changed. Net position is the difference between the Town'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 Town's financial condition.

The government-wide statements are divided into two categories: (1) governmental activities and (2) business-type activities. The governmental activities include most of the Town's basic services such as public safety, economic and physical development, streets and public works, and general administration. Property taxes and State and federal grant funds finance most of these activities. The business-type activities are those that the Town charges customers to provide. These include the water and sewer services offered by the Town of Lake Lure.

The government-wide financial statements are on Exhibits A and B of this report.

Fund Financial Statements

The fund financial statements provide a more detailed look at the Town's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Lake Lure, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the Town's budget ordinance. All of the funds of the Town of Lake Lure can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds. Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the Town's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting*. This method also has a current financial resources focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the Town's programs. The relationship between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The Town of Lake Lure adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the Town, the management of the Town, and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the Town to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the Town complied with the budget ordinance and whether or not the Town succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: (1) the original budget as adopted by the Board; (2) the final budget as amended by the Board; (3) the actual resources, charges to appropriations, and ending balances in the General Fund; and (4) the difference or variance between the final budget and the actual resources and charges.

Proprietary Funds. The Town of Lake Lure has one kind of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town of Lake Lure uses enterprise funds to account for its water and sewer operations and electric operations. These funds are the same as those functions shown in the business-type activities in the Statement of Net Position and the Statement of Activities.

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

Government-Wide Financial Analysis

Town of Lake Lure's Net Position

Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Assets and Deferred						
Outflows of Resources:						
Current and other assets	\$ 2,851,780	\$ 2,805,230	\$ 1,181,352	\$ 845,846	\$ 4,033,132	\$ 3,651,076
Capital assets	7,035,863	6,456,592	8,204,391	8,529,229	15,240,254	14,985,821
Deferred outflows of resources	107,920	103,031	9,385	8,960	117,305	111,991
Total assets and deferred outflows of resources	9,995,563	9,364,853	9,395,128	9,384,035	19,390,691	18,748,888
Liabilities and Deferred						
Inflows of Resources:						
Current liabilities	292,723	237,229	145,493	171,958	438,216	409,187
Other liabilities	1,459,044	1,003,282	1,436,300	1,543,462	2,895,344	2,546,744
Deferred inflows of resources	107,465	452,937	9,345	39,386	116,810	492,323
Total liabilities and deferred inflows of resources	1,859,232	1,693,448	1,591,138	1,754,806	3,450,370	3,448,254
Net Position:						
Net investment in capital assets	5,988,080	5,602,071	6,685,008	6,889,902	12,673,088	12,491,973
Stabilization for State statute	360,176	539,122	-	-	360,176	539,122
Other restricted	77,893	74,704	-	-	77,893	74,704
Unrestricted	1,710,182	1,455,508	1,118,982	739,327	2,829,164	2,194,835
Total net position	\$ 8,136,331	\$ 7,671,405	\$ 7,803,990	\$ 7,629,229	\$ 15,940,321	\$ 15,300,634

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets and deferred outflows of the Town of Lake Lure exceeded liabilities and deferred inflows by \$15,940,321 as of June 30, 2016. The Town's net position increased by \$639,687 for the fiscal year ended June 30, 2016. The largest portion of net position (80%) reflects the Town's net investment in capital assets (e.g., land, buildings, and equipment) less any related debt still outstanding that was issued to acquire those items. The Town of Lake Lure uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Lake Lure's net investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities.

An additional portion of the Town of Lake Lure's net position represents resources that are subject to external restrictions on how they may be used. The total amount restricted for the year ended June 30, 2016 was \$438,069. The remaining balance of \$2,829,164 is unrestricted.

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

- Major increases in Electric Fund operating revenues
- Decrease in Electric Fund operating expenses

Town of Lake Lure's Changes in Net Position

Figure 3

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Revenues:						
Program revenues:						
Charges for services	\$ 621,554	\$ 564,955	\$ 1,547,391	\$ 1,135,384	\$ 2,168,945	\$ 1,700,339
Operating grants and contributions	103,489	102,529	-	-	103,489	102,529
Capital grants and contributions	-	96,228	-	17,500	-	113,728
General revenues:						
Property taxes	2,360,043	2,368,020	-	-	2,360,043	2,368,020
Grants and contributions not restricted to specific programs	1,252,073	1,146,617	-	-	1,252,073	1,146,617
Other	1,593	554	1,204	499	2,797	1,053
Total revenues	<u>4,338,752</u>	<u>4,278,903</u>	<u>1,548,595</u>	<u>1,153,383</u>	<u>5,887,347</u>	<u>5,432,286</u>
Expenses:						
General government	930,102	854,792	-	-	930,102	854,792
Public safety	1,431,199	1,331,655	-	-	1,431,199	1,331,655
Transportation and physical development	341,314	508,049	-	-	341,314	508,049
Environmental protection	213,299	210,144	-	-	213,299	210,144
Cultural and recreation	989,401	786,068	-	-	989,401	786,068
Interest on long-term debt	18,512	19,916	-	-	18,512	19,916
Water and sewer	-	-	911,963	901,096	911,963	901,096
Electric	-	-	411,871	548,431	411,871	548,431
Total expenses	<u>3,923,826</u>	<u>3,710,624</u>	<u>1,323,834</u>	<u>1,449,527</u>	<u>5,247,660</u>	<u>5,160,151</u>
Change in net position before transfers	414,926	568,279	224,761	(296,144)	639,687	272,135
Transfers	<u>50,000</u>	<u>(71,000)</u>	<u>(50,000)</u>	<u>71,000</u>	<u>-</u>	<u>-</u>
Change in net position	<u>464,926</u>	<u>497,279</u>	<u>174,761</u>	<u>(225,144)</u>	<u>639,687</u>	<u>272,135</u>
Net Position:						
Beginning of year - July 1	7,671,405	7,450,928	7,629,229	7,878,443	15,300,634	15,329,371
Prior period adjustment	-	(276,802)	-	(24,070)	-	(300,872)
Beginning of year, as restated	<u>7,671,405</u>	<u>7,174,126</u>	<u>7,629,229</u>	<u>7,854,373</u>	<u>15,300,634</u>	<u>15,028,499</u>
End of year - June 30	<u>\$ 8,136,331</u>	<u>\$ 7,671,405</u>	<u>\$ 7,803,990</u>	<u>\$ 7,629,229</u>	<u>\$ 15,940,321</u>	<u>\$ 15,300,634</u>

Governmental Activities. Governmental activities increased the Town of Lake Lure's net position by \$464,926. Key elements of this decrease are as follows:

- Increase in expenditures for cultural and recreation from performance and longevity bonuses
- Increase in expenditures for special projects related to structure and road improvements

Business-Type Activities. Business-type activities increased the Town of Lake Lure's net position by \$174,761. Key elements of this increase are as follows:

- Increases in Electric Fund revenues due to rainfall and operating procedures that increased hydro generation
- Decrease in Electric Fund operating expenses

Financial Analysis of the Town's Funds

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

Governmental Funds. The focus of the Town of Lake Lure's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the Town of Lake Lure's financing requirements. Specifically, available fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the chief operating fund of the Town of Lake Lure. At the end of the current fiscal year, available fund balance of the General Fund was \$1,827,661, while total fund balance was \$2,188,617. As a measure of the General Fund's liquidity, it may be useful to compare both available fund balance and total fund balance to total fund expenditures. Available fund balance represents 39.5% of total General Fund expenditures and transfers out, while total fund balance represents 47.3% of total General Fund expenditures.

General Fund Budgetary Highlights. During the fiscal year, the Town revised the budget on several occasions. Generally, budget amendments fall into one of three categories: (1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; (2) amendments made to recognize new funding amounts from external sources, such as federal and State grants; and (3) increases in appropriations that become necessary to maintain services. Total amendments to the General Fund increased revenues by approximately \$13,694.

Proprietary Funds. The Town of Lake Lure's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Total net position of the Water and Sewer Fund at the end of the fiscal year totaled \$6,340,777 with \$268,783 being unrestricted. Factors concerning the finances of the Enterprise Fund have already been addressed in the discussion of the Town of Lake Lure's business-type activities. The total net position of the Town's Electric Fund at year-end was \$1,463,213 with \$850,199 of that amount being unrestricted.

Capital Assets and Debt Administration

Capital Assets. The Town of Lake Lure's capital assets for its governmental and business-type activities as of June 30, 2016 totals \$15,240,254 (net of accumulated depreciation and amortization). These assets include buildings, land, improvements, equipment, water capacity, and construction in progress.

Town of Lake Lure's Capital Assets (net of depreciation)

Figure 4

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land	\$ 2,308,079	\$ 2,308,079	\$ 105,564	\$ 90,189	\$ 2,413,643	\$ 2,398,268
Construction in progress	500,967	168,740	-	-	500,967	168,740
Buildings and system	2,600,544	2,600,544	4,016,987	4,016,987	6,617,531	6,617,531
Other improvements	1,652,227	1,652,227	58,517	58,517	1,710,744	1,710,744
Equipment and furniture	266,302	238,216	2,164,464	2,127,355	2,430,766	2,365,571
Infrastructure	1,559,513	1,096,003	6,349,885	6,349,885	7,909,398	7,445,888
Vehicles and motorized equipment	1,953,220	1,919,133	151,567	151,567	2,104,787	2,070,700
Accumulated depreciation	(3,804,989)	(3,526,350)	(4,642,593)	(4,265,271)	(8,447,582)	(7,791,621)
Total	<u>\$ 7,035,863</u>	<u>\$ 6,456,592</u>	<u>\$ 8,204,391</u>	<u>\$ 8,529,229</u>	<u>\$ 15,240,254</u>	<u>\$ 14,985,821</u>

Additional information on the Town's capital assets can be found in the notes of the financial statements.

Long-Term Debt. As of June 30, 2016, the Town of Lake Lure had total notes payable outstanding of \$2,755,940, all of which is secured by assets of the Town.

Town of Lake Lure's Outstanding Debt

Figure 5

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Installment obligations	\$ 1,236,557	\$ 855,414	\$ -	\$ -	\$ 1,236,557	\$ 855,414
General obligation indebtedness	-	-	1,519,383	1,639,327	1,519,383	1,639,327
Total	<u>\$ 1,236,557</u>	<u>\$ 855,414</u>	<u>\$ 1,519,383</u>	<u>\$ 1,639,327</u>	<u>\$ 2,755,940</u>	<u>\$ 2,494,741</u>

North Carolina General Statutes limit the amount of general obligation debt that a unit of government can issue to 8% of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for the Town of Lake Lure is approximately \$65,949,635.

Additional information regarding the Town of Lake Lure's long-term debt can be found in the notes of this audited financial report.

Economic Factors and Next Year's Budgets and Rates

The following is an economic indicator affecting the Town:

- The Town of Lake Lure is creating a commercial corridor walkway between Chimney Rock and Lake Lure. This has been identified as a key economic initiative that will connect each community linked by mutual dependence upon tourism.

Budget Highlights for the Fiscal Year Ending June 30, 2017

Governmental Activities. The tax rate levied to generate funds for governmental activities remains steady at \$.276 per \$100 of property value. A portion of tax monies (equivalent to 3 cents of the tax rate) continue to be earmarked for the Capital Reserve Fund and are restricted for government-wide capital improvements, equipment replacements, engineering for grants and loans, and additions of capital assets deemed necessary. In addition, the Town has appropriated \$300,000 toward dredging and silt removal.

Business-Type Activities. The Town has entered an agreement with the Town of Spindale to build a sewer pipeline to Spindale's larger more modern facility. The project is estimated to cost over 12.5 million dollars. Monies to fund this project are expected to come through grants and zero interest loans.

Requests for Information

This report is designed to provide an overview of the Town's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Finance Director, Sam Karr, 2948 Memorial Highway, Lake Lure, North Carolina 28746.

This page left blank intentionally.

TOWN OF LAKE LURE, NORTH CAROLINA

STATEMENT OF NET POSITION
JUNE 30, 2016

	Primary Government			Town of Lake Lure ABC Board
	Governmental Activities	Business-Type Activities	Total	
Assets:				
Current assets:				
Cash and cash equivalents	\$ 2,166,556	\$ 991,658	\$ 3,158,214	\$ 141,737
Taxes receivable, net	104,388	-	104,388	-
Accounts receivable, net	63,817	157,429	221,246	-
Due from other governments	324,572	-	324,572	-
Inventories	780	32,265	33,045	130,986
Prepaid expenses	-	-	-	3,407
Total current assets	2,660,113	1,181,352	3,841,465	276,130
Non-current assets:				
Restricted assets:				
Cash and cash equivalents, restricted	191,667	-	191,667	-
Capital assets:				
Land and other non-depreciable capital assets	2,809,046	105,564	2,914,610	-
Depreciable capital assets, net	4,226,817	8,098,827	12,325,644	25,724
Total capital assets	7,035,863	8,204,391	15,240,254	25,724
Total non-current assets	7,227,530	8,204,391	15,431,921	25,724
Total assets	9,887,643	9,385,743	19,273,386	301,854
Deferred Outflows of Resources:				
Contributions to pension plan in current fiscal year	107,920	9,385	117,305	-
Liabilities:				
Current liabilities:				
Accounts payable and accrued expenses	54,547	21,251	75,798	49,251
Current portion of compensated absences	34,783	4,298	39,081	-
Current portion of long-term liabilities	203,393	119,944	323,337	-
Total current liabilities	292,723	145,493	438,216	49,251
Long-term liabilities:				
Net pension liability	126,386	10,990	137,376	-
Compensated absences	104,350	12,893	117,243	-
Due in more than one year	1,228,308	1,412,417	2,640,725	-
Total long-term liabilities	1,459,044	1,436,300	2,895,344	-
Total liabilities	1,751,767	1,581,793	3,333,560	49,251
Deferred Inflows of Resources:				
Pension deferrals	107,465	9,345	116,810	-
Net Position:				
Net investment in capital assets	5,988,080	6,685,008	12,673,088	25,724
Restricted for:				
Stabilization by State statute	360,176	-	360,176	-
Working capital	-	-	-	25,786
Municipality profit distribution	-	-	-	12,584
Public safety	2,893	-	2,893	-
Cultural and recreation	75,000	-	75,000	-
Unrestricted	1,710,182	1,118,982	2,829,164	188,509
Total net position	\$ 8,136,331	\$ 7,803,990	\$ 15,940,321	\$ 252,603

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

TOWN OF LAKE LURE, NORTH CAROLINA

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016**

		Program Revenues		
		Charges for	Operating	Capital
	Expenses	Services	Grants and	Grants and
			Contributions	Contributions
Functions/Programs:				
Primary Government:				
Governmental Activities:				
General government	\$ 930,102	\$ 48,020	\$ 24,907	\$ -
Public safety	1,431,199	712	10,020	-
Transportation and physical development	341,314	2,500	68,562	-
Environmental protection	213,299	23,845	-	-
Cultural and recreation	989,401	546,477	-	-
Interest on long-term debt	18,512	-	-	-
Total governmental activities	<u>3,923,826</u>	<u>621,554</u>	<u>103,489</u>	<u>-</u>
Business-Type Activities:				
Electric	411,871	707,704	-	-
Water and sewer	<u>911,963</u>	<u>839,687</u>	<u>-</u>	<u>-</u>
Total business-type activities	<u>1,323,834</u>	<u>1,547,391</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 5,247,660</u>	<u>\$ 2,168,945</u>	<u>\$ 103,489</u>	<u>\$ -</u>
Component Unit:				
ABC Board	<u>\$ 858,308</u>	<u>\$ 876,025</u>	<u>\$ -</u>	<u>\$ -</u>

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

TOWN OF LAKE LURE, NORTH CAROLINA

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016**

	Net (Expense) Revenue and Changes in Net Position			
	Primary Government			Town of Lake Lure ABC Board
	Governmental Activities	Business-Type Activities	Total	
Functions/Programs:				
Primary Government:				
Governmental Activities:				
General government	\$ (857,175)	\$ -	\$ (857,175)	
Public safety	(1,420,467)	-	(1,420,467)	
Transportation and physical development	(270,252)	-	(270,252)	
Environmental protection	(189,454)	-	(189,454)	
Cultural and recreation	(442,924)	-	(442,924)	
Interest on long-term debt	(18,512)	-	(18,512)	
Total governmental activities	<u>(3,198,783)</u>	<u>-</u>	<u>(3,198,783)</u>	
Business-Type Activities:				
Electric	-	295,833	295,833	
Water and sewer	<u>-</u>	<u>(72,276)</u>	<u>(72,276)</u>	
Total business-type activities	<u>-</u>	<u>223,557</u>	<u>223,557</u>	
Total primary government	<u>(3,198,783)</u>	<u>223,557</u>	<u>(2,975,226)</u>	
Component Unit:				
ABC Board				<u>\$ 17,717</u>
General Revenues:				
Ad valorem taxes	2,360,043	-	2,360,043	-
Unrestricted intergovernmental	1,252,073	-	1,252,073	-
Investment earnings	<u>1,593</u>	<u>1,204</u>	<u>2,797</u>	<u>2,789</u>
Total general revenues	3,613,709	1,204	3,614,913	2,789
Transfers	<u>50,000</u>	<u>(50,000)</u>	<u>-</u>	<u>-</u>
Total general revenues and transfers	<u>3,663,709</u>	<u>(48,796)</u>	<u>3,614,913</u>	<u>2,789</u>
Change in net position	464,926	174,761	639,687	20,506
Net Position:				
Beginning of year - July 1	<u>7,671,405</u>	<u>7,629,229</u>	<u>15,300,634</u>	<u>232,097</u>
End of year - June 30	<u>\$ 8,136,331</u>	<u>\$ 7,803,990</u>	<u>\$ 15,940,321</u>	<u>\$ 252,603</u>

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

TOWN OF LAKE LURE, NORTH CAROLINA

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2016

	Major Fund	Nonmajor Funds	
	General Fund	Other Governmental Funds	Total Governmental Funds
Assets:			
Cash and cash equivalents	\$ 1,879,315	\$ 287,241	\$ 2,166,556
Taxes receivable, net	104,388	-	104,388
Accounts receivable, net	63,817	-	63,817
Inventories	780	-	780
Due from other governments	324,572	-	324,572
Due from other funds	20,992	-	20,992
Restricted cash and cash equivalents	2,893	188,774	191,667
Total assets	<u>\$ 2,396,757</u>	<u>\$ 476,015</u>	<u>\$ 2,872,772</u>
Liabilities, Deferred Inflows of Resources, and Fund Balances:			
Liabilities:			
Accounts payable and accrued expenses	\$ 54,547	\$ -	\$ 54,547
Due to other funds	-	20,992	20,992
Total liabilities	<u>54,547</u>	<u>20,992</u>	<u>75,539</u>
Deferred Inflows of Resources:			
Property taxes receivable	104,388	-	104,388
Clean-up fees receivable	49,205	-	49,205
Total deferred inflows of resources	<u>153,593</u>	<u>-</u>	<u>153,593</u>
Fund Balances:			
Non-spendable, not in spendable form:			
Inventories	780	-	780
Stabilization by State statute	360,176	-	360,176
Restricted, other	2,893	263,774	266,667
Committed	-	212,241	212,241
Assigned	202,359	-	202,359
Unassigned	1,622,409	(20,992)	1,601,417
Total fund balances	<u>2,188,617</u>	<u>455,023</u>	<u>2,643,640</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 2,396,757</u>	<u>\$ 476,015</u>	
Amounts reported for governmental activities in the Statement of Net Position (Exhibit A) are different because:			
Capital assets, net of accumulated depreciation, used in governmental activities are not current financial resources and, therefore, are not reported in the funds.			7,035,863
Long-term liabilities and compensated absences are not due and payable in the current period and, therefore, are not reported in the funds.			(1,570,834)
Pension related deferrals			(107,465)
Net pension liability			(126,386)
Contributions to the pension plan in the current fiscal year are deferred outflows of resources on the Statement of Net Position.			107,920
Deferred inflows in the governmental funds are used to offset accounts receivable.			
Deferred inflows in the governmental funds are used to offset accounts receivable not expected to be received within 90 days of year-end. These receivables are a component of net assets in the Statement of Net Position.			153,593
Net position of governmental activities per Exhibit A			<u>\$ 8,136,331</u>

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

TOWN OF LAKE LURE, NORTH CAROLINA

STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

	<u>Major Fund</u>	<u>Nonmajor Funds</u>	
	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
Ad valorem taxes	\$ 2,353,184	\$ -	\$ 2,353,184
Unrestricted intergovernmental	1,252,073	-	1,252,073
Restricted intergovernmental	102,256	-	102,256
Permits and fees	355,677	-	355,677
Sales and service	213,892	-	213,892
Investment earnings	1,584	9	1,593
Miscellaneous	47,979	2,500	50,479
Total revenues	<u>4,326,645</u>	<u>2,509</u>	<u>4,329,154</u>
Expenditures:			
Current:			
General government	610,657	-	610,657
Public safety	1,377,875	-	1,377,875
Transportation and physical development	414,522	311,235	725,757
Environmental protection	213,299	-	213,299
Cultural and recreation	966,448	20,992	987,440
Unemployment and insurance	95,983	-	95,983
Special projects	528,380	-	528,380
Debt service:			
Principal retirement	153,207	-	153,207
Interest and other charges	18,512	-	18,512
Total expenditures	<u>4,378,883</u>	<u>332,227</u>	<u>4,711,110</u>
Revenues over (under) expenditures	<u>(52,238)</u>	<u>(329,718)</u>	<u>(381,956)</u>
Other Financing Sources (Uses):			
Transfers to other funds	(250,716)	(527,880)	(778,596)
Transfers from other funds	527,880	300,716	828,596
Debt issued	34,350	500,000	534,350
Total other financing sources (uses)	<u>311,514</u>	<u>272,836</u>	<u>584,350</u>
Net change in fund balances	259,276	(56,882)	202,394
Fund Balances:			
Beginning of year - July 1	<u>1,929,341</u>	<u>511,905</u>	<u>2,441,246</u>
End of year - June 30	<u>\$ 2,188,617</u>	<u>\$ 455,023</u>	<u>\$ 2,643,640</u>

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

TOWN OF LAKE LURE, NORTH CAROLINA

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2016

Amounts reported for governmental activities in the Statement of Activities (Exhibit B) are different because:

Net change in fund balances - total governmental funds (Exhibit D)	\$	202,394
--	----	---------

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

Property taxes	6,859
User clean-up fees	2,739

Expenses related to compensated absences, other post-employment benefits , and the Law Enforcement Separation Allowance do not require current financial resources and are not reported as expenditures in the governmental funds statement.	3,910
--	-------

Change in deferred outflow - pension	4,889
--------------------------------------	-------

Change in deferred inflows - pension	345,472
--------------------------------------	---------

Change in net pension asset and liability	(299,465)
---	-----------

Capital outlays are reported as expenditures in the governmental funds statement; however, in the Statement of Activities, capital outlay is not an expense, rather it is an increase in capital assets.	857,910
--	---------

Depreciation expense allocates the costs of capital assets over their useful lives. It is not reported as an expenditure in the governmental funds statement.	(278,639)
---	-----------

Principal repayments are reported as expenditures in the governmental funds statement; however, in the Statement of Activities, these transactions are not an expense, rather they are a decrease in liabilities.	153,207
---	---------

Proceeds from issuance of debt are reported as revenues in the governmental funds statement; however, in the Statement of Activities, it is not a revenue, rather it is an increase in liabilities.	(534,350)
---	-----------

Change in net position in governmental activities per Exhibit B	\$	<u>464,926</u>
---	----	----------------

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

TOWN OF LAKE LURE, NORTH CAROLINA

MAJOR GOVERNMENTAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2016

	General Fund			
	Budgeted Amounts			Variance with Final Budget Over/Under
	Original	Final	Actual	
Revenues:				
Ad valorem taxes	\$ 2,337,636	\$ 2,337,636	\$ 2,353,184	\$ 15,548
Unrestricted intergovernmental	1,101,005	1,101,005	1,252,073	151,068
Restricted intergovernmental	82,145	82,145	102,256	20,111
Permits and fees	296,075	296,075	355,677	59,602
Sales and services	181,050	181,050	213,892	32,842
Investment earnings	500	500	1,584	1,084
Miscellaneous	49,086	62,780	47,979	(14,801)
Total revenues	4,047,497	4,061,191	4,326,645	265,454
Expenditures:				
Current:				
General government	621,331	629,331	610,657	18,674
Public safety	1,422,888	1,422,888	1,377,875	45,013
Transportation and physical development	419,385	419,385	414,522	4,863
Environmental protection	210,800	210,800	213,299	(2,499)
Cultural and recreation	1,009,496	1,107,739	966,448	141,291
Unemployment and insurance	128,519	112,213	95,983	16,230
Special projects	378,850	511,850	528,380	(16,530)
Debt service:				
Principal retirement	159,834	159,834	153,207	6,627
Interest and other charges	20,028	20,028	18,512	1,516
Total expenditures	4,371,131	4,594,068	4,378,883	215,185
Revenues over (under) expenditures	(323,634)	(532,877)	(52,238)	480,639
Other Financing Sources (Uses):				
Transfers to other funds	(250,716)	(250,716)	(250,716)	-
Transfers from other funds	540,000	540,000	527,880	(12,120)
Debt issued	34,350	34,350	34,350	-
Appropriated fund balance	-	209,243	-	(209,243)
Total other financing sources (uses)	323,634	532,877	311,514	(221,363)
Net change in fund balance	\$ -	\$ -	259,276	\$ 259,276
Fund Balance:				
Beginning of year - July 1			1,929,341	
End of year - June 30			\$ 2,188,617	

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

TOWN OF LAKE LURE, NORTH CAROLINA

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2016

	Major Funds		
	Electric Fund	Water and Sewer Fund	Total
Assets:			
Current assets:			
Cash and cash equivalents	\$ 870,198	\$ 121,460	\$ 991,658
Accounts receivable, net	-	157,429	157,429
Inventories	-	32,265	32,265
Total current assets	870,198	311,154	1,181,352
Non-current assets:			
Capital assets:			
Land	73,264	32,300	105,564
Depreciable capital assets, net	539,750	7,559,077	8,098,827
Capital assets, net	613,014	7,591,377	8,204,391
Total non-current assets	613,014	7,591,377	8,204,391
Total assets	1,483,212	7,902,531	9,385,743
Deferred Outflows of Resources:			
Contributions to pension plan	3,519	5,866	9,385
Liabilities:			
Current liabilities:			
Accounts payable and accrued expenses	5,755	15,496	21,251
Compensated absences, current	1,954	2,344	4,298
Current portion of long-term debt	-	119,944	119,944
Total current liabilities	7,709	137,784	145,493
Non-current liabilities:			
Other post-employment benefits	2,322	10,656	12,978
Compensated absences	5,861	7,032	12,893
Net pension liability	4,121	6,869	10,990
Installment obligations payable	-	1,399,439	1,399,439
Total non-current liabilities	12,304	1,423,996	1,436,300
Total liabilities	20,013	1,561,780	1,581,793
Deferred Inflows of Resources:			
Pension deferrals	3,505	5,840	9,345
Net Position:			
Net investment in capital assets	613,014	6,071,994	6,685,008
Unrestricted	850,199	268,783	1,118,982
Total net position	\$ 1,463,213	\$ 6,340,777	\$ 7,803,990

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

TOWN OF LAKE LURE, NORTH CAROLINA

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
FUND NET POSITION - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

	Major Funds		
	Electric Fund	Water and Sewer Fund	Total
Operating Revenues:			
Charges for services	\$ 707,704	\$ 774,953	\$ 1,482,657
Water and sewer taps	-	21,142	21,142
Other operating revenues	-	43,592	43,592
Total operating revenues	<u>707,704</u>	<u>839,687</u>	<u>1,547,391</u>
Operating Expenses:			
Salaries and benefits	83,558	110,932	194,490
General operations	256,566	481,269	737,835
Depreciation	<u>71,747</u>	<u>305,575</u>	<u>377,322</u>
Total operating expenses	<u>411,871</u>	<u>897,776</u>	<u>1,309,647</u>
Operating income (loss)	<u>295,833</u>	<u>(58,089)</u>	<u>237,744</u>
Non-Operating Revenues (Expenses):			
Investment earnings	1,059	145	1,204
Interest and other charges	<u>-</u>	<u>(14,187)</u>	<u>(14,187)</u>
Total non-operating revenues (expenses)	<u>1,059</u>	<u>(14,042)</u>	<u>(12,983)</u>
Income (loss) before transfers and capital contributions	<u>296,892</u>	<u>(72,131)</u>	<u>224,761</u>
Transfers:			
Transfers to other funds	<u>(50,000)</u>	<u>-</u>	<u>(50,000)</u>
Change in net position	246,892	(72,131)	174,761
Net Position:			
Beginning of year - July 1	<u>1,216,321</u>	<u>6,412,908</u>	<u>7,629,229</u>
End of year - June 30	<u>\$ 1,463,213</u>	<u>\$ 6,340,777</u>	<u>\$ 7,803,990</u>

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

TOWN OF LAKE LURE, NORTH CAROLINA

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2016

	Major Funds		
	Electric Fund	Water and Sewer Fund	Total
Cash Flows from Operating Activities:			
Cash received from customers	\$ 707,704	\$ 815,708	\$ 1,523,412
Cash paid for goods and services	(261,867)	(502,393)	(764,260)
Cash paid to or on behalf of employees for services	(84,398)	(112,766)	(197,164)
Net cash provided by (used) operating activities	<u>361,439</u>	<u>200,549</u>	<u>561,988</u>
Cash Flows from Non-Capital Financing Activities:			
Transfers to other funds	<u>(50,000)</u>	<u>-</u>	<u>(50,000)</u>
Cash Flows from Capital and Related Financing Activities:			
Acquisition and construction of capital assets	(52,484)	-	(52,484)
Principal paid on installment note	-	(119,944)	(119,944)
Interest paid on installment note	-	(14,187)	(14,187)
Net cash provided (used) by capital and related financing activities	<u>(52,484)</u>	<u>(134,131)</u>	<u>(186,615)</u>
Cash Flows from Investing Activities:			
Investment earnings	<u>1,059</u>	<u>145</u>	<u>1,204</u>
Net increase (decrease) in cash and cash equivalents	260,014	66,563	326,577
Cash and Cash Equivalents:			
Beginning of year - July 1	<u>610,184</u>	<u>54,897</u>	<u>665,081</u>
End of year - June 30	<u>\$ 870,198</u>	<u>\$ 121,460</u>	<u>\$ 991,658</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Operating income (loss)	\$ 295,833	\$ (58,089)	\$ 237,744
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	71,747	305,575	377,322
(Increase) decrease in net pension asset	5,644	9,406	15,050
Increase (decrease) in net pension liability	4,121	6,869	10,990
(Increase) decrease in deferred outflows of resources for pensions	(159)	(266)	(425)
Increase (decrease) in deferred inflows of resources for pensions	(11,265)	(18,776)	(30,041)
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable	-	(23,979)	(23,979)
Increase (decrease) in accrued vacation pay	-	(162)	(162)
Increase (decrease) in accounts payable and accrued liabilities	(5,301)	(21,124)	(26,425)
Increase (decrease) OPEB	<u>819</u>	<u>1,095</u>	<u>1,914</u>
Net cash provided (used) by operating activities	<u>\$ 361,439</u>	<u>\$ 200,549</u>	<u>\$ 561,988</u>

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

TOWN OF LAKE LURE, NORTH CAROLINA

STATEMENT OF FIDUCIARY NET POSITION FIDUCIARY FUND JUNE 30, 2016

	<u>Agency Fund</u>
Assets:	
Cash and cash equivalents	\$ 9,001
Receivables	<u>13,744</u>
Total assets	<u>\$ 22,745</u>
Liabilities:	
Miscellaneous liabilities	<u>\$ 22,745</u>

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

This page left blank intentionally.

TOWN OF LAKE LURE, NORTH CAROLINA

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

1. Summary of Significant Accounting Policies

The accounting policies of the Town of Lake Lure, North Carolina, (the “Town”) and its discretely presented component unit conform to accounting principles generally accepted in the United States of America as applicable to governments. The following is a summary of the more significant accounting policies:

A. Reporting Entity

The Town is a municipal corporation, which is governed by an elected Mayor and a Town Council. As required by accounting principles generally accepted in the United States of America, these financial statements present the Town and its component unit, a legally-separate entity for which the Town is financially accountable. The discretely presented component unit presented below is reported in a separate column in the Town’s financial statements in order to emphasize that it is legally separate from the Town.

Town of Lake Lure ABC Board

The members of the ABC Board’s governing body are appointed by the Town. In addition, the ABC Board is required by State statute to distribute its surpluses to the General Fund of the Town. 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 the Town of Lake Lure ABC Board, Lake Lure, North Carolina 28746.

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 the governmental and business-type activities of the Town. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed, in whole or in part, by fees charged to external parties.

The Statement of Activities presents a comparison between direct expenses and program revenues for the different business-type activities of the Town and for each function of the Town’s governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the Statement of Activities. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

TOWN OF LAKE LURE, NORTH CAROLINA

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

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

Proprietary funds 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, such as investment earnings, are ancillary activities.

The Town reports the following major governmental funds:

Governmental Funds

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

The Town reports the following nonmajor governmental funds:

Bridge Preservation Reserve Fund. This fund is used to account for the funds that the Town received from the State when the State transferred ownership of a bridge to the Town. These funds are to be used for the maintenance of the Town bridge. The bridge was donated by the State as part of the agreement and the Town has assumed all maintenance responsibilities.

Capital Reserve and Silt Removal Fund. This fund is used to account for excess unrestricted revenues over expenses, which have been designated for future capital expenditures and/or major silt removal maintenance expenditures.

Capital Reserve Capital Project Fund. This fund is used for the accumulation of resources for future capital related activities.

Buffalo Creek Park Capital Project Fund. This fund is used to account for capital related activities for park construction and improvements.

Strip Center Mall Capital Project Fund. This fund is used to account for capital related activities for park construction and improvements.

TOWN OF LAKE LURE, NORTH CAROLINA

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

Proprietary Funds

The Town reports on the following major enterprise funds:

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

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

The Town reports the following fund types:

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

C. Measurement Focus and Basis of Accounting

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

Government-Wide, Proprietary, and Fiduciary Fund Financial Statements. The government-wide and proprietary funds are reported using the economic resources measurement focus. The agency funds do not have a measurement focus. The government-wide, proprietary, and fiduciary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the Town gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes and grants. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Amounts reported as program revenues include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Town's enterprise funds are charges to customers for sales and services. The Town also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the water and sewer system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

TOWN OF LAKE LURE, NORTH CAROLINA

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

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

The Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem property taxes are not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable for property other than motor vehicles are materially past due and are not considered to be an available resource to finance the operations of the current year. As of September 1, 2013, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, the State of North Carolina is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts. Property taxes are due when vehicles are registered. The billed taxes are applicable to the fiscal year in which they are received. Uncollected taxes that were billed in periods prior to September 1, 2013, and for limited registration plates are shown as a receivable in these financial statements and are offset by deferred inflows of resources.

Sales taxes and certain intergovernmental revenues, such as utilities franchise tax collected and held by the State at year-end on behalf of the Town, are recognized as revenue. Sales taxes are considered shared revenue for the Town of Lake Lure because the tax is levied by Rutherford County and then remitted to and distributed by the State. Intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. All taxes, including those dedicated for specific purposes are reported as general revenues rather than program revenues. Under the terms of grant agreements, the Town funds certain programs by a combination of specific cost reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there is both restricted and unrestricted net position available to finance the program. It is the Town's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

D. Budgetary Data

The Town's budgets are adopted as required by North Carolina General Statutes. An annual budget is adopted for the General Fund, Special Revenue Fund, Capital Reserve and Silt Removal Fund, Capital Reserve Capital Project Fund, and the enterprise funds. All annual appropriations lapse at the fiscal year-end. Project ordinances are adopted for the Buffalo Creek Park Capital Project Fund. All budgets are prepared using the modified accrual basis of accounting.

TOWN OF LAKE LURE, NORTH CAROLINA

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

Expenditures may not legally exceed appropriations at the functional level for the annually budgeted funds of the General Fund and Special Revenue Fund. Expenditures may not legally exceed appropriations at the fund level for all annually budgeted funds of the enterprise funds and at the project level for the multi-year funds. Amendments are required for any revisions that alter total expenditures of any fund or that change functional appropriations more than \$2,500. All amendments must be approved by the governing board. During the year, several immaterial amendments to the original budget were necessary and were approved by the governing board. The budget ordinance must be adopted by July 1 of the fiscal year, or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Fund Equity

Deposits and Investments

All deposits of the Town and the ABC Board are made in Board-designated official depositories and are secured as required by State law [G.S. 159-31]. The Town 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 Town 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 Town 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 Town's and the ABC Board's investments are reported at fair value as determined by quoted market prices. The securities of the NCCMT-Cash Portfolio, an SEC registered (2a-7) external investment pool, is measured at amortized cost, which is the NCCMT's share price. The NCCMT Term Portfolio's securities are valued at fair value.

Cash and Cash Equivalents

The Town pools money from several funds to facilitate disbursement and investment and to maximize investment income. Therefore, all cash and investments are essentially demand deposits and are considered cash and cash equivalents. 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.

Restricted Assets

Unspent debt proceeds in the Strip Center Mall Capital Project Fund of \$188,774 are classified as restricted assets for the fund because their use is restricted to the purpose for which the notes were originally issued. Unspent grant proceeds for drug and alcohol education of \$2,893 are shown as restricted assets in the General Fund because their use is externally restricted for those purposes.

TOWN OF LAKE LURE, NORTH CAROLINA

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

Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, interest does not accrue until the following January 6. These taxes are based on the assessed values as of January 1, 2015. As allowed by State law, the County has established a schedule of discounts that apply to taxes that are paid prior to the due date. In the Town's General Fund, ad valorem tax revenues are reported net of such discounts.

Allowance for Doubtful Accounts

All receivables that historically experience uncollectible accounts are shown net of an allowance for doubtful accounts. This amount is estimated by analyzing the percentage of receivables that were written off in prior years.

Inventory and Prepaid Items

The inventories of the Town's enterprise funds and those of the ABC Board are valued at cost (first-in, first-out, and average), which approximates market. The inventories consist of materials and supplies held for consumption and are expensed when consumed rather than when purchased.

The Town's General Fund inventory consists of expendable supplies that are recorded as expenditures as used rather than when purchased.

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

Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. Minimum capitalization costs are as follows: land, \$10,000; building improvements, substations, lines, and other plant and distribution systems, \$15,000; infrastructure, \$20,000; furniture and equipment, \$5,000; vehicles and motorized equipment, \$5,000; computer software, \$5,000; and computer equipment, \$5,000. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets received prior to June 15, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 15, 2015 are recorded at acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical cost. General infrastructure assets acquired prior to July 1, 2003, consist of the road network assets that were acquired or that received substantial improvements subsequent to July 1, 1980, and are reported at estimated historical cost using deflated replacement cost. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend assets lives, are not capitalized.

TOWN OF LAKE LURE, NORTH CAROLINA

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

Over the years, there are parcels of land around the lake that have been created due to silt and other occurrences of nature. The Town does not hold title to this land. There is no historical cost to this land and, therefore, it is not recorded at a value in the financial records. If recorded at the current value in the financial records, the land value of the Town could differ significantly.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset</u>	<u>Estimated Useful Lives</u>
Infrastructure	10-50 years
Buildings	40 years
Improvements	10-50 years
Vehicles and motorized equipment	6 years
Furniture and equipment	7-10 years
Computer software	5 years
Computer equipment	3 years

Property, plant, and equipment of the ABC Board are depreciated over their useful lives on a straight-line basis as follows:

<u>Asset</u>	<u>Estimated Useful Lives</u>
Buildings	20 years
Furniture and equipment	5-10 years
Vehicles	3-5 years
Leasehold improvements	5-20 years
Computers	3 years

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. The separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Town has one item that meets this criterion, contributions made to the pension plan in the 2016 fiscal year. In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to future period and so will not be recognized as revenues until then. The Town has three items that meet this criteria – property taxes receivable, user clean-up fee receivables, and deferrals of pension expense that result from the implementation of GASB Statement 68.

TOWN OF LAKE LURE, NORTH CAROLINA

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

Long-Term Obligations

In the government-wide financial statements and in the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method that approximates the effective interest method. Bonds payable are reported net of the applicable bond premiums or discount. Bond issuance costs, except for prepaid insurance costs, are expensed in the reporting period in which they are incurred. Prepaid insurance costs are expensed over the life of the debt.

In fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Compensated Absences

The vacation policies of the Town provide for the accumulation of up to thirty (30) days earned vacation leave, with such leave being fully vested when earned. Any excess amounts of vacation leave roll to sick leave time. For the Town's government-wide and proprietary funds, an expense and a liability for compensated absences and the salary related payments are recorded as the leave is earned. The Town has assumed a first-in, first-out method of using accumulated compensated time. The portion of that time that is estimated to be used in the next fiscal year has been designated as a current liability in the government wide statements.

The Town's sick leave policy provides for an unlimited accumulation of earned sick leave. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since the Town does not have any obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

Net Position/Fund Balances

Net Position

Net position in government-wide and proprietary fund financial statements are classified as net investment in capital assets, restricted, and unrestricted. Restricted net position represents constraints on resources that are either externally imposed by creditors, grantors, contributors, laws or regulations of other governments, or imposed by law through State statute.

TOWN OF LAKE LURE, NORTH CAROLINA

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

Fund Balances

In the governmental fund financial statements, fund balance is composed of five classifications designed to disclose the hierarchy of constraints placed on how fund balance can be spent.

The governmental fund types classify fund balances as follows:

Non-Spendable Fund Balance. This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Inventories – portion of fund balance that is not an available resource because it represents the year-end balance of ending inventories, which are not spendable resources.

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

Restricted for Stabilization by State Statute – portion of fund balance that is not an available resource for appropriation in accordance with State law [G.S. 159-8(a)].

Restricted for Economic Development – portion of General Fund balance that is restricted by revenue source for the purpose for which the note was originally issued. The amount in other governmental funds represents the balance of the total unexpended funds for the issuance of installment debt in the Strip Center Mall Capital Project Fund.

Restricted for Public Safety – portion of General Fund balance that is restricted by revenue source for the purpose of alcohol and drug education. This amount represents the balance of the unexpended grant proceeds.

Restricted for Cultural and Recreation – portion of fund balance restricted by revenue source for the construction of a new marina and bridge beautification.

Restricted fund balance at June 30, 2016 is as follows:

Purpose	General Fund	Other Governmental Funds	Total
Restricted, all other:			
Stabilization by State statute	\$ 360,176	\$ -	\$ 360,176
Economic development	-	188,774	188,774
Public safety	2,893	-	2,893
Cultural and recreation	-	75,000	75,000
Total	<u>\$ 363,069</u>	<u>\$ 263,774</u>	<u>\$ 626,843</u>

Restricted net position on Exhibit A varies from restricted fund balance on Exhibit C by the amount of unspent debt proceeds of \$188,774 as of June 30, 2016.

TOWN OF LAKE LURE, NORTH CAROLINA

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

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

Committed for Capital Reserve and Silt Removal – portion of fund balance available for appropriation but legally segregated to be held for silt removal.

Committed for General Capital Reserve – portion of fund balance available for appropriation in the Capital Reserve Capital Project Fund but legally segregated to be held for future capital activities.

<u>Purpose</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Committed:		
Silt removal capital reserve	\$ 208,465	\$ 208,465
General capital reserve	3,776	3,776
Total	<u>\$ 212,241</u>	<u>\$ 212,241</u>

Assigned Fund Balance. Assigned fund balance is the portion of fund balance that the Town intends to use for specific purposes. The Town's governing body has the authority to assign fund balance. The Manager and Finance Officer, as granted in the officially adopted budget ordinance, have been granted limited authority to assign fund balance.

Council Protection – portion of fund balance designated by the Council for legal assistance in the event a member of the Town Council is sued in his individual capacity for an alleged breach of duty incurred in the performance of the individual's office.

Subsequent Year's Expenditures – portion of fund balance that is appropriated in the next year's budget that is not already classified in restricted or committed. The governing body approves the appropriation.

Assigned fund balance at June 30, 2016 is as follows:

<u>Purpose</u>	<u>General Fund</u>
Assigned:	
Council protection	\$ 50,000
Subsequent year's expenditures	152,359
Total	<u>\$ 202,359</u>

TOWN OF LAKE LURE, NORTH CAROLINA

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

Unassigned Fund Balance. Unassigned fund balance represents the portion of fund balance that has not been assigned to another fund or is not restricted, committed, or assigned to specific purposes or other funds. Only the General Fund may report a positive unassigned fund balance.

The Town has a revenue spending policy that provides guidance for programs with multiple revenue sources. The Finance Officer will use resources in the following order: bond/debt proceeds, federal funds, State funds, local non-Town funds, and Town funds. For purposes of fund balance classification, expenditures are to be spent from restricted fund balance first, followed in order by committed fund balance, assigned fund balance and, lastly, unassigned fund balance. The Finance Officer has the authority to deviate from this policy if it is in the best interest of the Town or when required by grant or other contractual agreements.

The Town has not officially adopted a fund balance policy.

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	\$ 2,188,617
Less:	
Stabilization by State statute	360,176
Inventories	<u>780</u>
Total available fund balance	<u>\$ 1,827,661</u>

F. Pensions

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

G. Revenues, Expenditures, and Expenses

Use of Estimates

The preparation of financial statements, in accordance with accounting principles generally accepted in the United States of America, requires estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenditures, and expenses during the reporting period. Actual results could differ from those estimates.

TOWN OF LAKE LURE, NORTH CAROLINA

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

2. Detail Notes on All Funds

A. Assets

Deposits

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

At June 30, 2016, the Town's deposits had a carrying amount of \$3,269,815 and a bank balance of \$3,197,542. Of the bank balance, \$443,876 was covered by federal depository insurance, and \$2,753,666 was covered by collateral held under the Pooling Method. The carrying amount of deposits for the ABC Board was \$141,737, and the bank balance was \$177,037, all of which was covered by federal depository insurance. At June 30, 2016, the Town's petty cash totaled \$375.

Investments

At June 30, 2016, the Town had \$88,692 invested with the North Carolina Capital Management Trust's Cash Portfolio, which carried a credit rating of AAAM by Standard and Poors. The Town has no formal investment policy regarding interest rate risk and no formal policy regarding credit risk or concentration of credit risk.

TOWN OF LAKE LURE, NORTH CAROLINA

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

Receivables

Receivables at Exhibit A at June 30, 2016 were as follows:

<u>Type of Receivable</u>	<u>Amount (Net of Allowance)</u>		
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Accounts Receivable:			
Taxes receivable	\$ 104,388	\$ -	\$ 104,388
Other accounts receivable	63,817	-	63,817
Customer/client billings	-	157,429	157,429
Total	<u>\$ 168,205</u>	<u>\$ 157,429</u>	<u>\$ 325,634</u>
Due from Other Governments:			
Sales and use tax, sales tax refund	<u>\$ 324,572</u>	<u>\$ -</u>	<u>\$ 324,572</u>

Allowances for Doubtful Accounts

The amounts presented in the Statement of Net Position and Balance Sheet are net of the following allowances for doubtful accounts:

	<u>Allowance Amount</u>
Governmental Activities:	
Taxes receivable	\$ 48,203
Business-Type Activities:	
Water and sewer receivables	<u>13,504</u>
Total	<u>\$ 61,707</u>

TOWN OF LAKE LURE, NORTH CAROLINA

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

Capital Assets

Governmental Capital Assets

A summary of changes in the Town's governmental capital assets follows:

	<u>July 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2016</u>
Non-Depreciable Assets:				
Land	\$ 2,308,079	\$ -	\$ -	\$ 2,308,079
Construction in progress	168,740	332,227	-	500,967
Total non-depreciable capital assets	<u>2,476,819</u>	<u>332,227</u>	<u>-</u>	<u>2,809,046</u>
Depreciable Assets:				
Buildings	2,600,544	-	-	2,600,544
Other improvements	1,652,227	-	-	1,652,227
Equipment and furniture	238,216	28,086	-	266,302
Infrastructure	1,096,003	463,510	-	1,559,513
Vehicles and equipment	1,919,133	34,087	-	1,953,220
Total depreciable assets	<u>7,506,123</u>	<u>525,683</u>	<u>-</u>	<u>8,031,806</u>
Less Accumulated Depreciation:				
Buildings	1,330,224	50,616	-	1,380,840
Other improvements	496,056	81,628	-	577,684
Equipment and furniture	151,284	19,221	-	170,505
Infrastructure	278,240	54,527	-	332,767
Vehicles and equipment	1,270,546	72,647	-	1,343,193
Total accumulated depreciation	<u>3,526,350</u>	<u>\$ 278,639</u>	<u>\$ -</u>	<u>3,804,989</u>
Total depreciable capital assets, net	<u>3,979,773</u>			<u>4,226,817</u>
Governmental capital assets, net	<u>\$ 6,456,592</u>			<u>\$ 7,035,863</u>

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

Governmental Activities:

General government	\$ 173,982
Public safety	68,003
Cultural and recreation	36,654
Total	<u>\$ 278,639</u>

TOWN OF LAKE LURE, NORTH CAROLINA

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

Proprietary Capital Assets

The capital assets of the proprietary funds at June 30, 2016 are as follows:

	<u>July 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2016</u>
Water and Sewer Fund:				
Non-Depreciable Assets:				
Land	\$ 32,300	\$ -	\$ -	\$ 32,300
 Depreciable Assets:				
Water plant and lines	3,958,286	-	-	3,958,286
Water reservoir	24,722	-	-	24,722
Waste treatment plant and lines	6,349,885	-	-	6,349,885
Equipment	289,692	-	-	289,692
Vehicles	151,567	-	-	151,567
Total depreciable capital assets	<u>10,774,152</u>	<u>-</u>	<u>-</u>	<u>10,774,152</u>
 Less Accumulated Depreciation:				
Water plant and lines	914,161	77,651	-	991,812
Water reservoir	15,962	494	-	16,456
Waste treatment plant and lines	1,565,180	216,565	-	1,781,745
Equipment	262,631	10,865	-	273,496
Vehicles	151,566	-	-	151,566
Total accumulated depreciation	<u>2,909,500</u>	<u>\$ 305,575</u>	<u>\$ -</u>	<u>3,215,075</u>
Total depreciable capital assets, net	<u>7,864,652</u>			<u>7,559,077</u>
 Capital assets, net	<u>\$ 7,896,952</u>			<u>\$ 7,591,377</u>

TOWN OF LAKE LURE, NORTH CAROLINA

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

	<u>July 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2016</u>
Electric Power Facility:				
Non-Depreciable Assets:				
Land	\$ 57,889	\$ -	\$ -	\$ 57,889
Construction in progress	-	15,375	-	15,375
Total non-depreciable capital assets	<u>57,889</u>	<u>15,375</u>	<u>-</u>	<u>73,264</u>
Depreciable Assets:				
Buildings	58,701	-	-	58,701
Furniture and equipment	33,795	-	-	33,795
Improvements	<u>1,837,663</u>	<u>37,109</u>	<u>-</u>	<u>1,874,772</u>
Total depreciable capital assets	<u>1,930,159</u>	<u>37,109</u>	<u>-</u>	<u>1,967,268</u>
Less Accumulated Depreciation:				
Buildings	12,717	2,935	-	15,652
Furniture and equipment	27,036	3,380	-	30,416
Improvements	<u>1,316,018</u>	<u>65,432</u>	<u>-</u>	<u>1,381,450</u>
Total accumulated depreciation	<u>1,355,771</u>	<u>\$ 71,747</u>	<u>\$ -</u>	<u>1,427,518</u>
Total depreciable capital assets, net	<u>574,388</u>			<u>539,750</u>
Capital assets, net	<u>632,277</u>			<u>613,014</u>
Total business-type activities capital assets, net	<u>\$ 8,529,229</u>			<u>\$ 8,204,391</u>
	<u>July 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2016</u>
ABC Board:				
Depreciable Assets:				
Equipment	\$ 74,520	\$ 2,781	\$ (1,397)	\$ 75,904
Leasehold improvements	<u>27,378</u>	<u>-</u>	<u>-</u>	<u>27,378</u>
Total depreciable capital assets	<u>101,898</u>	<u>2,781</u>	<u>(1,397)</u>	<u>103,282</u>
Less Accumulated Depreciation:				
Equipment	60,206	6,259	(1,397)	65,068
Leasehold improvements	<u>10,688</u>	<u>1,802</u>	<u>-</u>	<u>12,490</u>
Total accumulated depreciation	<u>70,894</u>	<u>\$ 8,061</u>	<u>\$ (1,397)</u>	<u>77,558</u>
ABC Board capital assets, net	<u>\$ 31,004</u>			<u>\$ 25,724</u>

TOWN OF LAKE LURE, NORTH CAROLINA

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

Net Investment in Capital Assets

The total net investment in capital assets at June 30, 2016 is composed of the following elements:

	Governmental Activities	Business-Type Activities
Capital assets	\$ 7,035,863	\$ 8,204,391
Long-term debt	(1,236,557)	(1,519,383)
Unspent debt proceeds	188,774	-
Net investment in capital assets	<u>\$ 5,988,080</u>	<u>\$ 6,685,008</u>

B. Liabilities

Accounts payable and accrued liabilities are composed of the following amounts at June 30, 2016:

	Vendors
Governmental activities	<u>\$ 54,547</u>
Business-type activities	<u>\$ 21,251</u>

Pension Plan and Post-Employment Obligations

Local Governmental Employees' Retirement System

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

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

TOWN OF LAKE LURE, NORTH CAROLINA

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

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

Contributions. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. Town of Lake Lure employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Town of Lake Lure'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 Town of Lake Lure were \$117,305 for the year ended June 30, 2016.

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

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

At June 30, 2016, the Town reported a liability of \$137,376 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014. The total pension liability was then rolled forward to the measurement date of June 30, 2015, utilizing update procedures incorporating the actuarial assumptions.

TOWN OF LAKE LURE, NORTH CAROLINA

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

The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2015, the Town's proportion was 0.031%, which was a decrease of 0.001% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the Town recognized pension expense of \$61,983. At June 30, 2016, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 32,291
Net difference between projected and actual earnings on pension plan investments	-	39,111
Changes in proportion and differences between Town contributions and proportionate share of contributions	-	45,408
Town contributions subsequent to the measurement date	<u>117,305</u>	<u>-</u>
Total	<u>\$ 117,305</u>	<u>\$ 116,810</u>

\$117,305 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30	Total
2017	\$ (59,299)
2018	(59,299)
2019	(59,164)
2020	60,952
2021	-
Thereafter	-

TOWN OF LAKE LURE, NORTH CAROLINA

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

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

Inflation	3.0 percent
Salary increase	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.

TOWN OF LAKE LURE, NORTH CAROLINA

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
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	<u>100.0%</u>	

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

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

TOWN OF LAKE LURE, NORTH CAROLINA

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

Sensitivity of the Town's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following presents the Town's proportionate share of the net pension liability calculated using the discount rate of 7.25%, as well as what the Town's proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.25%) or one percentage point higher (8.25%) than the current rate:

	1% Decrease (6.25%)	Discount Rate (7.25%)	1% Increase (8.25%)
Town's proportionate share of the net pension liability (asset)	<u>\$ 957,942</u>	<u>\$ 137,376</u>	<u>\$ (553,933)</u>

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

Law Enforcement Officers' Special Separation Allowance

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

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

Retirees receiving benefits:	1
Terminated plan members entitled to, but not yet receiving, benefits	-
Active plan members	<u>10</u>
Total	<u>11</u>

A separate report was not issued for the plan.

TOWN OF LAKE LURE, NORTH CAROLINA

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

Summary of Significant Accounting Policies

Basis of Accounting. The Town has chosen to fund the Separation Allowance on a pay-as-you-go basis. Pension expenditures are made from the General Fund, which is maintained on the modified accrual basis of accounting. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

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

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

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

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

The annual required contribution for the current year was determined as part of the December 31, 2014, actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions include (a) 5.00% investment rate of return (net of administrative expenses) and (b) projected salary increases of 4.25% to 7.85% per year. Both (a) and (b) included an inflation component of 3.00%. The assumptions did not include post-retirement benefit increases. The unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at December 31, 2014 was 16 years.

TOWN OF LAKE LURE, NORTH CAROLINA

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

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

Annual required contribution	\$ 14,922
Interest on net pension obligation	5,297
Adjustment to annual required contribution	<u>(9,310)</u>
Annual pension cost	10,909
Contributions made	<u>15,401</u>
Change in net pension obligation	(4,492)
Net Pension Obligation:	
Beginning of year - July 1	<u>105,940</u>
End of year - June 30	<u><u>\$ 101,448</u></u>

Three-Year Trend Information

Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2014	\$ 11,182	137.79%	\$ 112,101
2015	9,240	166.68%	105,940
2016	10,909	141.18%	101,448

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 \$222,873. The covered payroll (annual payroll of active employees covered by the plan) was \$462,140, and the ratio of the UAAL to the covered payroll was 48.23%.

The Schedule of Funding Progress, presented as required supplementary information following the rest 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.

TOWN OF LAKE LURE, NORTH CAROLINA

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

Supplemental Retirement Income Plan

Law Enforcement Officers

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

Funding Policy. Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to five percent (5%) of each officer’s salary, and all amounts are vested immediately. Law enforcement officers may also make voluntary contributions to the Plan. Contributions to the Plan for the year ended June 30, 2016, were \$25,551, which consisted of \$22,078 from the Town and \$3,473 from the law enforcement officers.

General Employees

Plan Description. The Town has elected to contribute to the Plan for the general employees as well as for law enforcement officers. Participation begins at the date of employment. Employees may contribute up to fifteen percent (15%) of their annual salary not to exceed the maximum amount established by law. The Town will match the contribution one hundred percent (100%), up to five percent (5%) of the employee’s salary. Contributions for the year ended June 30, 2016 were \$117,182, which consisted of \$52,810 from the Town and \$64,372 from the employees.

Other Post-Employment Benefits

Healthcare Benefits

Medical Insurance Benefits

Plan Description. The post-employment healthcare benefits are provided through a cost-sharing, multiple-employer defined benefit plan administered by the Executive Administrator and the Board of Trustees of the Comprehensive Major Medical Plan (the “Plan”). The Executive Administrator and the Board of Trustees of the Plan establish premium rates except as may be established by the General Assembly in an appropriation act. The Plan’s benefit and contribution provisions are established by Chapter 135-7, Article 1, and Chapter 135, Article 3 of the General Statutes and may be amended only by the North Carolina General Assembly. By General Statute, the Plan accumulates contributions from employers and any earnings on those contributions in the

TOWN OF LAKE LURE, NORTH CAROLINA

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

Retiree Health Benefit Fund. These assets shall be used to provide health benefits to retired and disabled employees and their applicable beneficiaries. These contributions are irrevocable. Also, by law, these assets are not subject to the claims of creditors of the employers making contributions to the Plan.

The State of North Carolina issues a publicly available financial report that includes financial statements and required supplementary information for the State's Major Comprehensive Major Medical Plan (also referred to as the State Health Plan). An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.ncosc.net/> and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

Funding Policy. The Comprehensive Major Medical Plan is administered by the Executive Administrator and the Board of Trustees of the Plan, which establishes premium rates except as may be established by the General Assembly in an appropriation act. The healthcare benefits for retired and disabled employees are the same as for active employees, except that the coverage becomes secondary when former employees are eligible for Medicare. For employees first hired on and after October 1, 2006, future coverage as retired employees is subject to the requirement that the future retiree have 20 or more years of retirement service credit in order to receive coverage on a non-contributory basis. Employees first hired on and after October 1, 2006, with 10 but less than 20 years of retirement service credit, are eligible for coverage on a partially contributory basis. For such future retirees, the State will pay 50% of the State Health Plan's total non-contributory premium. For employees hired before October 1, 2006, healthcare benefits are provided to retirees (at no charge to the retirees) who have at least five years of contributing retirement membership prior to disability or retirement. In addition, persons who became surviving spouses of retirees prior to October 1, 1986 receive the same coverage as retirees at the State's expense.

Contributions are determined as a percentage of covered monthly payroll. Annually, the monthly contribution rates to the Plan, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the General Assembly in the Appropriation Bill. For the fiscal year ended June 30, 2016, 2015, and 2014, the Town paid all annual required contributions to the Plan for post-employment healthcare benefits of \$88,953, \$85,253, and \$82,081, respectively. These contributions represent 5.99%, 5.94%, and 5.49% of covered payroll.

Other Insurance Benefits

Plan Description. Under the terms of a Town resolution, the Town administers a single-employer defined benefit healthcare plan, which covers dental, vision, and life insurance (the "Retiree Health Plan"). This Plan provides post-employment healthcare benefits to retirees of the Town, provided they participate in the North Carolina Local Governmental Employees' Retirement System (System) and have at least five years of creditable service with the Town. Coverage for all retirees who are eligible for Medicare will be transferred to a Medicare Supplemental plan after qualifying for Medicare.

TOWN OF LAKE LURE, NORTH CAROLINA

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

The Town pays the full cost of coverage for these benefits. The Town Council may amend the benefit provisions. A separate report was not issued for the Plan.

Membership of the Retiree Health Plan consisted of the following at December 31, 2013, the date of the latest actuarial valuation:

Retirees receiving benefits:	9
Terminated plan members entitled to, but not yet receiving, benefits	-
Active plan members	<u>33</u>
Total	<u>42</u>

Funding Policy. The Town pays the full cost of coverage for the healthcare benefits paid to qualified retirees under a Town resolution that can be amended by the Town Council. The Town has chosen to fund the healthcare benefits on a pay-as-you-go basis. In fiscal year ended June 30, 2016, the Town's contributions were \$4,919.

Annual OPEB Cost and Net OPEB Obligation. The Town's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC).

The current ARC rate is 1.91% of annual covered payroll. For the current year, the Town contributed \$4,919, or 0.34%, of annual covered payroll. The Town obtains healthcare coverage through private insurers. There were no contributions made by employees. The Town's obligation to contribute to the Retiree Health Plan is established and may be amended by the Town Council.

Summary of Significant Accounting Policies. Post-employment expenditures are made from the General Fund, which is maintained on the modified accrual basis of accounting, and the Water and Sewer Fund and the Electric Power Facility Fund, which are maintained on the full accrual basis of accounting. The fund source for the expenditure is based on the funding source of the employee at the time of retirement. No funds are set aside to pay benefits and administration costs. These expenditures are paid as they come due.

Annual OPEB Cost and Net Obligation. The Town's annual OPEB cost (expense) is calculated based on the *annual required contribution of the employer* (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty (30) years.

TOWN OF LAKE LURE, NORTH CAROLINA

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

The following table shows the components of the Town's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the Town's net OPEB obligation for the post-employment benefits:

Annual required contribution	\$ 27,515
Interest on net OPEB obligation	3,357
Adjustment to annual required contribution	<u>(3,207)</u>
Annual OPEB cost	27,665
Contributions made	<u>(4,919)</u>
Increase in net OPEB obligation	22,746
Net OPEB Obligation:	
Beginning of year - July 1	<u>83,928</u>
End of year - June 30	<u>\$ 106,674</u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation as of June 30, 2016 were as follows:

Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2014	\$ 33,805	13.10%	\$ 54,990
2015	33,857	14.53%	83,928
2016	27,665	17.78%	106,674

Funded Status and Funding Progress. As of December 31, 2013, the most recent valuation date, the plan was not funded. The actuarial accrued liability for benefits and, thus, the unfunded actuarial accrued liability (UAAL) was \$283,960. The covered payroll (annual payroll of active employees covered by the plan) was \$1,435,280, and the ratio of the UAAL to the covered payroll was 19.8%. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the notes to financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

TOWN OF LAKE LURE, NORTH CAROLINA

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

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and the plan members at that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the December 31, 2013 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.0% investment rate of return (net of administrative expenses), which is the expected long-term investment returns on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual trend increase for dental and vision claims of 4.5% and 3.5%, respectively. The investment rate included a 3.0% inflation assumption. The actuarial value of assets, if any, was determined using techniques that spread the effects of short-term volatility in the market value of investments over a 5-year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2013 was 30 years.

Other Employee Benefits

Death Benefit Plan

The Town has also elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, State-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within one hundred eighty (180) days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump-sum death benefit payments to beneficiaries are equal to the employee's 12 highest months' salary in a row during the 24 months prior to the employee's death, but the benefit may not exceed \$50,000 or be less than \$25,000. Because all death benefit payments are made from the Death Benefit Plan and not by the Town, the Town does not determine the number of eligible participants. The Town has no liability beyond the payment of monthly contributions. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount. Contributions are determined as a percentage of monthly payroll based upon rates established annually by the State. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. The Town considers these contributions to be immaterial.

Group Life Insurance

In addition to the Death Benefit Plan, the Town has elected to provide additional death benefit coverage for all eligible employees through the North Carolina League of Municipality. The Town pays the full cost of a life insurance policy for all regular full-time employees who work a minimum of 32 hours per week. Employee coverage is equivalent to double the employee's current salary and payable to the designated beneficiary of the employee.

TOWN OF LAKE LURE, NORTH CAROLINA

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

Deferred Outflows and Inflows of Resources

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

<u>Source</u>	<u>Amount</u>
Contributions to pension plan in current fiscal year	\$ 117,305

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

Taxes receivable, less penalties (General Fund)	\$ 104,388
Clean up fees (General Fund)	49,205
Pension deferrals	116,810
Total	<u>\$ 270,403</u>

Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town participates in two self-funded risk financing pools administered by the North Carolina League of Municipalities. Through these pools, the Town obtains general liability coverage of \$2 million per occurrence, auto liability coverage of \$2 million per occurrence, property coverage up to the total insurance values of the property policy, and workers' compensation coverage up to the statutory limits. The liability and property exposures are reinsured through commercial carriers for claims in excess of retentions as selected by the Board of Trustees each year. 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. Specific information on the limits of the reinsurance, excess and stop loss policies purchased by the Board of Trustees can be obtained by contacting the Risk Management Services Department of the NC League of Municipalities. The pools are audited annually by certified public accountants, and the audited financial statements are available to the Town upon request.

The Town carries commercial coverage for all other risks of loss. There have been no significant reductions in insurance coverage in the prior year, and settled claims have not exceeded coverage in any of the past three fiscal years.

The Town provides health insurance coverage to eligible employees through a third party. Any health claims in excess of policy limits are the responsibility of the employee and not the Town. Except for the Welcome Center Building, the Town carries limited flood damage coverage through the North Carolina League of Municipalities because the Town has been mapped and flood zones have been identified. The coverage has a \$50,000 deductible. The Welcome Center Building is insured through the National Flood Insurance Program (NFIP).

TOWN OF LAKE LURE, NORTH CAROLINA

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

In accordance with G.S. 159-29, the Town's employees that have access to \$100 or more at any given time of the Town's funds are performance bonded through a commercial surety bond. The Finance Officer and Tax Collector are each individually bonded for \$50,000 and \$20,000, respectively. The remaining employees that have access to funds are bonded under a blanket bond for \$20,000, in regards to employee dishonesty, forgery, and altercation, and \$5,000 for theft of money and securities per occurrence.

Claims, Judgments, and Contingent Liabilities

At June 30, 2016, the Town was a defendant to various lawsuits. In the opinion of the Town's management and the Town's attorneys, the ultimate effect of these legal matters will not have a material adverse effect on the Town's financial position.

Long-Term Obligations

Installment Notes Payable

A schedule of the Town's governmental activities includes the following installment purchases:

	<u>Balance</u>
Note payable, bearing interest at 1.81% per annum, with 20 semi-annual principal and interest payments of \$23,326.86, beginning December 2013 and ending June 2023; collateralized by the fire engine	\$ 305,438
Note payable, bearing interest at 2.12% per annum, with 36 equal monthly payments of principal and interest of \$1,606.92, beginning January 2014 and ending December 2016; collateralized by the police vehicles	7,993
Note payable, bearing interest at 2.19% per annum, with 36 equal monthly payments of principal and interest of \$2,367, beginning October 2014 and ending September 2017; collateralized by vehicles	34,009
Note payable, bearing interest at 3.25% per annum, with 36 equal monthly payments of principal and interest of \$1,004, beginning April 2016 and ending March 2019; collateralized by vehicles	31,617
Note payable, bearing interest at 2.31% per annum, with 20 monthly payments of principal and interest, beginning November 2011 and ending November 2021; collateralized by land and marina expansion	357,500
Note payable, bearing interest at 3.89% per annum, with 20 semi-annual principal and interest payments of \$25,000.00, beginning January 2016 and ending January 2025; collateralized by real property	<u>500,000</u>
Total installment debt	<u>\$ 1,236,557</u>

TOWN OF LAKE LURE, NORTH CAROLINA

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

Annual debt service payments are as follows:

Year Ending June 30	Governmental Activities	
	Principal	Interest
2017	\$ 203,393	\$ 33,589
2018	174,692	28,512
2019	166,736	23,904
2020	158,606	19,555
2021	159,399	15,316
2022-2026	373,731	29,191
Total	<u>\$ 1,236,557</u>	<u>\$ 150,067</u>

At June 30, 2016, the Town had a legal debt margin of approximately \$65,949,635.

General Obligation Indebtedness

The Town's general obligations were issued to finance the construction and capital improvements of water and sewer lines. The obligations are being retired by the water and sewer system's resources are reported as long-term debt in the Water and Sewer Fund. The general obligation indebtedness is not secured by a pledge of full-faith and credit of the Town but is payable solely from revenues of the project or the benefited systems or other available funds comprised of fees. Principal and interest requirements are appropriated when due.

A schedule of the Town's Water and Sewer Fund notes payable is as follows:

	<u>Balance</u>
State revolving loan of \$1,119,085 for storage tank and water lines under the North Carolina Clean Water Revolving Loan and Grant Act of 1987. Payments are due on May 1 and November 1 in decreasing installments through May 1, 2026, with an interest at 2.305%.	\$ 559,539
State (ARRA) construction line of credit of \$1,279,794 for sewer line improvements issued by the North Carolina Department of Environment and Natural Resources. Payments are due in 20 equal installments ending May 1, 2031. The loan is interest free.	<u>959,844</u>
Total	<u>\$ 1,519,383</u>

TOWN OF LAKE LURE, NORTH CAROLINA

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

Annual debt service requirements to maturity for this long-term obligation of the Water and Sewer Fund are as follows:

Year Ending June 30	Business-Type Activities	
	Principal	Interest
2017	\$ 119,944	\$ 12,897
2018	119,944	11,608
2019	119,944	10,318
2020	119,944	9,028
2021	119,944	7,738
2022-2026	599,723	19,677
2027-2031	319,940	-
Total	<u>\$ 1,519,383</u>	<u>\$ 71,266</u>

TOWN OF LAKE LURE, NORTH CAROLINA

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

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2016:

	<u>July 1, 2015</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2016</u>	<u>Current</u>
Governmental Activities:					
Installment purchases	\$ 855,414	\$ 534,350	\$ (153,207)	\$ 1,236,557	\$ 203,393
Other post-employment benefits	72,864	25,337	(4,505)	93,696	-
Law enforcement separation	105,940	10,909	(15,401)	101,448	-
Compensated absences	159,383	75,600	(95,850)	139,133	34,783
Net pension liability (LGERS)	-	126,386	-	126,386	-
Total governmental activities	<u>\$ 1,193,601</u>	<u>\$ 772,582</u>	<u>\$ (268,963)</u>	<u>\$ 1,697,220</u>	<u>\$ 238,176</u>
Business-Type Activities:					
Water and Sewer Fund:					
Notes payable	\$ 1,639,327	\$ -	\$ (119,944)	\$ 1,519,383	\$ 119,944
Other post-employment benefits	9,561	1,332	(237)	10,656	-
Compensated absences	9,538	5,040	(5,202)	9,376	2,344
Net pension liability (LGERS)	-	6,869	-	6,869	-
Total Water and Sewer Fund	<u>1,658,426</u>	<u>13,241</u>	<u>(125,383)</u>	<u>1,546,284</u>	<u>122,288</u>
Electric Fund:					
Other post-employment benefits	1,503	996	(177)	2,322	-
Compensated absences	7,815	2,520	(2,520)	7,815	1,954
Net pension liability (LGERS)	-	4,121	-	4,121	-
Total Electric Fund	<u>9,318</u>	<u>7,637</u>	<u>(2,697)</u>	<u>14,258</u>	<u>1,954</u>
Total business-type activities	<u>\$ 1,667,744</u>	<u>\$ 20,878</u>	<u>\$ (128,080)</u>	<u>\$ 1,560,542</u>	<u>\$ 124,242</u>

Compensated absences, other post-employment benefits and pension liabilities for governmental activities have typically been liquidated in the General Fund.

TOWN OF LAKE LURE, NORTH CAROLINA

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

Interfund Balances and Activity

Transfers to/from Other Funds

Transfers to/from other funds for the year ended June 30, 2016 consist of the following:

<u>Fund</u>	<u>From</u>	<u>To</u>	<u>Purpose</u>
General Fund	\$ 250,716	\$ -	
Capital Reserve Capital Project Fund	-	250,716	Future capital needs
Capital Reserve Capital Project Fund	350,000	-	
Capital Reserve and Silt Removal Fund	177,880	-	
General Fund	-	527,880	Silt Removal
Electric Fund	50,000	-	
Silt Removal Capital Project Fund	-	50,000	Capital Related - Silt
	<u>\$ 828,596</u>	<u>\$ 828,596</u>	

Internal Balances

The due to/from balance of \$20,992 is due to a cash shortage (deficit cash) in the Buffalo Creek Park Capital Project Fund at year-end.

3. Jointly Governed Organization

The Town generates hydroelectricity, which it sells to Duke Energy on a contractual agreement. The Town's purchases of power for the fiscal year ended June 30, 2016 were \$707,704.

The Town's volunteer fire department appoints five (5) members to the five-member local Board of Trustees for the Firemen's Relief Fund. The Firemen's Relief Fund is funded by a portion of the fire and lightning insurance premiums that insurers remit to the State. The State passes these monies to the local Board of the Firemen's Relief Fund. The funds are used to assist firefighters in various ways. The Town obtains an ongoing financial benefit from the for the "on-behalf of" payments for salaries and fringe benefits made to members of the Town's Fire Department by the Board of Trustees. During the fiscal year ended June 30, 2016, the Town reported revenues and expenditures of \$5,925 made to the Firemen's Relief Fund. The participating governments do not have any equity interest in the joint venture, so no equity has been reflected in the financial statements. Instead, the local Board of Trustees files an annual financial report with the State Firemen's Association. This report can be obtained from the Association at 323 West Jones Street, Suite 401, Raleigh, North Carolina 27603.

TOWN OF LAKE LURE, NORTH CAROLINA

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

4. Related Party Transaction

The Town Council has adopted a resolution, authorized under G.S. 14-234, to allow a Town Council member to have a beneficial relationship with a supplier of goods and services to the Town. During the year, the Town was not involved in a beneficial relationship with a member of the Town Council.

5. Federal and State-Assisted Programs

The Town has received proceeds from several federal and State grants. Periodic audits of these grants are required, and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant monies to the grantor agencies. Management believes that any required refunds will be immaterial. No provision has been made in the accompanying general purpose financial statements for the refund of grant monies.

6. Subsequent Event

Damage in certain areas of the State of North Carolina resulting from wildfires beginning in November 2016 and continuing was of sufficient severity and magnitude to warrant a State of Emergency declaration by the Governor. The wildfire caused serious damage in several counties including areas of Rutherford County. While there has been damage, as of the date of this report, it is unknown as to the extent of that damage in terms of dollar.

TOWN OF LAKE LURE, NORTH CAROLINA

**LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2016**

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrual Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c
12/31/2012	\$ -	\$ 116,657	\$ 116,657	0.00%	\$ 416,519	28.01%
12/31/2013	-	81,597	81,597	0.00%	375,209	21.75%
12/31/2014	-	87,066	87,066	0.00%	410,826	21.19%
12/31/2015	-	222,873	222,873	0.00%	462,140	48.23%

Notes to Required Supplementary Information:

The information presented above was determined as part of the actuarial valuation at the dates indicated.

Additional information as of the latest valuation follows:

Valuation date	12/31/15
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*	3.50% to 7.35%
Cost-of-living adjustments	None

*Includes inflation at 3.00%

TOWN OF LAKE LURE, NORTH CAROLINA

OTHER POST-EMPLOYMENT BENEFITS
 REQUIRED SUPPLEMENTARY INFORMATION
 FOR THE YEAR ENDED JUNE 30, 2016

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Projected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
6/30/2011	\$ -	\$ 76,971	\$ 76,971	0.00%	\$ 1,581,517	4.9%
6/30/2012	-	74,649	74,649	0.00%	1,540,760	4.8%
6/30/2013	-	76,757	76,757	0.00%	1,423,573	5.4%
12/31/2013	-	283,960	283,960	0.00%	1,435,280	19.8%

Schedule of Employer Contributions

Year Ended June 30	Annual Required Contribution	Percentage of ARC Contributed
2013	\$ 9,003	46.54%
2014	33,759	13.12%
2015	33,759	14.57%
2016	27,515	17.88%

Notes to Required Supplementary Information:

The information presented above was determined as part of the actuarial valuation at the dates indicated.
 Additional information as of the latest valuation follows:

Valuation date	12/31/13
Actuarial cost method	Projected unit credit
Amortization method	Level percentage of pay, open
Remaining amortization period	30 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return*	4.00%
Dental cost trend rates*	4.50%
Vision cost trend rates*	3.50%
Cost-of-living adjustments	None

*Includes inflation at 3.00 %

Prior to the December 31, 2013 valuation, the Town elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement No. 54 for employers in plans fewer than 100 total plan members.

TOWN OF LAKE LURE, NORTH CAROLINA**TOWN OF LAKE LURE'S PROPORTIONATE SHARE
OF NET PENSION LIABILITY (ASSET)
REQUIRED SUPPLEMENTARY INFORMATION
LAST THREE FISCAL YEARS ***

Local Government Employees' Retirement System			
	2016	2015	2014
Lake Lure's proportion of the net pension liability (asset) (%)	0.03061%	0.03190%	0.03380%
Lake Lure's proportion of the net pension liability (asset) (\$)	\$ 137,376	\$ (188,129)	\$ 407,420
Lake Lure's covered-employee payroll*	\$ 1,552,910	\$ 1,495,102	\$ 1,422,995
Lake Lure's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	8.85%	(12.58%)	28.63%
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.

TOWN OF LAKE LURE, NORTH CAROLINA**TOWN OF LAKE LURE'S CONTRIBUTIONS
REQUIRED SUPPLEMENTARY INFORMATION
LAST THREE FISCAL YEARS****Local Government Employees' Retirement System**

	2016	2015	2014
Contractually required contribution	\$ 117,305	\$ 111,991	\$ 106,548
Contributions in relation to the contractually required contribution	<u>117,305</u>	<u>111,991</u>	<u>106,548</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Lake Lure's covered-employee payroll	\$ 1,659,982	\$ 1,552,910	\$ 1,495,102
Contributions as a percentage of covered-employee payroll	7.07%	7.21%	7.13%

TOWN OF LAKE LURE, NORTH CAROLINA

**GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2016**

	Budget	Actual	Variance Over/Under
Revenues:			
Ad Valorem Taxes:			
Taxes	\$ 2,328,636	\$ 2,345,723	\$ 17,087
Penalties and interest	9,000	7,461	(1,539)
Total	<u>2,337,636</u>	<u>2,353,184</u>	<u>15,548</u>
Unrestricted Intergovernmental:			
Local option sales tax	900,000	981,192	81,192
Utilities franchise tax	167,355	238,006	70,651
Video franchise tax	28,350	27,579	(771)
Beer and wine tax	5,300	5,296	(4)
Total	<u>1,101,005</u>	<u>1,252,073</u>	<u>151,068</u>
Restricted Intergovernmental:			
Powell Bill allocation	68,455	68,562	107
Solid waste disposal tax	590	766	176
ABC revenue for law enforcement	250	492	242
ABC revenue for alcohol education	5,200	24,907	19,707
Other grants	7,650	7,529	(121)
Total	<u>82,145</u>	<u>102,256</u>	<u>20,111</u>
Permits and Fees:			
Boating permits	270,000	321,357	51,357
Zoning permits	24,675	29,498	4,823
Vacation rental fees	1,000	4,602	3,602
Fire inspection fees	400	220	(180)
Total	<u>296,075</u>	<u>355,677</u>	<u>59,602</u>
Sales and Services:			
Marina sales and fees	95,300	103,809	8,509
Beach sales and fees	45,250	59,113	13,863
Other lake fees	40,500	50,970	10,470
Total	<u>181,050</u>	<u>213,892</u>	<u>32,842</u>
Investment Earnings:			
Interest income	<u>500</u>	<u>1,584</u>	<u>1,084</u>

TOWN OF LAKE LURE, NORTH CAROLINA

**GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2016**

	Budget	Actual	Variance Over/Under
Miscellaneous:			
Rents received	33,030	28,226	(4,804)
Miscellaneous	29,750	19,753	(9,997)
Total	62,780	47,979	(14,801)
 Total revenues	 4,061,191	 4,326,645	 265,454
 Expenditures:			
General Government:			
Governing Body:			
Salaries and benefits	14,210	14,210	-
Operating expenses	15,000	14,734	266
Total	29,210	28,944	266
 Administration:			
Salaries and benefits	529,321	512,594	16,727
Operating expenses	80,500	76,197	4,303
Contract services	47,500	49,688	(2,188)
Administrative reimbursement	(160,000)	(160,000)	-
Total	497,321	478,479	18,842
 Central Services:			
Operating expenditures	102,800	103,234	(434)
 Total general government	 629,331	 610,657	 18,674
 Public Safety:			
Police:			
Salaries and benefits	614,228	604,708	9,520
Operating expenses	101,850	80,096	21,754
Total	716,078	684,804	31,274
 Fire and EMS:			
Salaries and benefits	415,057	420,736	(5,679)
Operating expenses	102,050	82,564	19,486
Contract services	182,703	182,703	-
Capital outlay	7,000	7,068	(68)
Total	706,810	693,071	13,739
 Total public safety	 1,422,888	 1,377,875	 45,013

TOWN OF LAKE LURE, NORTH CAROLINA

**GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2016**

	Budget	Actual	Variance Over/Under
Transportation and Physical Development:			
Streets and Highways:			
Salaries and benefits	225,685	223,384	2,301
Operating expenses	123,600	116,792	6,808
Contracted services	900	1,065	(165)
Capital outlay	69,200	73,281	(4,081)
Total transportation and physical development	419,385	414,522	4,863
Environmental Protection:			
Sanitation:			
Contracted services	181,800	180,671	1,129
Tipping fees	29,000	32,628	(3,628)
Total environmental protection	210,800	213,299	(2,499)
Cultural and Recreation:			
Community Development:			
Salaries and benefits	164,894	157,737	7,157
Operating expenses	36,100	23,138	12,962
Contracted services	100,000	119,590	(19,590)
Total	300,994	300,465	529
Parks:			
Salaries and benefits	73,492	74,408	(916)
Operating expenditures	41,500	36,964	4,536
Capital outlay	1,800	1,875	(75)
Total	116,792	113,247	3,545
Beach and Marina:			
Operating expenditures	34,720	33,566	1,154
Golf Course:			
Operating expenditures	5,000	1,319	3,681
Contracted services	76,000	75,460	540
Total	81,000	76,779	4,221

TOWN OF LAKE LURE, NORTH CAROLINA

**GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2016**

	Budget	Actual	Variance Over/Under
Performance and Longevity Bonuses:			
Salaries and benefits	76,243	75,239	1,004
Lake:			
Salaries and benefits	141,020	137,837	3,183
Operating expenditures	43,470	40,641	2,829
Contracted services	13,500	10,794	2,706
Silt removal	300,000	177,880	122,120
Total	497,990	367,152	130,838
Total cultural and recreation	1,107,739	966,448	141,291
Unemployment and Insurance:			
Operating expenditures	112,213	95,983	16,230
Special Projects:			
Operating expenditures	511,850	528,380	(16,530)
Debt Service:			
Principal retirement	159,834	153,207	6,627
Interest and other charges	20,028	18,512	1,516
Total	179,862	171,719	8,143
Total expenditures	4,594,068	4,378,883	215,185
Revenues over (under) expenditures	(532,877)	(52,238)	480,639
Other Financing Sources (Uses):			
Transfers to other funds	(250,716)	(250,716)	-
Transfers from other funds	540,000	527,880	(12,120)
Proceeds from long-term debt	34,350	34,350	-
Appropriated fund balance	209,243	-	(209,243)
Total other financing sources (uses)	532,877	311,514	(221,363)
Net change in fund balance	\$ -	259,276	\$ 259,276
Fund Balance:			
Beginning of year - July 1		1,929,341	
End of year - June 30		\$ 2,188,617	

TOWN OF LAKE LURE, NORTH CAROLINA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2016

	Special Revenue Fund	Capital Project Funds	Total
Assets:			
Cash and cash equivalents	\$ 75,000	\$ 212,241	\$ 287,241
Restricted cash	-	188,774	188,774
Total assets	<u>\$ 75,000</u>	<u>\$ 401,015</u>	<u>\$ 476,015</u>
Liabilities and Fund Balances:			
Liabilities:			
Due to other funds	\$ -	\$ 20,992	\$ 20,992
Fund Balances:			
Restricted, all other	75,000	188,774	263,774
Committed	-	212,241	212,241
Unassigned	-	(20,992)	(20,992)
Total fund balances	<u>75,000</u>	<u>380,023</u>	<u>455,023</u>
Total liabilities and fund balances	<u>\$ 75,000</u>	<u>\$ 401,015</u>	<u>\$ 476,015</u>

TOWN OF LAKE LURE, NORTH CAROLINA

NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2016

	Special Revenue Fund	Capital Project Funds	Total
Revenues:			
Investment earnings	\$ -	\$ 9	\$ 9
Miscellaneous	2,500	-	2,500
Total revenues	2,500	9	2,509
Expenditures:			
Current:			
Transportation and physical development	-	311,235	311,235
Cultural and recreation	-	20,992	20,992
Total expenditures	-	332,227	332,227
Revenues over (under) expenditures	2,500	(332,218)	(329,718)
Other Financing Sources (Uses):			
Transfers from other funds	-	300,716	300,716
Transfers to other funds	-	(527,880)	(527,880)
Proceeds from long-term debt	-	500,000	500,000
Total other financing sources (uses)	-	272,836	272,836
Net change in fund balances	2,500	(59,382)	(56,882)
Fund Balances:			
Beginning of year - July 1	72,500	439,405	511,905
End of year - June 30	\$ 75,000	\$ 380,023	\$ 455,023

TOWN OF LAKE LURE, NORTH CAROLINA

BRIDGE PRESERVATION RESERVE SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2016

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues:			
Miscellaneous income	\$ -	\$ 2,500	\$ 2,500
Net change in fund balance	<u>\$ -</u>	<u>2,500</u>	<u>\$ 2,500</u>
Fund Balance:			
Beginning of year - July 1		<u>72,500</u>	
End of year - June 30		<u>\$ 75,000</u>	

TOWN OF LAKE LURE, NORTH CAROLINA

NONMAJOR CAPITAL PROJECT FUNDS

COMBINING BALANCE SHEET

JUNE 30, 2016

	<u>Capital Reserve and Silt Removal Capital Project Fund</u>	<u>Capital Reserve Capital Project Fund</u>	<u>Buffalo Creek Park Capital Project Fund</u>	<u>Strip Center Mall Capital Project Fund</u>	<u>Total Nonmajor Capital Project Funds</u>
Assets:					
Cash and cash equivalents	\$ 208,465	\$ 3,776	\$ -	\$ -	\$ 212,241
Restricted cash	<u>-</u>	<u>-</u>	<u>-</u>	<u>188,774</u>	<u>188,774</u>
Total assets	<u>\$ 208,465</u>	<u>\$ 3,776</u>	<u>\$ -</u>	<u>\$ 188,774</u>	<u>\$ 401,015</u>
Liabilities and Fund Balances:					
Liabilities:					
Due to other funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,992</u>	<u>\$ -</u>	<u>\$ 20,992</u>
Fund Balances:					
Restricted, all other	-	-	-	188,774	188,774
Committed	208,465	3,776	-	-	212,241
Unassigned	<u>-</u>	<u>-</u>	<u>(20,992)</u>	<u>-</u>	<u>(20,992)</u>
Total fund balances	<u>208,465</u>	<u>3,776</u>	<u>(20,992)</u>	<u>188,774</u>	<u>380,023</u>
Total liabilities and fund balances	<u>\$ 208,465</u>	<u>\$ 3,776</u>	<u>\$ -</u>	<u>\$ 188,774</u>	<u>\$ 401,015</u>

TOWN OF LAKE LURE, NORTH CAROLINA

NONMAJOR CAPITAL PROJECT FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2016

	Capital Reserve and Silt Removal Capital Project Fund	Capital Reserve Capital Project Fund	Buffalo Creek Park Capital Project Fund	Strip Center Mall Capital Project Fund	Total Nonmajor Capital Project Funds
Revenues:					
Investment earnings	\$ -	\$ -	\$ -	\$ 9	\$ 9
Expenditures:					
Current:					
Transportation and physical development	-	-	-	311,235	311,235
Cultural and recreation	-	-	20,992	-	20,992
Total expenditures	-	-	20,992	311,235	332,227
Revenues over (under) expenditures	-	-	(20,992)	(311,226)	(332,218)
Other Financing Sources (Uses):					
Transfers from other funds	50,000	250,716	-	-	300,716
Transfers to other funds	(177,880)	(350,000)	-	-	(527,880)
Proceeds from long-term debt	-	-	-	500,000	500,000
Total other financing sources (uses)	(127,880)	(99,284)	-	500,000	272,836
Net change in fund balances	(127,880)	(99,284)	(20,992)	188,774	(59,382)
Fund Balances:					
Beginning of year - July 1	336,345	103,060	-	-	439,405
End of year - June 30	\$ 208,465	\$ 3,776	\$ (20,992)	\$ 188,774	\$ 380,023

TOWN OF LAKE LURE, NORTH CAROLINA

**CAPITAL RESERVE AND SILT REMOVAL FUND
 SCHEDULE OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
 FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Other Financing Sources (Uses):			
Transfers from other funds	\$ -	\$ 50,000	\$ 50,000
Transfers to other funds	(190,000)	(177,880)	12,120
Appropriated fund balance	<u>190,000</u>	<u>-</u>	<u>(190,000)</u>
Total other financing sources (uses)	<u>-</u>	<u>(127,880)</u>	<u>(127,880)</u>
 Net change in fund balance	 <u>\$ -</u>	 (127,880)	 <u>\$ (127,880)</u>
 Fund Balance:			
Beginning of year - July 1		<u>336,345</u>	
 End of year - June 30		 <u>\$ 208,465</u>	

TOWN OF LAKE LURE, NORTH CAROLINA

CAPITAL RESERVE CAPITAL PROJECT FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2016

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Other Financing Sources (Uses):			
Transfers from other funds	\$ 250,716	\$ 250,716	\$ -
Transfers to other funds	(350,000)	(350,000)	-
Appropriated fund balance	99,284	-	(99,284)
Total other financing sources (uses)	<u>-</u>	<u>(99,284)</u>	<u>(99,284)</u>
 Net change in fund balance	 <u>\$ -</u>	 <u>(99,284)</u>	 <u>\$ (99,284)</u>
 Fund Balance:			
Beginning of year - July 1		<u>103,060</u>	
 End of year - June 30		<u>\$ 3,776</u>	

TOWN OF LAKE LURE, NORTH CAROLINA
BUFFALO CREEK PARK CAPITAL PROJECT FUND
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL
FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2016

		Actual			
	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Current Year</u>	<u>Total To Date</u>	<u>Variance Over/Under</u>
Revenues:					
Restricted intergovernmental	\$ 200,000	\$ 163,728	\$ -	\$ 163,728	\$ (36,272)
Expenditures:					
Cultural and recreation:					
Construction	200,000	168,740	20,992	189,732	10,268
Revenues over (under) expenditures	-	(5,012)	(20,992)	(26,004)	(26,004)
Other Financing Sources (Uses):					
Transfers from other funds	-	5,012	-	5,012	5,012
Net change in fund balance	\$ -	\$ -	\$ (20,992)	\$ (20,992)	\$ (20,992)

TOWN OF LAKE LURE, NORTH CAROLINA
STRIP CENTER MALL CAPITAL PROJECT FUND
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL
FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2016

		Actual			
	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Current Year</u>	<u>Total To Date</u>	<u>Variance Over/Under</u>
Revenues:					
Interest revenue	\$ -	\$ -	\$ 9	\$ 9	\$ 9
Expenditures:					
Transportation and physical development:					
Purchase price	300,000	-	300,000	300,000	-
Design, engineering, permits	9,000	-	1,900	1,900	7,100
Improvements to building/property	161,500	-	-	-	161,500
Other legal/fiscal cost	24,400	-	2,462	2,462	21,938
Contingency	5,100	-	6,873	6,873	(1,773)
Total expenditures	<u>500,000</u>	<u>-</u>	<u>311,235</u>	<u>311,235</u>	<u>188,765</u>
Revenues over (under) expenditures	(500,000)	-	(311,226)	(311,226)	188,774
Other Financing Sources (Uses):					
Proceeds from long-term debt	<u>500,000</u>	<u>-</u>	<u>500,000</u>	<u>500,000</u>	<u>-</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 188,774</u>	<u>\$ 188,774</u>	<u>\$ 188,774</u>

TOWN OF LAKE LURE, NORTH CAROLINA

ELECTRIC FUND

SCHEDULE OF REVENUES AND EXPENDITURES -

BUDGET AND ACTUAL (NON-GAAP)

FOR THE YEAR ENDED JUNE 30, 2016

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues:			
Operating revenues:			
Charges for services	\$ 332,500	\$ 707,704	\$ 375,204
Non-operating revenues:			
Interest earnings	500	1,059	559
Total revenues	<u>333,000</u>	<u>708,763</u>	<u>375,763</u>
Expenditures:			
Operations:			
Salaries and employee benefits	77,214	82,739	(5,525)
Operating expenditures	280,121	256,566	23,555
Capital outlay	<u>80,000</u>	<u>52,484</u>	<u>27,516</u>
Total expenditures	<u>437,335</u>	<u>391,789</u>	<u>45,546</u>
Revenues over (under) expenditures	<u>(104,335)</u>	<u>316,974</u>	<u>421,309</u>
Other Financing Sources (Uses):			
Transfers in	154,335	-	(154,335)
Transfers out	<u>(50,000)</u>	<u>(50,000)</u>	<u>-</u>
Total other financing sources (uses)	<u>104,335</u>	<u>(50,000)</u>	<u>(154,335)</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>266,974</u>	<u>\$ 266,974</u>
Reconciliation from Budgetary Basis (Modified Accrual) to Full Accrual:			
Reconciling items:			
(Increase) decrease in OPEB		(819)	
Increase in deferred outflows - pension		159	
Decrease in net pension asset		(5,644)	
Increase in net pension liability		(4,121)	
Decrease in deferred inflows - pension		11,265	
Pension expense		(1,659)	
Capital asset additions		52,484	
Depreciation		<u>(71,747)</u>	
Change in net position		<u>\$ 246,892</u>	

TOWN OF LAKE LURE, NORTH CAROLINA**WATER AND SEWER FUND****SCHEDULE OF REVENUES AND EXPENDITURES****BUDGET AND ACTUAL (NON-GAAP)****FOR THE YEAR ENDED JUNE 30, 2016**

	Budget	Actual	Variance Over/Under
Revenues:			
Operating revenues:			
Charges for service	\$ 719,500	\$ 774,953	\$ 55,453
Water and sewer taps	6,000	21,142	15,142
Other operating revenues	19,900	43,592	23,692
Total operating revenues	<u>745,400</u>	<u>839,687</u>	<u>94,287</u>
Non-operating revenues:			
Interest earnings	<u>225,100</u>	<u>145</u>	<u>(224,955)</u>
Total revenues	<u>970,500</u>	<u>839,832</u>	<u>(130,668)</u>
Expenditures:			
Water administration and operations:			
Salaries and employee benefits	71,490	62,199	9,291
Operating expenditures	99,872	87,605	12,267
Total water administration and operations	<u>171,362</u>	<u>149,804</u>	<u>21,558</u>
Sewer administration and operations:			
Salaries and employee benefits	53,105	45,033	8,072
Operating expenditures	584,620	396,431	188,189
Total sewer administration and operations	<u>637,725</u>	<u>441,464</u>	<u>196,261</u>
Debt service:			
Principal	123,445	119,944	3,501
Interest	14,188	14,187	1
Total debt service	<u>137,633</u>	<u>134,131</u>	<u>3,502</u>
Total expenditures	<u>946,720</u>	<u>725,399</u>	<u>221,321</u>

TOWN OF LAKE LURE, NORTH CAROLINA**WATER AND SEWER FUND****SCHEDULE OF REVENUES AND EXPENDITURES****BUDGET AND ACTUAL (NON-GAAP)****FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues over (under) expenditures	<u>23,780</u>	<u>114,433</u>	<u>90,653</u>
Other Financing Sources (Uses):			
Transfers to other funds	(58,149)	-	58,149
Appropriated fund balance	<u>34,369</u>	<u>-</u>	<u>(34,369)</u>
Total other financing sources (uses)	<u>(23,780)</u>	<u>-</u>	<u>23,780</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>114,433</u>	<u>\$ 114,433</u>
Reconciliation from Budgetary Basis (Modified Accrual) to Full Accrual:			
Reconciling items:			
Depreciation		(305,575)	
Principal retirement		119,944	
(Increase) decrease in compensated absences		162	
(Increase) decrease in OPEB		(1,095)	
Increase in deferred outflows - pension		266	
Decrease in net pension asset		(9,406)	
Increase in net pension liability		(6,869)	
Decrease in deferred inflows - pension		18,776	
Pension expense		<u>(2,767)</u>	
Change in net position		<u>\$ (72,131)</u>	

TOWN OF LAKE LURE, NORTH CAROLINA**AGENCY FUNDS****COMBINING SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES
FOR THE YEAR ENDED JUNE 30, 2016**

	Balance July 1, 2015	Additions	Deductions	Balance June 30, 2016
Chimney Rock:				
Assets:				
Cash and cash equivalents	\$ 7,442	\$ 59,430	\$ 57,871	\$ 9,001
Accounts receivable	11,496	64,870	62,622	13,744
Total assets	<u>\$ 18,938</u>	<u>\$ 124,300</u>	<u>\$ 120,493</u>	<u>\$ 22,745</u>
Liabilities:				
Miscellaneous liabilities	<u>\$ 18,938</u>	<u>\$ 124,300</u>	<u>\$ 120,493</u>	<u>\$ 22,745</u>

TOWN OF LAKE LURE, NORTH CAROLINA**SCHEDULE OF AD VALOREM TAXES RECEIVABLE
JUNE 30, 2016**

Year Ended June 30	Uncollected Balance July 1, 2015	Additions	Collections and Credits	Uncollected Balance June 30, 2016
2015-2016	\$ -	\$ 2,367,571	\$ 2,321,183	\$ 46,388
2014-2015	46,388	-	22,116	24,272
2013-2014	28,311	-	2,963	25,348
2012-2013	17,695	-	852	16,843
2011-2012	13,862	-	1,545	12,317
2010-2011	10,356	-	520	9,836
2009-2010	7,120	-	28	7,092
2008-2009	4,433	-	6	4,427
2007-2008	3,526	-	62	3,464
2006-2007	2,606	-	2	2,604
2005-2006	2,711	-	2,711	-
Total	<u>\$ 137,008</u>	<u>\$ 2,367,571</u>	<u>\$ 2,351,988</u>	<u>152,591</u>
Less: Allowance for uncollectible ad valorem taxes receivable				<u>(48,203)</u>
Ad valorem taxes receivable, net				<u>\$ 104,388</u>
Reconciliation with Revenues:				
Taxes - ad valorem				\$ 2,353,184
Reconciling items:				
Interest collected				(7,461)
Refunds and other adjustments				4,830
Miscellaneous adjustments				(1,276)
Amounts written off for tax years per Statute of Limitations				<u>2,711</u>
Total collections and credit				<u>\$ 2,351,988</u>

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

				Total Levy	
	Town-Wide			Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
	Property Valuation	Rate	Amount of Levy		
Original Levy:					
Property taxed at current year's rate	\$ 860,371,377	0.276	\$ 2,374,625	\$ 2,338,231	\$ 36,394
Discoveries	(833,796)		(3,021)	(3,021)	-
Abatements	(1,113,108)		(4,033)	(4,033)	-
Total property valuation	<u>\$ 858,424,473</u>				
Net Levy			2,367,571	2,331,177	36,394
Uncollected taxes at June 30, 2016			(46,388)	(46,379)	(9)
Current Year's Taxes Collected			<u>\$ 2,321,183</u>	<u>\$ 2,284,798</u>	<u>\$ 36,385</u>
Current Levy Collection Percentage			<u>98.04%</u>	<u>98.01%</u>	<u>99.98%</u>

This page left blank intentionally.

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

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

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

Independent Auditor's Report

To the Honorable Mayor and
Members of the Town Council
Town of Lake Lure, North Carolina

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Lake Lure, North Carolina, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated November 29, 2016. Our report includes a reference to other auditors who audited the financial statements of the Town of Lake Lure ABC Board, as described in our report on the Town of Lake Lure's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported separately by those auditors. The financial statements of the Town of Lake Lure ABC Board were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of Lake Lure's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Lake Lure's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

Our consideration of internal control was for limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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

As described in the accompanying Schedule of Findings and Responses, we consider items 2016-002 and 2016-003 to be material weaknesses.

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

Compliance and Other Matters

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

Town of Lake Lure's Responses to Findings

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

Purpose of this Report

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

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
Hickory, North Carolina
November 29, 2016

TOWN OF LAKE LURE, NORTH CAROLINA

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

1. Summary of Auditor's Results

Financial Statements

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

Internal control over financial reporting:

- Material weakness(es) identified? Yes
- Significant deficiency identified? Yes

Non-compliance material to financial statements noted? No

TOWN OF LAKE LURE, NORTH CAROLINA

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

2. Findings Related to the Audit of the Basic Financial Statements

Significant Deficiency

Finding 2016-001: Full Accrual Financial Statements

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

Condition: Financial reporting under the accounting standards promulgated by the Financial Accounting Standards Board and the Governmental Accounting Standards Board (GAAP) requires a level of technical expertise not typically required to perform normal day-to-day operations. The Town's personnel does not prepare full accrual, full disclosure GAAP financial statements.

Context: Full accrual, full disclosure financial statements were prepared by the external auditor.

Effect: Errors in financial reporting could occur.

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

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

Recommendation: The cost of acquiring the technical expertise to comply with the financial reporting requirements discussed above appears prohibitive. Therefore, the Town should exercise due care in reviewing the financial statements drafted by the external auditor as the Town is responsible for the accuracy of the audited financial statements.

Views of responsible officials planned corrective actions: The Town agrees with this findings and will adhere to the corrective action plan following this schedule.

TOWN OF LAKE LURE, NORTH CAROLINA

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

2. Findings Related to the Audit of the Basic Financial Statements (continued)

Material Weakness

Finding 2016-002: Material Audit Adjustments

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

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

Context: While performing audit procedures, we noted the condition described above.

Effect: Financial reports used for budget monitoring throughout the year do not properly reflect the account balances.

Cause: Inadequate monitoring by management.

Recommendation: Management should examine the adjustments required as a result of our audit and the finance director should assure they are reconciled and posted prior to the audit.

Views of responsible officials and planned corrective actions: The Town agrees with this finding and will adhere to the corrective action plan following this schedule.

TOWN OF LAKE LURE, NORTH CAROLINA

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

2. Findings Related to the Audit of the Basic Financial Statements (continued)

Material Weakness

Finding 2016-003: Segregation of Duties

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

Condition: Due to the limited number of personnel in the Town's Administration Office, there is a lack of segregation of duties among Town personnel.

Context: While obtaining an understanding of the internal controls over payroll and journal entry procedures, we noted the condition described above. Personnel who processes payroll has access to making changes to employee's payroll deductions and pay rates in the payroll system. That same person also reconciles the payroll bank account monthly. The Finance Officer performs review and approval of journal entries for other finance staff but can also post journal entries. There is no review of journal entries posted by the Finance Officer.

Effect: Errors in financial reporting could occur and not be detected.

Cause: Change in personnel in the current year caused part of the segregation problem. The prior Town Manager performed several of the oversight duties in the finance office. In addition, there are a limited number of personnel for certain functions in the Town.

Recommendation: Ideally, the individual preparing or proposing journal entries should not have access to post the entries. To the extent possible, alternative controls should be used to compensate for any lack of segregation of duties. The Town Manager or a member of the Council could review a report listing of adjusting journal entries on a monthly basis to detect unauthorized adjustments to the general ledger. Duties and responsibilities of human resources and payroll processing should be separated as much as possible. All employee related benefits and deductions should be handled through human resources which is typically not the same personnel as payroll. Payroll processing personnel should not be involved in the changes of personnel data in personnel files or the payroll system.

Views of Responsible Officials and Planned Corrective Actions: Management agrees with the finding and will implement adequate internal controls to ensure that these issues do not recur. Please refer to the corrective action plan following this section.

TOWN OF LAKE LURE, NORTH CAROLINA

CORRECTIVE ACTION PLAN FOR THE YEAR ENDED JUNE 30, 2016

2. Financial Statement Findings

Significant Deficiency

Finding 2016-001: Full Accrual Financial Statements

Name of Contact Person: Sam Karr, Finance Director

Corrective Action: Town should exercise due care in reviewing the financial statements drafted by the external auditor as the Town is responsible for the accuracy of the audited financial statements. Town will hire staff to review and take time reviewing financial statements.

Proposed Completion Date: Fiscal year 2017 budget has allocated funding for additional staff. Will be implemented as soon as additional staff are hired.

Material Weakness

Finding 2016-002: Material Audit Adjustments

Name of Contact Person: Sam Karr, Finance Director

Corrective Action: Management should examine the adjustments required as a result of the audit and the finance director should assure they are reconciled and posted prior to the audit.

Proposed Completion Date: Fiscal year 2017 budget has allocated funding for additional staff. Will be implemented as soon as additional staff are hired.

Material Weakness

Finding 2016-003: Segregation of Duties

Name of Contact Person: Sam Karr, Finance Director

Corrective Action: There are limited Town resources; the Town has contracted a third party to generate journal entries and these are reviewed by finance officer.

Proposed Completion Date: The Town will implement the above procedure immediately.

TOWN OF LAKE LURE, NORTH CAROLINA

**SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016**

Finding 2015-001:

Status: Repeated as 2016-001