

**TOWN OF GRANITE FALLS
NORTH CAROLINA**

ANNUAL REPORT

FOR THE YEAR ENDED JUNE 30, 2016

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

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

TOWN OF GRANITE FALLS, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2016

Mayor

Barry Hayes

Town Council

Dr. Caryl B. Burns, Mayor Pro Tem

Marc Church

Jim Mackie

Mike Mackie

Martin D. Townsend

Tracy Townsend

Town Manager

Jerry Church

Prepared by the Town of Granite Falls Finance Department

Finance Officer

Marsha Harbison

This page left blank intentionally.

TOWN OF GRANITE FALLS, NORTH CAROLINA

ANNUAL REPORT 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	4-17
	Basic Financial Statements:	
	Government-Wide Financial Statements:	
A	Statement of Net Position	18
B	Statement of Activities	19-20
	Fund Financial Statements:	
C	Balance Sheet - Governmental Funds	21
D	Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Fund	22
E	Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Fund to the Statement of Activities	23
F	General Fund - Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual	24
G	Statement of Net Position - Proprietary Funds	25
H	Statement of Revenues, Expenses, and Changes in Fund Net Position - Proprietary Funds	26
I	Statement of Cash Flows - Proprietary Funds	27
	Notes to the Financial Statements	28-57

TOWN OF GRANITE FALLS, NORTH CAROLINA

ANNUAL REPORT FOR THE YEAR ENDED JUNE 30, 2016

TABLE OF CONTENTS

<u>Schedule</u>		<u>Page</u>
	Required Supplemental Financial Data:	
A-1	Other Post-Employment Benefits - Required Supplementary Information	58
A-2	Local Governmental Employees' Retirement System - Proportionate Share of Net Pension Liability (Asset)	59
A-3	Local Governmental Employees' Retirement System - Contributions	60
	Supplementary Information:	
	Major Governmental Fund:	
1	General Fund - Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual	61-63
	Nonmajor Capital Project Fund:	
2	FEMA - Assistance to Firefighters Grant Fund Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual	64
	Proprietary Fund Types:	
	Major Enterprise Funds:	
3	Electric Fund - Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)	65
4	Water and Sewer Fund - Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)	66

TOWN OF GRANITE FALLS, NORTH CAROLINA

**ANNUAL REPORT
FOR THE YEAR ENDED JUNE 30, 2016**

TABLE OF CONTENTS

<u>Schedule</u>		<u>Page</u>
	Other Schedules:	
5	Schedule of Ad Valorem Taxes Receivable	67
6	Analysis of Current Year Levy	68
	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>	69-70
	Schedule of Findings and Responses	71-72
	Corrective Action Plan	73
	Schedule of Prior Year Audit Findings	74

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 Granite Falls, 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 Granite Falls, 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 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 Granite Falls 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 Granite Falls 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 Granite Falls 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 auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Granite Falls, North Carolina, as of June 30, 2016, and the respective changes in financial position and, 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 Other Post-Employment Benefits' Schedules of Funding Progress and Employer Contributions and the Local Governmental Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Liability (Asset) and Contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and the other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the Law Enforcement Officers' Special Separation Allowance Schedules of Funding Progress and Employers Contributions that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Granite Falls' basic financial statements. The budget and actual schedules and supplemental ad valorem tax schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The budget and actual schedules and supplemental ad valorem tax schedules are the responsibility of management, 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 auditors, the 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 September 29, 2016 on our consideration of the Town of Granite Falls' 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 Granite Falls' internal control over financial reporting and compliance.

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
Hickory, NC
September 29, 2016

This page left blank intentionally.

Management's Discussion and Analysis

As management of the Town of Granite Falls, we offer readers of the Town of Granite Falls' financial statements this narrative overview and analysis of the financial activities of the Town of Granite Falls 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

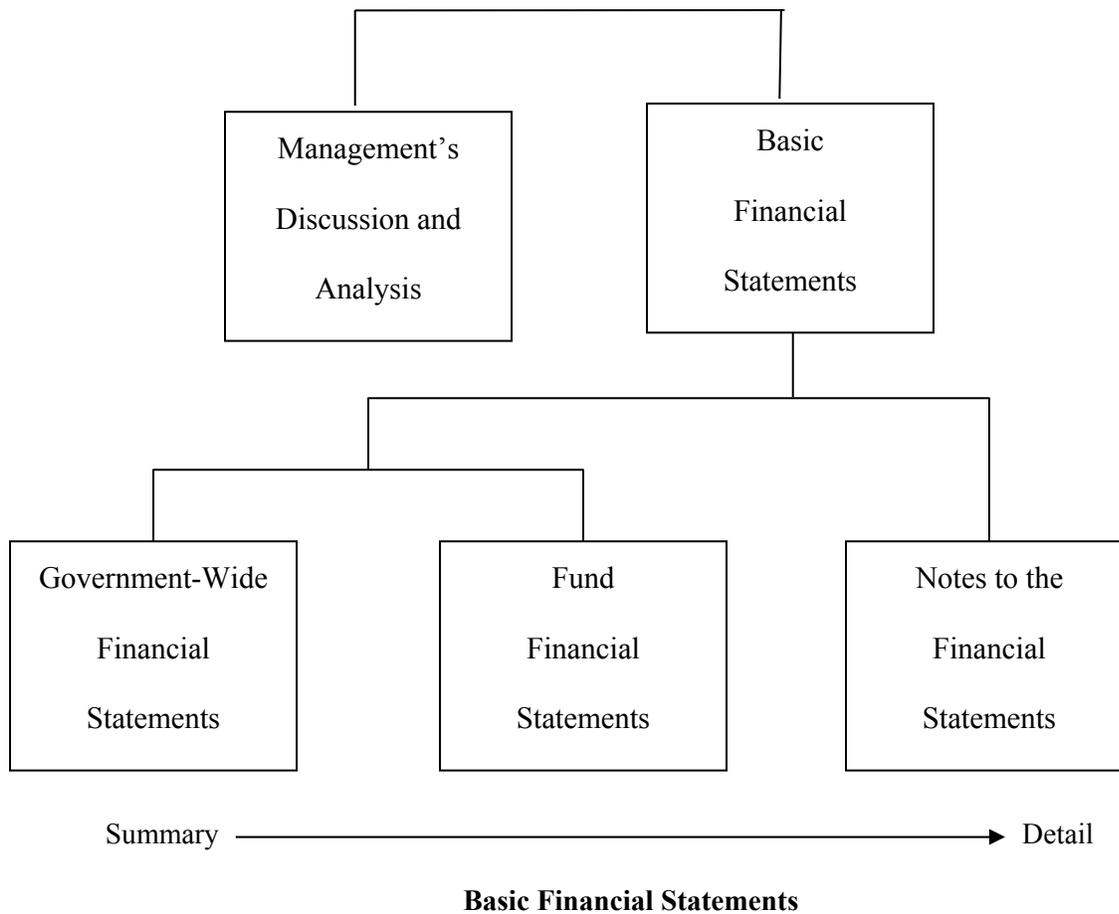
- The assets and deferred outflows of resources of the Town of Granite Falls exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$28,326,822 (*net position*).
- The government's total net position increased by \$747,893.
- At the close of the current fiscal year, the Town of Granite Falls' governmental funds reported combined ending fund balances of \$2,550,668, an increase of \$481,006 in comparison with the prior year. Approximately 17 percent of this total amount, or \$442,550, is restricted or non-spendable.
- At the end of the current fiscal year, available fund balance for the General Fund was \$2,339,654, or 72 percent, 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 Granite Falls' 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 Granite Falls.

Required Components of Annual Financial Report

Figure 1



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

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

Government-Wide Financial Statements

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

The two government-wide statements report the Town's net position and how they have changed. Net position is the difference between the Town's total assets and deferred outflows of resources, the 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 three categories: 1) governmental activities, 2) business-type activities, and 3) component units. The governmental activities include most of the Town's basic services such as public health and safety, economic and physical development, streets and public works, and general administration. Property taxes and federal and State grant funds finance most of these activities. The business-type activities are those that the Town charges customers to provide. These include the electric and the water and sewer services offered by the Town of Granite Falls. The final category is the component unit. Although legally separate from the Town, the ABC Board is important because the Town is financially accountable for the Board by appointing its members and because the Board is required to distribute its profits to the Town.

The government-wide financial statements are on Exhibits A and B of this report. Information on the financial statements of the component unit is included in Note 1.A.

Fund Financial Statements

The fund financial statements (see Figure 1) provide a more detailed look at the Town's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Granite Falls, 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 Granite Falls 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 government activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The Town of Granite Falls 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 Granite Falls 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 Granite Falls uses enterprise funds to account for its electric and water and sewer operations. These funds are the same as the separate activity 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 I of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the Town of Granite Falls' progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on pages 58-60 of this report.

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

**Government-Wide Financial Analysis
Town of Granite Falls' Net Position**

Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Assets:						
Current and other assets	\$ 2,710,045	\$ 2,354,339	\$ 7,726,527	\$ 7,381,329	\$ 10,436,572	\$ 9,735,668
Capital assets, net	5,172,536	5,213,499	14,478,861	14,722,025	19,651,397	19,935,524
Total assets	7,882,581	7,567,838	22,205,388	22,103,354	30,087,969	29,671,192
Deferred outflows of resources	92,109	86,374	56,454	52,939	148,563	139,313
Liabilities:						
Current liabilities	74,623	65,218	870,861	862,900	945,484	928,118
Other liabilities	713,500	724,141	170,859	112,047	884,359	836,188
Total liabilities	788,123	789,359	1,041,720	974,947	1,829,843	1,764,306
Deferred inflows of resources	50,620	290,735	29,247	176,535	79,867	467,270
Net Position:						
Net investment in capital assets	4,987,035	4,958,006	14,478,861	14,722,025	19,465,896	19,680,031
Restricted	442,550	751,371	-	-	442,550	751,371
Unrestricted	1,706,362	864,741	6,712,014	6,282,786	8,418,376	7,147,527
Total net position	\$ 7,135,947	\$ 6,574,118	\$ 21,190,875	\$ 21,004,811	\$ 28,326,822	\$ 27,578,929

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 resources of the Town of Granite Falls exceeded liabilities and deferred inflows of resources by \$28,326,822 as of June 30, 2016. The Town's net position increased by \$747,893 for the fiscal year ended June 30, 2016. The largest portion of net position (69%) reflects the Town's net investment in capital assets (e.g. land, buildings, and equipment). The Town of Granite Falls uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Granite Falls' 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 Granite Falls' net position (2%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$8,418,376 is unrestricted.

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

- Continued diligence in the collection of ad valorem property taxes
- Expansion of the tax base as evidenced by the following new businesses that opened during fiscal year 2016: Sweet Frog, SC Therapeutic Massage, Great Value Self Storage, Tri-County Wireless, Ethridge Auction House, CCF Sofa, LLC, Revelation Five Fitness, Infinite Communications, eQuality Motors LLC, Donahue Creek LLC, Latham and Hatch LLC, Elite Body & Wellness, Farm Fresh, Ccon Metals USA, Moonwater, Premier Homecare LLC, The Groovy Grooming Shop, 80 Acres Urban Agriculture dba Carolina Acres LLC, Insight Human Services, Inc., RPM Wood Finishes Group, Chubby's Sub Shop.
- Utilization of the NC Debt Setoff Program. Since its inception, the Town has received approximately \$139,068 in bad debt collections through this program
- Continued aggressiveness in seeking grants to assist in funding capital projects, rate studies, and programs
- Increased fees for services when necessary to better cover costs of providing services
- Fiscal responsibility by continuing to control spending.

Town of Granite Falls' 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	\$ 309,010	\$ 257,407	\$ 8,595,077	\$ 8,466,745	\$ 8,904,087	\$ 8,724,152
Operating grants and contributions	109,629	94,779	-	-	109,629	94,779
Capital grants and contributions	202,017	610,388	5,000	-	207,017	610,388
General revenues:						
Property taxes	1,844,462	1,744,905	-	-	1,844,462	1,744,905
Other taxes and licenses	923,258	952,190	2,609	5,157	925,867	957,347
Unrestricted intergovernmental revenues	378,274	384,806	-	-	378,274	384,806
Investment earnings, unrestricted	3,596	11,375	8,648	1,469	12,244	12,844
Total revenues	<u>3,770,246</u>	<u>4,055,850</u>	<u>8,611,334</u>	<u>8,473,371</u>	<u>12,381,580</u>	<u>12,529,221</u>
Expenses:						
General government	382,454	402,488	-	-	382,454	402,488
Public safety	1,613,188	1,520,658	-	-	1,613,188	1,520,658
Streets and public works	622,999	545,453	-	-	622,999	545,453
Economic and physical development	-	8,360	-	-	-	8,360
Sanitation	174,004	171,980	-	-	174,004	171,980
Cultural and recreation	395,879	379,589	-	-	395,879	379,589
Interest on long-term debt	19,893	24,100	-	-	19,893	24,100
Electric	-	-	6,372,770	6,561,233	6,372,770	6,561,233
Water and sewer	-	-	2,052,500	1,915,298	2,052,500	1,915,298
Total expenses	<u>3,208,417</u>	<u>3,052,628</u>	<u>8,425,270</u>	<u>8,476,531</u>	<u>11,633,687</u>	<u>11,529,159</u>
Change in net position	<u>561,829</u>	<u>1,003,222</u>	<u>186,064</u>	<u>(3,160)</u>	<u>747,893</u>	<u>1,000,062</u>
Net Position:						
Beginning of year - July 1	6,574,118	5,735,730	21,004,811	21,108,998	27,578,929	26,844,728
Restatement	-	(164,834)	-	(101,027)	-	(265,861)
Beginning of year - restated	<u>6,574,118</u>	<u>5,570,896</u>	<u>21,004,811</u>	<u>21,007,971</u>	<u>27,578,929</u>	<u>26,578,867</u>
End of year - June 30	<u>\$ 7,135,947</u>	<u>\$ 6,574,118</u>	<u>\$ 21,190,875</u>	<u>\$ 21,004,811</u>	<u>\$ 28,326,822</u>	<u>\$ 27,578,929</u>

Governmental Activities. Governmental Town activities' net position increased by \$561,829. Key elements of this increase are as follows:

- Purchased Lifepak CR Plus AED Defibrillators for all departments.
- Purchased one Ford Interceptor SUV for the Police Department.
- Purchased a Stealth Stat Radar Data Logger and a HVAC unit for the Police Department.
- Purchased a new first responder vehicle and a new phone system for the Fire Department.
- Purchased new fire hose and a fire hose management system for the Fire Department through a FEMA Assistance to Firefighters Grant.
- Purchased a Snow Dogg snow plow, an Altec chipper and a John Deere z-trak mower for the Street Department.
- Purchased a Jet Max Turbo Pool Vacuum and a HVAC unit for the Recreation Department.
- The Granite Falls Town Council amended the 2015-2016 budget to include the following items:
 - a. \$4,000.00 for an ElectriCities Smart Communities Grant.
 - b. \$118,622.29 of a \$191,000.00 NC DOC Building Reuse Grant for an economic development project for A. McGee Wood Products.
 - c. \$137,500.00 for a NC DOC Building Reuse Grant for an economic development project for Ccon Metals, USA.
 - d. \$38,000.00 reimbursement from Lubrimental to the NC DOC for a Building Reuse Grant.
 - e. \$3,000.00 for a Community Foundation Grant earmarked for maintenance and repairs of buildings and grounds at the Recreation Center.
 - f. \$9,580.00 for the sale of surplus items through GovDeals.
 - g. \$8,093.00 for an insurance claim reimbursement for repairs to the grounds at the Recreation Center.
 - h. \$20,000.00 for a HVAC unit at the Recreation Center
 - i. \$750.00 for Veterans Memorial Expenses.
 - j. \$4,000.00 for equipment upgrades for the Caldwell County local public TV station.
 - k. \$8,157.84 for ABC distributions to the local schools.
- Department heads continued to control spending.
- Town departments implemented increased fees for services where necessary to better cover costs of providing these services.

Business-Type Activities. Business-type activities increased the Town of Granite Falls' net position by \$186,064. Key elements of this increase are as follows:

- Purchased two new Ford Explorers and one Ford F250 for the Water & Sewer Department.
- Purchased a new SCADA system for the Water Treatment Plant and the water distribution system.
- Completed a water line extension on Duke Power Road and a sewer line extension at Cascade Lane.
- Replaced obsolete equipment in the Water & Sewer Department.
- The Town Council approved an across-the-board increase of 3.1% in the water and sewer rates to offset rising chemical costs and address aging system infrastructure issues.
- The Granite Falls Town Council amended the 2015-2016 budget \$10,000 for ElectriCities System Betterment Grants.
- The Electric Department installed a 1000 KVA Transformer at A. McGee Wood Products and a new 3 phase service with a new transformer at Donahue Creek, LLC.
- Replaced obsolete equipment in the Electric Department.
- The Electric Department purchased two new generators.

Financial Analysis of the Town's Funds

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

Governmental Funds. The focus of the Town of Granite Falls' 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 Granite Falls' financing requirements. Specifically, fund balance available for appropriation 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 Granite Falls. At the end of the current fiscal year, available fund balance of the General Fund was \$2,339,654, while total fund balance reached \$2,550,668. The Town currently has an available fund balance of 72% of General Fund expenditures, while total fund balance represents 78% of the same amount.

At June 30, 2016, the governmental funds of the Town of Granite Falls reported a fund balance of \$2,550,668, a 23% increase over last year.

General Fund Budgetary Highlights. During the 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 budget increased revenues by \$351,703.13. Amendments were necessary to allocate grants from the Community Foundation, ElectriCities Smart Communities Grant and NC Department of Commerce Building Reuse Grants for A. McGee Wood Products, Ccon Metal Works, USA and Lubrimetal. Amendments were also made for the ABC distributions to local schools, Veterans Memorial expenses, an insurance reimbursement for repairs to the Recreation Center grounds, sales of surplus properties, a new HVAC unit for the Recreation Center and a contribution to Caldwell County to assist in the equipment upgrade for the County local public TV station.

Proprietary Funds. The Town of Granite Falls' proprietary funds provide the same type of information found in the government-wide statements, but in more detail. Unrestricted net position of the Water and Sewer Fund totaled \$2,767,864 and for the Electric Fund totaled \$3,944,150 for the year ended June 30, 2016. The decrease in net position for the Water and Sewer Fund was \$141,041, while the increase in net position for the Electric Fund was \$327,105. Total amendments to the Electric Fund budget increased revenues by \$10,000.00 for two ElectriCities System Betterment Fund Grants.

Capital Asset and Debt Administration

Capital Assets. The Town of Granite Falls' capital assets for its governmental and business-type activities as of June 30, 2016 totals \$19,651,397 (net of accumulated depreciation). These assets include buildings, land, improvements, and machinery and equipment.

Major capital asset transactions during the year include:

- Purchased Lifepak CR Plus AED Defibrillators for all departments.
- Purchased one Ford Interceptor SUV for the Police Department.
- Purchased a Stealth Stat Radar Data Logger and a HVAC unit for the Police Department.
- Purchased a new first responder vehicle and a new phone system for the Fire Department.
- Purchased new fire hose and a fire hose management system for the Fire Department through a FEMA Assistance to Firefighters Grant.
- Purchased a Snow Dogg snow plow, an Altec chipper and a John Deere z-trak mower for the Street Department.
- Purchased a Jet Max Turbo Pool Vacuum and a HVAC unit for the Recreation Department.
- Purchased two new Ford Explorers and one Ford F250 for the Water & Sewer Department.
- Purchased a new SCADA system for the Water Treatment Plant and the water distribution system.
- Completed a water line extension on Duke Power Road and a sewer line extension at Cascade Lane.
- Replaced obsolete equipment in the Water & Sewer Department.
- The Town Council approved an across-the-board increase of 3.1% in the water and sewer rates to offset rising chemical costs and address aging system infrastructure issues.
- The Electric Department installed a 1000 KVA Transformer at A. McGee Wood Products and a new 3 phase service with a new transformer at Donahue Creek, LLC.
- Replaced obsolete equipment in the Electric Department.
- The Electric Department purchased two new generators.

Town of Granite Falls' Capital Assets

Figure 4

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land	\$ 1,582,263	\$ 1,582,263	\$ 213,140	\$ 213,140	\$ 1,795,403	\$ 1,795,403
Buildings	2,168,504	2,168,504	-	-	2,168,504	2,168,504
Infrastructure	1,261,298	1,261,298	-	-	1,261,298	1,261,298
Plant and distribution systems	-	-	27,927,616	27,816,386	27,927,616	27,816,386
Equipment and vehicles	2,753,198	2,638,814	2,397,906	1,949,394	5,151,104	4,588,208
Total	7,765,263	7,650,879	30,538,662	29,978,920	38,303,925	37,629,799
Accumulated depreciation	(2,592,727)	(2,437,380)	(16,059,801)	(15,256,895)	(18,652,528)	(17,694,275)
Capital assets, net	<u>\$ 5,172,536</u>	<u>\$ 5,213,499</u>	<u>\$ 14,478,861</u>	<u>\$ 14,722,025</u>	<u>\$ 19,651,397</u>	<u>\$ 19,935,524</u>

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

Long-Term Debt. As of June 30, 2016, the Town of Granite Falls had total notes payable outstanding of \$411,936. Of total notes payable outstanding, \$185,501 are secured by assets of the Town.

Town of Granite Falls' Outstanding Debt

Figure 5

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Notes payable	<u>\$ 411,936</u>	<u>\$ 522,067</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 411,936</u>	<u>\$ 522,067</u>

The State of North Carolina limits the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for the Town of Granite Falls is approximately \$32,177,000.

Additional information regarding the Town of Granite Falls' long-term debt can be found in Notes 1 and 2 of this audited financial report.

Economic Factors and Next Year's Budgets and Rates

- The following are economic indicators affecting the Town:
- Caldwell County experienced some of the highest unemployment rates in North Carolina during the years 2008 through 2014. The highest rate was in February 2010 at 17.1%, compared to 5.1% in July 2016, and 8.8% in July 2008.
- In late 2008, the United States, especially North Carolina and the Unifour region, experienced one of the sharpest downturns in the economy since the Great Depression. Caldwell County and Granite Falls were hit extremely hard due to the area's large manufacturing job base. Caldwell County was designated a Tier I County by the NC Department of Commerce in 2016. The NC Department of Commerce also designated Caldwell County as a 21st Century Community in July 2008.
- Granite Falls, as well as most of the State of North Carolina, faced a severe drought from late 2006 until the summer of 2009 when normal rainfall began. From December 2011 through June 2015, the Town was in Stage 0 Normal Conditions. The Town was under Stage 1 Voluntary Water Restrictions from July 2015 through November 2015. The Town has been in Stage 0 Normal Conditions but will more than likely return to Stage 1 Conditions by October 2016. Granite Falls participates with other water users in complying with the Low Inflow Protocol (LIP) that is part of Duke Energy Company's FERC relicensing requirements.
- The Town Council approved the 2016-2017 property tax rate to remain flat at \$.44 per \$100 valuation. The property tax rate of \$.44 per \$100 valuation is the same tax rate the Town had in 2005 before the last property revaluation. Granite Falls' tax levy for 2016 ad valorem taxes is \$1,645,340 as compared to the 2014 valuation of \$1,636,876. This represents a \$8,464 or .5% increase. One cent on the tax rate equals \$39,563.
- In 2009, the Town, in cooperation with Caldwell County, purchased 66 acres from Edward Wayne Whisenant off New Farm Road. The property was officially purchased in the name of Caldwell EDC Properties, LLC. Caldwell County and Granite Falls negotiated three-year interest-only payments with Parkway Bank with anticipation the property would be sold for economic development within that time period. As part of the intergovernmental agreement, Caldwell County agreed to pay the monthly interest payments, and Granite Falls will make one annual reimbursement in July. If the property was not sold within three years, the loan would have reverted to interest and principal payments. On May 2, 2011, the Town Council approved an amended Interlocal Agreement between Caldwell County, Caldwell County EDC, LLC, and the Town of Granite Falls, which converted the loan to a 10-year fixed interest rate loan under which the Town would pay both principal and interest, with the first payment due date of July 15, 2011. This parcel was annexed into the Town limits on December 1, 2009.
- The Town serves as applicant for a \$137,500 NC Department of Commerce Rural Economic Development Division Building Reuse Grant for Ccon Metals USA, Inc. (Ccon). Ccon is required to invest \$275,000 in the property and hire 11 workers and maintain these jobs for at least six months after hiring the 11th worker. The 5% local match was paid by the Caldwell County Sales Tax Reinvestment Fund.
- The Town serves as applicant for a \$125,000 NC Department of Commerce Rural Economic Development Division Building Reuse Grant for 80 Acres Investments, LLC (80 Acres). 80 Acres is required to invest \$250,000 in the property and hire 10 workers and maintain these jobs for at least six months after hiring the 10th worker. The 5% local match was paid by the Caldwell County Sales Tax Reinvestment Fund.
- The NC Department of Commerce announced in September 2008 that Granite Falls had been selected to participate in the Small Town Main Street Program. The Program uses the "Four Point Approach" to downtown revitalization that includes organization, promotions, design, and economic restructuring. As a result of the Small Town Main Street designation, Granite Falls

received two years of technical assistance from the NC Department of Commerce that provided viability to the downtown area. A Facade Grant Program was identified as a need by local participants in the Small Town Main Street Program. The Town Council approved a resolution for the Town of Granite Falls to continue participation in the Small Town Main Street program through June 2017. The Council approved \$3,000 in the fiscal year 2016-2017 budget to continue the Facade Grant program.

- The Town partnered with downtown merchants to begin the Granite Falls Merchants Association in early 2008. The Merchants Association held their first annual “Festival On Main” in September 2009. This event was so successful, the merchants voted to make this an annual event and the eighth annual festival was held in September 2016 .
- The Granite Falls History and Transportation Museum continues to be open on weekends and is staffed by volunteers. The museum is opened other times by appointment. The museum, located at 107 Falls Avenue, was renovated with a \$335,000 grant from DOT Enhancement Funds along with the Town’s local contribution of \$92,538. The Town pays the ongoing operating costs of the museum.
- The Town, through ElectriCities, contracted with Retail Strategies Group to conduct a retail analysis for the Town. The analysis includes a Retailer Overview and Recruitment Plan, a Local Property Catalog and a Call List and Recruitment Update. The contract is for three years, fiscal years 2015–2017, at a total cost of \$38,000 to the Town.

Budget Highlights for the Fiscal Year Ending June 30, 2017

Governmental Activities. General Fund revenues budgeted for the fiscal year 2017 are \$3,767,000. This is an increase of \$29,201 from actual revenues for the year ending 2016 in the amount of \$3,737,799. The current tax rate remains at \$.44 per \$100 valuation for the upcoming 2016-2017 fiscal year. The Town personnel budget increased by 5.4% due to the implementation of Phase II of the MAPS Group Position and Classification Study. Major capital projects include vehicles for the Police and Street Departments and Recreation Center projects including renovations of the gymnasium and tennis courts, the addition of permanent seating and the replacement of a retaining wall at multi-purpose field #3, new permanent bag-toss boards and a new ADA playground area. The Town continues to take a conservative approach to budgeting.

Business-Type Activities. Granite Falls’ Electric Department received the prestigious Reliable Public Power Provider (RP3) designation from American Public Power for the two-year period 2015-2017. The Town has received the RP3 two-year designation on four separate occasions. In 2015, the Town of Granite Falls was one of only 191 of 2,000 Public Power systems to receive this honor in the United States. The Town received five Public Power Awards of Excellence. These awards are for Competitive Business Environment, Energy Efficiency, Financial Stability, Legislative Involvement and Service Excellence.

In July 2016, the Town did not implement an electric rate increase. The NC Municipal Power Agency #1 increased the Renewable Energy Portfolio Standards (REPS) charge, that averages one-half percent of each customer’s electric bill.

RENEWABLE ENERGY PORTFOLIO STANDARDS – SENATE BILL 3

2016 - 2017			
<u>Customer</u>	<u>Max. Annual Cap.</u>	<u>Monthly Cost</u>	<u>Annual Cost</u>
Residential	10.00	0.61	7.32
Commercial	50.00	2.95	35.40
Industrial	500.00	30.41	364.92

The fiscal year 2017 Electric Fund budget does not include funds for Electric Fund debt service payments. The Electric Fund debt was paid in full during fiscal 2012.

In the fiscal year 2017, the Town continued its commitment to green power and energy efficiency initiatives through rebate programs to customers for installing energy efficient water heaters and heat pumps. The Council recently approved three energy efficiency programs for Town customers. The fiscal year 2017 Electric Fund budget includes \$543,000 to address items from the Town's Capital Improvement Plan (CIP). The Town has appropriated \$192,700 from the Electric Fund Unrestricted Net Position to pay for the CIP outlay.

The Town has operated in a deficit the past few years in the Water and Sewer Fund as water and sewer sales have been sluggish as a direct result of loss of local industry coupled with customer's usage being less due to the recent drought. The 2016-2017 budget includes a water rate increase on the 3,000 minimum monthly charge from \$22.97 to \$23.66 or \$.69, and an increase on the monthly base sewer rate of \$.43 from \$14.24 to \$14.67. In addition to the base rate increases, the Town implemented small block usage rate increases. The increased cost to a household using the minimum 5,000 gallons of water and sewer per month will be \$1.77 or approximately .06 cents per day. Rate increases were also implemented for County customers on Town-owned lines, large commercial and industrial users, and wholesale customers. The Town rate structure and metering practices are in compliance with the State mandates of "the more a user consumes the more they pay" and separate meters required for irrigation systems.

The Town has been approved for three Clean Water State Revolving Funds (CWSRF) loans of approximately \$3,100,000 to complete CIP projects to upgrade the Wastewater Treatment Facility, to replace two pump stations and to expand the alum sludge storage capability at the Water Treatment Facility. The 2017 budget includes a \$67,600 increase in capital outlay and a budget for loan origination fees of \$12,000 for Clean Water State Revolving Fund loans the Town Council approved in order to start addressing aging infrastructure.

The fiscal year 2017 Water and Sewer Fund budget includes \$41,000 for Water and Sewer Fund debt payments. The budget also includes \$456,000 in capital outlay. The budget requires the use of the \$382,000 from the Water and Sewer Fund Unrestricted Net Position.

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 Town Manager, 30 Park Square, Granite Falls, North Carolina 28630, or call (828) 396-3131.

TOWN OF GRANITE FALLS, NORTH CAROLINA

STATEMENT OF NET POSITION
JUNE 30, 2016

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Granite Falls ABC Board
Assets:				
Current assets:				
Cash and investments	\$ 2,188,080	\$ 5,536,365	\$ 7,724,445	\$ 182,162
Taxes receivable, net	78,546	-	78,546	-
Accounts receivable, net	197,153	1,213,748	1,410,901	-
Due from component unit	17,166	-	17,166	-
Inventory	-	673,128	673,128	142,046
Prepaid items	-	-	-	4,338
Restricted assets:				
Cash and investments, restricted	229,100	303,286	532,386	-
Total current assets	2,710,045	7,726,527	10,436,572	328,546
Non-current assets:				
Capital assets:				
Land	1,582,263	213,140	1,795,403	-
Other capital assets, net of depreciation	3,590,273	14,265,721	17,855,994	126,392
Total capital assets	5,172,536	14,478,861	19,651,397	126,392
Total assets	7,882,581	22,205,388	30,087,969	454,938
Deferred Outflows of Resources:				
Contributions to pension plan in current fiscal year	89,542	54,881	144,423	4,958
Pension deferrals	2,567	1,573	4,140	5,009
Total deferred outflows of resources	92,109	56,454	148,563	9,967
Liabilities:				
Current liabilities:				
Accounts payable and accrued liabilities	74,623	567,575	642,198	89,879
Due to primary government	-	-	-	17,166
Liabilities paid from restricted assets:				
Customer deposits	-	303,286	303,286	-
Total current liabilities	74,623	870,861	945,484	107,045
Long-term liabilities:				
Due within one year	122,908	31,000	153,908	-
Net pension liability	86,787	53,193	139,980	4,667
Due in more than one year	503,805	86,666	590,471	-
Total long-term liabilities	713,500	170,859	884,359	4,667
Total liabilities	788,123	1,041,720	1,829,843	111,712
Deferred Inflows of Resources:				
Prepaid taxes	2,903	-	2,903	-
Pension deferrals	47,717	29,247	76,964	2,426
Total deferred inflows of resources	50,620	29,247	79,867	2,426
Net Position:				
Net investment in capital assets	4,987,035	14,478,861	19,465,896	126,392
Restricted for:				
Stabilization for State statute	211,014	-	211,014	-
Public safety	2,436	-	2,436	-
Streets - Powell Bill	217,672	-	217,672	-
Cultural and recreation	11,428	-	11,428	-
Working capital	-	-	-	30,364
Unrestricted	1,706,362	6,712,014	8,418,376	194,011
Total net position	\$ 7,135,947	\$ 21,190,875	\$ 28,326,822	\$ 350,767

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

TOWN OF GRANITE FALLS, NORTH CAROLINA

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

	<u>Program Revenues</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Functions/Programs:				
Primary Government:				
Governmental Activities:				
General government	\$ 382,454	\$ 106,383	\$ 108,436	\$ -
Public safety	1,613,188	98,267	1,193	50,600
Streets and public works	622,999	29,947	-	151,417
Sanitation	174,004	-	-	-
Cultural and recreation	395,879	74,413	-	-
Interest on long-term debt	19,893	-	-	-
Total governmental activities	<u>3,208,417</u>	<u>309,010</u>	<u>109,629</u>	<u>202,017</u>
Business-Type Activities:				
Water and Sewer	2,052,500	1,904,944	-	5,000
Electric	6,372,770	6,690,133	-	-
Total business-type activities	<u>8,425,270</u>	<u>8,595,077</u>	<u>-</u>	<u>5,000</u>
Total primary government	<u>\$ 11,633,687</u>	<u>\$ 8,904,087</u>	<u>\$ 109,629</u>	<u>\$ 207,017</u>
Component Unit:				
ABC Board	<u>\$ 1,020,908</u>	<u>\$ 1,020,818</u>	<u>\$ -</u>	<u>\$ -</u>

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

TOWN OF GRANITE FALLS, NORTH CAROLINA

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

	Net (Expense) Revenue and Changes in Net Position			Component Unit Granite Falls ABC Board
	Primary Government			
	Governmental Activities	Business-Type Activities	Total	
Functions/Programs:				
Primary Government:				
Governmental Activities:				
General government	\$ (167,635)	\$ -	\$ (167,635)	\$ -
Public safety	(1,463,128)	-	(1,463,128)	-
Streets and public works	(441,635)	-	(441,635)	-
Sanitation	(174,004)	-	(174,004)	-
Cultural and recreation	(321,466)	-	(321,466)	-
Interest on long-term debt	(19,893)	-	(19,893)	-
Total governmental activities	<u>(2,587,761)</u>	<u>-</u>	<u>(2,587,761)</u>	<u>-</u>
Business-Type Activities:				
Water and Sewer	-	(142,556)	(142,556)	-
Electric	-	317,363	317,363	-
Total business-type activities	<u>-</u>	<u>174,807</u>	<u>174,807</u>	<u>-</u>
Total primary government	<u>(2,587,761)</u>	<u>174,807</u>	<u>(2,412,954)</u>	<u>-</u>
Component Unit:				
ABC Board	-	-	-	(90)
General Revenues:				
Taxes:				
Ad valorem taxes	1,844,462	-	1,844,462	-
Local option sales tax	886,949	-	886,949	-
Other taxes and licenses	36,309	2,609	38,918	-
Unrestricted intergovernmental revenues	378,274	-	378,274	-
Investment earnings	<u>3,596</u>	<u>8,648</u>	<u>12,244</u>	<u>90</u>
Total general revenues	<u>3,149,590</u>	<u>11,257</u>	<u>3,160,847</u>	<u>90</u>
Change in net position	561,829	186,064	747,893	-
Net Position:				
Beginning of year - July 1	<u>6,574,118</u>	<u>21,004,811</u>	<u>27,578,929</u>	<u>350,767</u>
End of year - June 30	<u>\$ 7,135,947</u>	<u>\$ 21,190,875</u>	<u>\$ 28,326,822</u>	<u>\$ 350,767</u>

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

TOWN OF GRANITE FALLS, NORTH CAROLINA

**BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2016**

	<u>Major Fund</u>	<u>Total</u>
	<u>General</u>	<u>Governmental</u>
	<u>Fund</u>	<u>Funds</u>
Assets:		
Cash and investments	\$ 2,188,080	\$ 2,188,080
Taxes receivable, net	78,546	78,546
Accounts receivable, net	197,153	197,153
Due from other governments	17,166	17,166
Restricted cash	229,100	229,100
Total assets	<u>\$ 2,710,045</u>	<u>\$ 2,710,045</u>
Liabilities, Deferred Inflows of Resources, and Fund Balances:		
Liabilities:		
Accounts payable	<u>\$ 74,623</u>	<u>\$ 74,623</u>
Deferred Inflows of Resources:		
Property taxes receivable	78,546	78,546
Prepaid taxes	2,903	2,903
Other receivables	<u>3,305</u>	<u>3,305</u>
Total deferred inflow of resources	<u>84,754</u>	<u>84,754</u>
Fund Balances:		
Restricted:		
Stabilization for State statute	211,014	211,014
Public safety	2,436	2,436
Streets	217,672	217,672
Cultural and recreation	11,428	11,428
Committed:		
Sidewalk construction	12,858	12,858
Assigned:		
Sesquicentennial celebration	25,434	25,434
Unassigned	<u>2,069,826</u>	<u>2,069,826</u>
Total fund balances	<u>2,550,668</u>	<u>2,550,668</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 2,710,045</u>	

Amounts reported for governmental activities in the Statement of Net Position (Exhibit A) are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	5,172,536
Net pension asset (liability)	(86,787)
Contributions to the pension plan in the current fiscal year are deferred outflows of resources on the Statement of Net Position.	89,542
Long-term liabilities and compensated absences are not due and payable in the current period and, therefore, not reported in the funds.	(626,713)
Deferred inflows in the governmental funds are used to offset accounts receivable not expected to be available within 60 days of year-end. These receivables are a component of net position in the Statement of Net Position.	81,851
Pension related deferrals	<u>(45,150)</u>
Net position of governmental activities	<u>\$ 7,135,947</u>

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

TOWN OF GRANITE FALLS, 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 Fund</u>	
	General Fund	FEMA Assistance to Firefighters Grant	Total Governmental Funds
Revenues:			
Ad valorem taxes	\$ 1,857,417	\$ -	\$ 1,857,417
Other taxes and licenses	923,258	-	923,258
Unrestricted intergovernmental revenues	378,274	-	378,274
Restricted intergovernmental revenues	253,943	50,600	304,543
Sales and services	123,084	-	123,084
Investment earnings	3,596	-	3,596
Miscellaneous	198,227	-	198,227
Total revenues	<u>3,737,799</u>	<u>50,600</u>	<u>3,788,399</u>
Expenditures:			
Current:			
General government	353,176	-	353,176
Public safety - police	994,594	-	994,594
Public safety - fire	582,698	50,852	633,550
Street and public works	634,431	-	634,431
Sanitation	174,004	-	174,004
Cultural and recreation	387,614	-	387,614
Debt service:			
Principal	110,131	-	110,131
Interest	19,893	-	19,893
Total expenditures	<u>3,256,541</u>	<u>50,852</u>	<u>3,307,393</u>
Revenues over (under) expenditures	<u>481,258</u>	<u>(252)</u>	<u>481,006</u>
Other Financing Sources (Uses):			
Transfers in	-	252	252
Transfers out	(252)	-	(252)
Total other financing sources (uses)	<u>(252)</u>	<u>252</u>	<u>-</u>
Net change in fund balances	481,006	-	481,006
Fund Balances:			
Beginning of year - July 1	<u>2,069,662</u>	<u>-</u>	<u>2,069,662</u>
End of year - June 30	<u>\$ 2,550,668</u>	<u>\$ -</u>	<u>\$ 2,550,668</u>

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

TOWN OF GRANITE FALLS, NORTH CAROLINA

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

Amounts reported for governmental activities in the Statement of Activities (Exhibit D) are different due to the following items:

Net change in fund balances - total governmental funds	\$ 481,006
Property tax revenues and assessments in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds statement.	(18,153)
Capital assets disposed of during the year not recognized on the modified accrual basis	1,469
Capital outlay is 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.	225,157
Depreciation expense allocates the costs of capital assets over their useful lives. It is not reported as an expenditure in the governmental funds statement.	(267,589)
Change in net pension liability	(203,537)
Change in deferred outflow - pension	5,735
Change in deferred inflows - pension	240,313
Expenses related to compensated absences and OPEB that do not require current financial resources, are not reported as expenditures in the governmental funds statement.	(12,703)
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.	<u>110,131</u>
Change in net position of governmental activities (Exhibit B)	<u>\$ 561,829</u>

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

TOWN OF GRANITE FALLS, NORTH CAROLINA

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

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over/Under</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Ad valorem taxes	\$ 1,712,000	\$ 1,732,000	\$ 1,857,417	\$ 125,417
Other taxes and licenses	887,000	887,000	923,258	36,258
Unrestricted intergovernmental revenues	318,000	326,158	378,274	52,116
Restricted intergovernmental revenues	153,000	416,122	253,943	(162,179)
Sales and services	99,500	99,500	123,084	23,584
Investment earnings	3,700	3,700	3,596	(104)
Miscellaneous	124,300	183,223	198,227	15,004
Total revenues	<u>3,297,500</u>	<u>3,647,703</u>	<u>3,737,799</u>	<u>90,096</u>
Expenditures:				
Current:				
General government	250,150	559,960	353,176	206,784
Public safety - police	1,052,900	1,057,100	994,594	62,506
Public safety - fire	542,400	622,400	582,698	39,702
Street and public works	676,700	680,300	634,431	45,869
Sanitation	183,750	183,750	174,004	9,746
Cultural and recreational	460,100	412,693	387,614	25,079
Debt service:				
Principal retirement	122,500	122,500	110,131	12,369
Interest and fees	9,000	9,000	19,893	(10,893)
Total expenditures	<u>3,297,500</u>	<u>3,647,703</u>	<u>3,256,541</u>	<u>391,162</u>
Revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>481,258</u>	<u>481,258</u>
Other Financing Sources (Uses):				
Operating transfers out	<u>-</u>	<u>-</u>	<u>(252)</u>	<u>(252)</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(252)</u>	<u>(252)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>481,006</u>	<u>\$ 481,006</u>
Fund Balance:				
Beginning of year - July 1			<u>2,069,662</u>	
End of year - June 30			<u>\$ 2,550,668</u>	

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

TOWN OF GRANITE FALLS, NORTH CAROLINA

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2016

	Enterprise Funds		Total
	Electric Fund	Water and Sewer Fund	
Assets:			
Current assets:			
Cash and investments	\$ 3,120,832	\$ 2,415,533	\$ 5,536,365
Accounts receivable, net	943,068	270,680	1,213,748
Inventory	489,822	183,306	673,128
Cash and investments, restricted	219,390	83,896	303,286
Total current assets	<u>4,773,112</u>	<u>2,953,415</u>	<u>7,726,527</u>
Non-current assets:			
Capital assets:			
Land and construction	47,400	165,740	213,140
Other capital assets, net of depreciation	3,144,099	11,121,622	14,265,721
Total non-current assets	<u>3,191,499</u>	<u>11,287,362</u>	<u>14,478,861</u>
Total assets	<u>7,964,611</u>	<u>14,240,777</u>	<u>22,205,388</u>
Deferred Outflows of Resources:			
Contributions to pension plan in current fiscal year	33,217	21,664	54,881
Pension deferrals	952	621	1,573
Total deferred outflows of resources	<u>34,169</u>	<u>22,285</u>	<u>56,454</u>
Liabilities:			
Current liabilities:			
Accounts payable	531,306	36,269	567,575
Current portion of long-term obligations	21,000	10,000	31,000
Liabilities paid from restricted assets:			
Customer deposits	219,390	83,896	303,286
Total current liabilities	<u>771,696</u>	<u>130,165</u>	<u>901,861</u>
Non-current liabilities:			
Net pension liability	32,196	20,997	53,193
Non-current portion of long-term obligations	41,537	45,129	86,666
Total non-current liabilities	<u>73,733</u>	<u>66,126</u>	<u>139,859</u>
Total liabilities	<u>845,429</u>	<u>196,291</u>	<u>1,041,720</u>
Deferred Inflows of Resources:			
Pension deferrals	17,702	11,545	29,247
Net Position:			
Net investment in capital assets	3,191,499	11,287,362	14,478,861
Unrestricted	3,944,150	2,767,864	6,712,014
Total net position	<u>\$ 7,135,649</u>	<u>\$ 14,055,226</u>	<u>\$ 21,190,875</u>

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

TOWN OF GRANITE FALLS, NORTH CAROLINA

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

	<u>Enterprise Funds</u>		<u>Total</u>
	<u>Electric Fund</u>	<u>Water and Sewer Fund</u>	
Operating Revenues:			
Charges for services	\$ 6,549,595	\$ 1,879,790	\$ 8,429,385
Other operating revenue	140,538	25,154	165,692
Total operating revenues	<u>6,690,133</u>	<u>1,904,944</u>	<u>8,595,077</u>
Operating Expenses:			
Electrical operations	1,539,159	-	1,539,159
Electrical purchases	4,617,464	-	4,617,464
Water and sewer operations	-	1,413,417	1,413,417
Depreciation	216,147	588,883	805,030
Total operating expenses	<u>6,372,770</u>	<u>2,002,300</u>	<u>8,375,070</u>
Operating income (loss)	<u>317,363</u>	<u>(97,356)</u>	<u>220,007</u>
Non-Operating Revenues (Expenses):			
Investment earnings	4,742	3,906	8,648
Other non-operating income	-	2,609	2,609
Interest and fees paid	-	(50,200)	(50,200)
Total non-operating revenues (expenses)	<u>4,742</u>	<u>(43,685)</u>	<u>(38,943)</u>
Income (loss) before contributions	322,105	(141,041)	181,064
Capital contributions	<u>5,000</u>	<u>-</u>	<u>5,000</u>
Change in net position	327,105	(141,041)	186,064
Net Position:			
Beginning of year - July 1	<u>6,808,544</u>	<u>14,196,267</u>	<u>21,004,811</u>
End of year - June 30	<u>\$ 7,135,649</u>	<u>\$ 14,055,226</u>	<u>\$ 21,190,875</u>

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

TOWN OF GRANITE FALLS, NORTH CAROLINA

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

	Enterprise Funds		
	Electric Fund	Water and Sewer Fund	Total
Cash Flows from Operating Activities:			
Cash received from customers	\$ 6,524,366	\$ 1,889,439	\$ 8,413,805
Cash paid for goods and services	(5,677,818)	(951,286)	(6,629,104)
Cash paid to employees for services	(508,453)	(486,533)	(994,986)
Other operating revenues	140,538	25,154	165,692
Net cash provided (used) by operating activities	<u>478,633</u>	<u>476,774</u>	<u>955,407</u>
Cash Flows from Capital and Related Financing Activities:			
Acquisition of capital assets and construction	(240,153)	(323,184)	(563,337)
Capital contributions	5,000	-	5,000
Other non-operating revenues	-	2,609	2,609
Interest and fees paid on bonds and notes	-	(50,200)	(50,200)
Net cash provided (used) by capital and related financing activities	<u>(235,153)</u>	<u>(370,775)</u>	<u>(605,928)</u>
Cash Flows from Investing Activities:			
Interest on investments	4,742	3,906	8,648
Net increase (decrease) in cash and cash equivalents	248,222	109,905	358,127
Cash and Cash Equivalents:			
Beginning of year - July 1	<u>3,092,000</u>	<u>2,389,524</u>	<u>5,481,524</u>
End of year - June 30	<u>\$ 3,340,222</u>	<u>\$ 2,499,429</u>	<u>\$ 5,839,651</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Operating income (loss)	\$ 317,363	\$ (97,356)	\$ 220,007
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	216,147	588,883	805,030
(Increase) decrease in:			
Accounts receivable	(25,229)	9,651	(15,578)
Inventory	(18,959)	(22,620)	(41,579)
Deferred outflows of resources for pensions	(2,127)	(1,388)	(3,515)
Net pension asset	43,310	28,246	71,556
Increase (decrease) in:			
Net pension liability	32,196	20,997	53,193
Deferred inflows of resources for pensions	(89,148)	(58,140)	(147,288)
Other post-employment benefits	(845)	(563)	(1,408)
Accounts payable	(27,301)	(3,764)	(31,065)
Customer deposits	28,978	10,049	39,027
Accrued vacation pay	4,248	2,779	7,027
Net cash provided (used) by operating activities	<u>\$ 478,633</u>	<u>\$ 476,774</u>	<u>\$ 955,407</u>

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

TOWN OF GRANITE FALLS, 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 Granite Falls (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 six-member Council. As required by generally accepted accounting principles, 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 Granite Falls ABC Board

The members of the ABC Board's governing board 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 Granite Falls ABC Board, P.O. Box 260, Granite Falls, North Carolina 28630.

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

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

The Town reports the following major governmental funds:

General Fund

The General Fund is the general operating fund of the Town. It is used to account for all financial resources except those that are required to be accounted for in another fund. The primary revenue sources are ad valorem taxes and State-shared revenues. The primary expenditures are for public safety, street maintenance and construction, sanitation, parks and recreation, and general governmental services.

The Town reports the following nonmajor governmental funds:

FEMA- Assistance to Firefighters Grant Fund. This fund accounts for several Assistance to Firefighters grants funded by Federal Emergency Management Agency (FEMA). Grant #EMW-2014-FO-01761 is restricted for the purchase of fire hose, fire hose appliances and hose management system.

Proprietary Funds

Enterprise Funds

The enterprise funds are used to account for those operations that (a) are financed and operated in a manner similar to private-business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis, be financed or recovered primarily through user charges; or (b) where the governing body has decided that the periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The Town has two major enterprise funds: Electric Fund and Water and Sewer Fund.

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.

TOWN OF GRANITE FALLS, NORTH CAROLINA

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

Government-Wide and Proprietary Fund Financial Statements. The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and 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, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations 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 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 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.

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. Long-term debt issued and acquisitions under capital leases are reported as other financing sources. General capital asset acquisitions are reported as expenditures in governmental funds.

The Town considers all revenues available if they are collected within 60 days after year-end, except for property taxes. Ad valorem property taxes receivable are not accrued as a revenue because the amount is not susceptible to accrual. At June 30, taxes receivable for property other than motor vehicles are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of September 1, 2013, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, the State of North Carolina is responsible for billing and collecting the property taxes on registered motor

TOWN OF GRANITE FALLS, NORTH CAROLINA

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

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 the 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 a shared revenue for the Town because the tax is levied by Caldwell County and then remitted to and distributed by the State. Most intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. All taxes, including those dedicated for specific purposes are reported as general revenues rather than program revenues.

Under the terms of grant agreements, the Town funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are 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 the North Carolina General Statutes. An annual budget is adopted for the General Fund and the enterprise funds. All annual appropriations lapse at the fiscal year-end. Project ordinances are adopted for special revenue and capital project funds. All budgets are prepared using the modified accrual basis of accounting.

Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the object level for the multi-year funds. The Town Manager is authorized to transfer appropriations between functional areas within a fund up to \$5,000; however, any revisions that alter the total expenditures of any fund or exceed \$5,000 must be approved by the governing board. During the year, several amendments to the original budget were necessary. 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. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Significant areas where estimates are made are allowance for doubtful accounts and depreciation lives.

TOWN OF GRANITE FALLS, NORTH CAROLINA

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

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

Deposits and Investments

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

State law [G.S. 159-30(c)] authorizes the Town to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances; and the North Carolina Capital Management Trust.

The Town's investments are reported at fair value. Non-participating interest earning contracts are accounted for at cost. 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.

Restricted Assets

Powell Bill funds are classified as restricted cash because it can be expended only for the purposes of maintaining, repairing, constructing, reconstructing, or widening of local streets per G.S. 136-41.1 through 136-41.4. Customer deposits held by the Town before any services are supplied are restricted to the purpose for which the deposit was collected. Donations for the Veterans Memorial are restricted to the purpose of making additions to the existing memorial.

TOWN OF GRANITE FALLS, NORTH CAROLINA

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

The Town's restricted cash at June 30, 2016 is as follows:

Governmental Activities:

General Fund:

Streets - Powell Bill	\$	217,672
Cultural and recreation - Veterans Memorial		<u>11,428</u>
Total General Fund		<u>229,100</u>

Business-Type Activities:

Electric Fund:

Customer deposits		219,390
-------------------	--	---------

Water and Sewer Fund:

Customer deposits		<u>83,896</u>
Total business-type activities		<u>303,286</u>

Total restricted cash	\$	<u>532,386</u>
-----------------------	----	----------------

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.

Allowances for Doubtful Accounts

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

Inventory

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

TOWN OF GRANITE FALLS, NORTH CAROLINA

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

Capital Assets

Capital assets are defined by the Town as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. 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 assets are reported at cost or estimated historical cost. Also, the Town has elected not to capitalize those interest costs that are incurred during the construction period of capital assets. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

In conjunction with implementing GASB Statement 34, "The New Reporting Model", the Town began capitalizing public domain ("infrastructure") capital assets consisting of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems as of July 1, 2003. Infrastructure assets exceeding the Town's capitalization threshold of \$1,000 will be reported as capital assets in the Statement of Net Position. General governmental infrastructure assets acquired prior to July 1, 2003 were not retroactively reported; therefore, the infrastructure capital assets in the Statement of Net Position only include assets purchased after July 1, 2003.

Capital assets are depreciated on a straight-line basis over the following useful lives to the cost of the assets:

<u>Asset</u>	<u>Estimated Useful Lives</u>
General governmental infrastructure - road network	45 years
General governmental infrastructure - bridges	50 years
Buildings	40 years
Other improvements	10 - 40 years
Equipment and vehicles	3 - 10 years

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents 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 two items that meet this criterion – contributions made to the pension plan in the 2016 fiscal year and pension deferrals.

TOWN OF GRANITE FALLS, NORTH CAROLINA

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

In addition to liabilities, the Statement of Financial Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Town has four items that meet the criterion for this category - prepaid taxes, property taxes receivable, other receivables, and deferrals of pension expense that result from the implementation of GASB Statement 68.

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.

In the fund financial statements for governmental fund types, the face amount of debt issued is reported as another financing source.

Compensated Absences

The vacation policy of the Town provides for the accumulation of up to thirty days (240 hours) earned vacation leave with such leave being fully vested when earned. For the Town's government-wide and proprietary funds, an expense and a liability for compensated absences and the salary-related payments are recorded as the leave is earned. The Town has assumed a first-in, first-out method of using accumulated compensated time. The portion of that time that is estimated to be used in the next fiscal year has been designated as a current liability in the government-wide financial 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 is 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.

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.

TOWN OF GRANITE FALLS, NORTH CAROLINA

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

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.

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 under State law [G.S. 159-8(a)].

Restricted for Public Safety – portion of fund balance that is restricted by revenue source for public safety expenditures. This amount represents the balance of unspent unauthorized substance tax funds.

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

Restricted for Cultural and Recreation – portion of fund balance that is restricted by revenue source for additions to the Veterans Memorial. This amount represents the balance of unexpended Veterans Memorial donated funds.

Committed Fund Balance

The committed fund balance classification includes amounts that can be used only for the 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 Sidewalks – the portion of fund balance that the Town has committed for the construction of sidewalks or other pedestrian facilities in accordance with the Town's Pedestrian Plan

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 Budget Officer, as granted in the officially adopted budget ordinance, has been granted limited authority to assign fund balance.

TOWN OF GRANITE FALLS, NORTH CAROLINA

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

Assigned for Sesquicentennial Celebration – the portion of fund balance that the Town intends to use for the Town’s sesquicentennial celebration.

Unassigned Fund Balance

Unassigned fund balance represents the portion of fund balance that has not been assigned to another fund or is restricted, committed, or assigned to specific purposes within the General Fund.

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 hierarchy: bond proceeds, federal funds, State funds, local non-Town funds, and Town funds. For purposes of fund balance classification, expenditures are to be spent from restricted fund balance first, followed in order by committed fund balance, assigned fund balance, and lastly, unassigned fund balance. The Finance Officer has the authority to deviate from this policy if it is in the best interest of the Town.

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	\$ 2,550,668
Less:	
Stabilization by State Statute	<u>211,014</u>
Total available fund balance	<u>\$ 2,339,654</u>

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

TOWN OF GRANITE FALLS, NORTH CAROLINA

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

2. Detail Notes On All Funds

A. Assets

Deposits

All the deposits of the Town are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the Town's agents in these units' 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, these deposits are considered to be held by the Town's agents in its name. 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 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 under collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The 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 deposits are properly secured.

At June 30, 2016, the Town's deposits had a carrying amount of \$8,161,835 and a bank balance of \$8,508,100. Of the bank balance, \$500,000 was covered by federal depository insurance and \$8,008,100 was covered by collateral held under the Pooling Method. The Town's cash on hand totaled \$900 at June 30, 2016.

Investments

As of June 30, 2016, the Town's investment balances were as follows:

<u>Investment Type</u>	<u>Valuation Measurement Method</u>	<u>Book Value at 6/30/2016</u>	<u>Maturity</u>	<u>Rating</u>
NC Capital Management Trust - Term Portfolio	Fair Value Level 1	\$ 94,096	0.14 years	Unrated

TOWN OF GRANITE FALLS, NORTH CAROLINA

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

All investments are measured using the market approach: using prices and other relevant information generated by market transactions involving identical or comparable assets or a group of assets.

Level of fair value hierarchy: Level 1: Debt securities valued using directly observable, quoted prices (unadjusted) in active markets for identical assets.

Interest Rate Risk. The Town has no formal investment policy regarding interest rate risk. As a means of limiting its exposure to fair value losses arising from rising interest rates, the Town's internal investment policy limits at least half of the Town's investment portfolio to maturities of no more than 12 months. Also, the Town's internal management policy requires purchases of securities to be laddered with staggered maturity dates and limits all securities to a final maturity of no more than two years.

Credit Risk. The Town has no formal policy regarding credit risk, but has internal management procedures that limit the Town's investments to the provisions of G.S. 159-30 and restricts the purchase of securities to the highest possible ratings whenever particular types of securities are rated.

The Town's investment in the NC Capital Management Trust Term Portfolio is unrated. The Term Portfolio is authorized to invest in obligations of the U.S. government and agencies, and in high grade money market instruments as permitted under North Carolina General Statutes 159-30 as amended.

Receivables - Allowances for Doubtful Accounts

The receivables shown in Exhibit A at June 30, 2016 were as follows:

	<u>Accounts</u>	<u>Taxes</u>	<u>Due from Other Governments</u>	<u>Due from Component Unit</u>	<u>Total</u>
Governmental Activities:					
General	\$ 43,933	\$ 254,428	\$ 153,220	\$ 17,166	\$ 468,747
Allowance for doubtful accounts	-	(175,882)	-	-	(175,882)
Total governmental activities	<u>\$ 43,933</u>	<u>\$ 78,546</u>	<u>\$ 153,220</u>	<u>\$ 17,166</u>	<u>\$ 292,865</u>
Business-Type Activities:					
Water and Sewer Fund	\$ 270,680	\$ -	\$ -	\$ -	\$ 270,680
Electric Fund	943,068	-	-	-	943,068
Total business-type activities	<u>\$ 1,213,748</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,213,748</u>

TOWN OF GRANITE FALLS, NORTH CAROLINA

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

Due from other governments consisted of the following:

Local option sales tax	\$ <u>153,220</u>
------------------------	-------------------

Capital Assets

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

	<u>July 1, 2015</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>June 30, 2016</u>
By Asset Type:					
Non-Depreciable Assets:					
Land	\$ 1,582,263	\$ -	\$ -	\$ -	\$ 1,582,263
Depreciable Assets:					
Buildings	2,168,504	-	-	-	2,168,504
Infrastructure	1,261,298	-	-	-	1,261,298
Equipment and vehicles	<u>2,638,814</u>	<u>225,157</u>	<u>114,366</u>	<u>3,593</u>	<u>2,753,198</u>
Total depreciable capital assets	<u>6,068,616</u>	<u>225,157</u>	<u>114,366</u>	<u>3,593</u>	<u>6,183,000</u>
Less Accumulated Depreciation:					
Buildings	(556,549)	(66,914)	-	-	(623,463)
Infrastructure	(188,815)	(34,278)	-	-	(223,093)
Equipment and vehicles	<u>(1,692,016)</u>	<u>(166,397)</u>	<u>114,366</u>	<u>(2,124)</u>	<u>(1,746,171)</u>
Total accumulated depreciation	<u>(2,437,380)</u>	<u>\$ (267,589)</u>	<u>\$ 114,366</u>	<u>\$ (2,124)</u>	<u>(2,592,727)</u>
Total depreciable capital assets, net	<u>3,631,236</u>				<u>3,590,273</u>
Capital assets, net	<u>\$ 5,213,499</u>				<u>\$ 5,172,536</u>

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

Governmental Activities:	
General government	\$ 38,668
Public safety	148,988
Public works	42,126
Cultural and recreational	<u>37,807</u>
Total	<u>\$ 267,589</u>

TOWN OF GRANITE FALLS, NORTH CAROLINA

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

Proprietary Capital Assets

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

	<u>July 1, 2015</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>June 30, 2016</u>
Water and Sewer Fund:					
Non-Depreciable Assets:					
Land	\$ 165,740	\$ -	\$ -	\$ -	\$ 165,740
Depreciable Assets:					
Plant and distribution systems	22,415,981	39,340	-	-	22,455,321
Furniture, equipment, vehicles	1,145,129	283,844	-	(3,593)	1,425,380
Total depreciable capital assets	23,561,111	323,184	-	(3,593)	23,880,701
Less Accumulated Depreciation:					
Plant and distribution systems	(11,477,209)	(504,775)	-	-	(11,981,984)
Furniture, equipment, vehicles	(695,111)	(84,108)	-	2,124	(777,095)
Accumulated depreciation	(12,172,320)	\$ (588,883)	\$ -	\$ 2,124	(12,759,079)
Depreciable capital assets, net	11,388,791				11,121,622
Capital assets, net	11,554,531				11,287,362
Electric Fund:					
Non-Depreciable Assets:					
Land	47,400	\$ -	\$ -	\$ -	47,400
Depreciable Assets:					
Plant and distribution systems	5,400,403	71,892	-	-	5,472,295
Furniture, equipment, and vehicles	804,265	168,261	-	-	972,526
Total depreciable capital assets	6,204,669	240,153	-	-	6,444,821
Less Accumulated Depreciation:					
Plant and distribution systems	(2,424,625)	(170,218)	-	-	(2,594,843)
Furniture, equipment, vehicles	(659,950)	(45,929)	-	-	(705,879)
Accumulated depreciation	(3,084,575)	\$ (216,147)	\$ -	\$ -	(3,300,722)
Depreciable capital assets, net	3,120,094				3,144,099
Capital assets, net	3,167,494				3,191,499
Proprietary capital assets, net	\$ 14,722,025				\$ 14,478,861

TOWN OF GRANITE FALLS, 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:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Capital assets	\$ 5,172,536	\$ 14,478,861
Less: long-term debt	(411,936)	-
Add: debt for assets not owned by the Town	226,435	-
Net investment in capital assets	<u>\$ 4,987,035</u>	<u>\$ 14,478,861</u>

B. Liabilities

Payables

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

	<u>Vendors</u>	<u>Salaries and Benefits</u>	<u>Utility Deposits</u>	<u>Total</u>
Governmental Activities:				
General Fund	<u>\$ 38,174</u>	<u>\$ 36,449</u>	<u>\$ -</u>	<u>\$ 74,623</u>
Business-Type Activities:				
Water and Sewer Fund	\$ 24,326	\$ 11,943	\$ 83,896	\$ 120,165
Electric Fund	<u>521,587</u>	<u>9,719</u>	<u>219,390</u>	<u>750,696</u>
Total business-type activities	<u>\$ 545,913</u>	<u>\$ 21,662</u>	<u>\$ 303,286</u>	<u>\$ 870,861</u>

TOWN OF GRANITE FALLS, NORTH CAROLINA

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

Pension Plan Obligations

Local Governmental Employees' Retirement System

Plan Description. The Town 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 government 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 LGERS is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454, or at www.osc.nc.gov.

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

LGERS plan members who are LEOs are eligible to retire with full retirement benefits at age 55 with five years of creditable service as an officer, or at any age with 30 years of creditable service. LEO plan members are eligible to retire with partial retirement 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 of creditable service as a LEO if killed in the line of duty. Eligible beneficiaries may elect to a monthly Survivor's Alternate Benefit for life or a return of the member's contributions.

TOWN OF GRANITE FALLS, NORTH CAROLINA

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

Contributions. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. The Town of Granite Falls 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’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, 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 were \$144,423 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 \$139,980 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. 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 0.03119% which was a decrease of 0.00074% from its proportion measure as of June 30, 2014.

For the year ended June 30, 2016, the Town recognized pension expense of \$75,857. 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	\$ -	\$ 32,903
Net difference between projected and actual earnings on pension plan investments	-	39,852
Changes in proportion and differences between Town contributions and proportionate share of contributions	4,140	4,209
Town contributions subsequent to the measurement date	144,423	-
Total	\$ 148,563	\$ 76,964

TOWN OF GRANITE FALLS, NORTH CAROLINA

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

\$144,423 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 ended June 30, 2017. Other amounts reported as deferred inflows and outflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending	Total
<u>June 30</u>	<u>Total</u>
2017	\$ (46,758)
2018	(46,758)
2019	(46,694)
2020	67,386
2021	-
Thereafter	<u>-</u>
Total	<u>\$ (72,824)</u>

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 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 ending January 1, 2005 through December 31, 2009.

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

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through

TOWN OF GRANITE FALLS, NORTH CAROLINA

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

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	<u>6.0%</u>	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 contribution 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 benefits payments to determine the total pension liability.

TOWN OF GRANITE FALLS, 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 (Asset) to Changes in the Discount Rate. The following presents the Town's proportionate share of the net pension liability (asset) calculated using the discount rate of 7.25 percent, 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 percent) or one percentage point higher (8.25 percent) than the current rate:

	1% Decrease (6.25%)	Discount Rate (7.25%)	1% Increase (8.25%)
Town's proportionate share of the net pension liability (asset)	<u>\$ 976,093</u>	<u>\$ 139,980</u>	<u>\$ (564,429)</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 percent of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or 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	-
Terminated program members entitled to, but not yet receiving, benefits	-
Active program members	14
Total	14

A separate report is not issued for the Plan.

TOWN OF GRANITE FALLS, 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. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. 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 Town has not obtained an actuarial valuation of the Plan because its required contributions are considered immaterial.

Supplemental Retirement Income Plan

Plan Description. The Town contributes to the Supplemental Retirement Income Plan (Plan), a defined contribution pension plan administered by the Department of State Treasurer and a board of trustees. The Plan provides retirement benefits to law enforcement officers and employees not engaged in law enforcement. 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 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. 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.

TOWN OF GRANITE FALLS, NORTH CAROLINA

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

Funding Policy. Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to five percent of each officer’s salary, and all amounts contributed are vested immediately. The Town currently contributes two percent of each full-time employee’s salary for those employees not engaged in law enforcement and these amounts are also vested immediately. Employees may also make voluntary contributions to the plan. Contributions for the year ended June 30, 2016 were \$70,612, which consisted of \$56,023 from the Town; \$25,313 for law enforcement officers and \$30,710 for employees not engaged in law enforcement. The remaining \$14,589 were voluntary contributions; \$2,186 from law enforcement officers and \$12,403 from employees not engaged in law enforcement.

Other Post-Employment Benefits

Healthcare Benefits

Plan Description. The Town administered a post-employment Healthcare Benefits Plan (HCB Plan), a single-employer defined benefit plan, to employees retiring with at least 25 years of service credit with the Town and eligible to retire under the North Carolina Local Governmental Employees’ Retirement System. The period of coverage was not defined under the plan. As of July 1, 2003, retirees could elect to receive up to \$200 per month reimbursement for health and dental insurance and are allowed to remain in the Town’s group health plan. The retirees may also purchase coverage for their dependents at the Town’s group rates. The Town Council may amend the benefit provisions. A separate report was not issued for the plan. The plan was discontinued effective September 30, 2011.

Membership of the HCB Plan consisted of the following at December 31, 2015, the date of the latest actuarial valuation:

	General	Law
	<u>Employees</u>	<u>Enforcement</u>
		<u>Officers</u>
Retirees and dependents receiving benefits	11	-
Terminated plan members entitled to, but not yet receiving, benefits	-	-
Active plan members	<u>1</u>	<u>-</u>
Total	<u><u>12</u></u>	<u><u>-</u></u>

Funding Policy. The Town pays up to \$200 per month reimbursement to qualified retirees under a plan that may be amended by the Town Council. The Town’s retirees must purchase their coverage and their dependent coverage. The Town has chosen to fund the plan on a pay-as-you-go basis. This plan was discontinued effective September 30, 2011.

TOWN OF GRANITE FALLS, NORTH CAROLINA

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

The current ARC rate is 105.51% of annual covered payroll. For the current year, the Town contributed \$23,693, or 68.87%, of annual covered payroll. The Town obtains healthcare coverage through private insurers. The Town's required contributions, for employees not engaged in law enforcement represented 68.87% of covered payroll. The Town's contributions totaled \$23,693 in fiscal year 2016. There were no contributions made by employees, except for dependent coverage. The Town's obligation to contribute to the HCB Plan is established and may be amended by the Town Council. The Town Council discontinued this plan effective September 30, 2011.

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

Annual OPEB Cost and Net OPEB Obligation. The 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 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 years. 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 healthcare benefits:

Annual required contribution	\$ 36,298
Interest on net OPEB obligation	7,284
Adjustment to annual required contribution	<u>(23,548)</u>
Annual OPEB cost (expense)	20,034
Contributions made	<u>(23,693)</u>
Increase (decrease) in net OPEB obligation	(3,659)
Net OPEB obligation:	
Beginning of year - July 1	<u>182,091</u>
End of year - June 30	<u><u>\$ 178,432</u></u>

TOWN OF GRANITE FALLS, NORTH CAROLINA

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

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

<u>Year Ended June 30</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2014	\$ 19,080	81.6%	\$ 179,888
2015	19,461	88.7%	182,091
2016	20,034	118.3%	178,432

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, thus, the unfunded actuarial accrued liability (UAAL) was \$224,824. The covered payroll (annual payroll of active employees covered by the Plan) was \$34,403, and the ratio of the UAAL to the covered payroll was 653.50 percent. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare trends. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents 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.

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

In the December 31, 2015 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.00 percent investment rate of return (net of administrative expenses), which is the expected long-term investment return on the employer's own investments calculated based on the funded level of the Plan at the valuation date. 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 five-year period. The UAAL is being amortized as a level dollar amount on a closed basis. The remaining amortization period at December 31, 2015 was 8 years.

TOWN OF GRANITE FALLS, NORTH CAROLINA

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

Other Employment Benefits

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

Deferred Outflows and Inflows of Resources

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

	<u>Amount</u>
Contributions to pension plan in the current fiscal year	\$ 144,423
Pension deferrals	<u>4,140</u>
Total	<u>\$ 148,563</u>

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

	<u>Amount</u>
Taxes receivable (General Fund)	\$ 78,546
Prepaid taxes (General Fund)	2,903
Other receivables (General Fund)	3,305
Pension deferrals	<u>76,964</u>
Total	<u>\$ 161,718</u>

TOWN OF GRANITE FALLS, NORTH CAROLINA

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

Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town participates in three self-funded risk financing pools administered by the North Carolina League of Municipalities. Through these pools, the Town obtains general liability and auto liability coverage of \$1 million per occurrence, property coverage up to the total insured values of the property policy, workers' compensation coverage up to statutory limits, and employee health coverage. The liability and property exposures are reinsured through commercial carriers for claims in excess of retentions as selected by the Board of Trustees each year. Stop loss insurance is purchased by the Board of Trustees to protect against large medical claims that exceed certain dollar cost levels. Specific information on the limits of the reinsurance, excess and stop loss policies purchased by the Board of Trustees can be obtained by contacting the Risk Management Services Department of the NC League of Municipalities. The pools are audited annually by certified public accountants, and the audited financial statements are available to the Town upon request.

During the year, the Town had employee health insurance coverage through Blue Cross/Blue Shield.

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 carries flood insurance through a commercial company for \$275,000 on the building and \$52,500 on the contents per occurrence at the Wastewater Treatment Plant.

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 is bonded for \$50,000, and the Tax Collector is bonded for \$35,000. The remaining employees that have access to funds are bonded under a blanket bond.

TOWN OF GRANITE FALLS, NORTH CAROLINA

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

Long-Term Obligations

Notes Payable

Notes payable at June 30, 2016 are comprised of the following individual agreements:

Governmental Activities:

\$235,000 note payable in monthly installments of \$3,172, through December 2016, including interest at 3.63% per year; collateralized by fire truck (issued in December 2009) \$ 18,834

\$500,000 note payable in semi-annual installments of \$26,692, through January 2021, including interest at 4.01% per year; collateralized by a building (issued in January 2006) 166,667

\$1,280,000 for Caldwell EDC Properties, LLC for purchase of Whisenant property for economic development; financed for 10 years at 4.00% interest, due in annual installments through July 2020; 1/3 is payable by the Town and 2/3 is payable by Caldwell County through an interlocal agreement 226,435

Total governmental activities long-term debt \$ 411,936

Annual debt service requirements to maturity for the Town's notes payable are as follows:

Governmental Funds:

Year Ending	Principal	Interest	Total
<u>June 30</u>			
2017	\$ 93,908	\$ 15,757	\$ 109,665
2018	76,792	12,503	89,295
2019	78,555	9,404	87,959
2020	80,389	6,233	86,622
2021	<u>82,292</u>	<u>2,994</u>	<u>85,286</u>
Total governmental funds	<u>\$ 411,936</u>	<u>\$ 46,891</u>	<u>\$ 458,827</u>

TOWN OF GRANITE FALLS, NORTH CAROLINA

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

As of June 30, 2016, the Town is approved for three Clean Water State Revolving Fund Loans. However, as of year-end, no drawdowns had been made. The loans are as follows:

- \$1,900,000 for Phase 1 of the Wastewater Treatment Plant improvements
- \$610,000 for replacement of the Wastewater Pump Stations at Laurel Street and Central Avenue
- \$600,000 for a Water Treatment Plant Alum Sludge Tank

TOWN OF GRANITE FALLS, NORTH CAROLINA

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

A summary of changes in long-term obligations follows:

	<u>July 1, 2015</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2016</u>	<u>Current Portion</u>
Governmental Activities:					
Accrued vacation pay	\$ 90,016	\$ 40,158	\$ 25,204	\$ 104,970	\$ 29,000
Notes payable	522,067	-	110,131	411,936	93,908
Net pension liability (LGERS)	-	86,787	-	86,787	-
OPEB accrued liability	112,058	15,045	17,296	109,807	-
Total governmental activities	<u>\$ 724,141</u>	<u>\$ 141,990</u>	<u>\$ 152,631</u>	<u>\$ 713,500</u>	<u>\$ 122,908</u>
Business-Type Activities:					
Water and Sewer Fund:					
Accrued vacation pay	\$ 24,908	\$ 11,994	\$ 9,216	\$ 27,686	\$ 10,000
Net pension liability (LGERS)	-	20,997	-	20,997	-
OPEB accrued liability	28,006	-	563	27,443	-
Total Water and Sewer Fund	<u>\$ 52,913</u>	<u>\$ 32,991</u>	<u>\$ 9,779</u>	<u>\$ 76,126</u>	<u>\$ 10,000</u>
Electric Fund:					
Accrued vacation pay	\$ 17,107	\$ 21,184	\$ 16,936	\$ 21,355	\$ 21,000
Net pension liability (LGERS)	-	32,196	-	32,196	-
OPEB accrued liability	42,027	5,552	6,397	41,182	-
Total Electric Fund	<u>\$ 59,134</u>	<u>\$ 58,932</u>	<u>\$ 23,333</u>	<u>\$ 94,733</u>	<u>\$ 21,000</u>
Total Business-Type Activities:					
Accrued vacation pay	\$ 42,014	\$ 33,178	\$ 26,152	\$ 49,041	\$ 31,000
Net pension liability (LGERS)	-	53,193	-	53,193	-
OPEB accrued liability	70,033	5,552	6,960	68,625	-
Total business-type activities	<u>\$ 112,047</u>	<u>\$ 91,923</u>	<u>\$ 33,112</u>	<u>\$ 170,859</u>	<u>\$ 31,000</u>

Compensated absences and other post-employment benefits typically have been liquidated in the General Fund. Compensated absences are accounted for on a last-in, first-out (LIFO) basis, assuming that employees are taking leave time as it is earned.

At June 30, 2016, the Town had a legal debt margin of approximately \$32,177,000.

TOWN OF GRANITE FALLS, NORTH CAROLINA

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

C. Interfund Balances and Activity

Transfers to/from other funds at June 30, 2016, consist of the following:

From the General Fund to the FEMA - Assistance to Firefighters Grant	
Capital Project Fund	\$ 252
Total	<u>\$ 252</u>

Council approved the transfer of \$252 from the General Fund Fire Department's budget to provide the Town's local share of the FEMA Assistance to Firefighters Grant. Grant #EMW-2014-FO-01761 is for a fire hose, a fire hose management system and related equipment for the Fire Department.

3. Jointly Governed Organization

The Town, in conjunction with four counties and twenty-three other municipalities, established the Western Piedmont Council of Governments (Council). The participating governments established the Council to coordinate various funding received from federal and state agencies. Each participating government appoints one member to the Council's governing board. The Town paid \$4,954 for membership fees to the Council during the year ended June 30, 2016.

4. Summary Disclosures of Significant Contingencies

Federal and State-Assisted Programs

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

TOWN OF GRANITE FALLS, 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		Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
		Accrued Liability (AAL) - Projected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)			
12/31/2009	\$ -	\$ 791,354	\$ 791,354	0.00%	\$ 1,913,582	41.35%
12/31/2012	-	251,242	251,242	0.00%	394,547	63.68%
12/31/2015	-	224,824	224,824	0.00%	34,403	653.50%

Schedule of Employer Contributions

Year Ended June 30	Annual	
	Required Contribution	Percentage Contributed
2014	\$ 31,383	49.58%
2015	33,591	51.38%
2016	36,298	65.27%

Notes to the Required Schedules:

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	12/31/2015
Actuarial cost method	Projected unit credit
Amortization method	Level dollar amount, closed
Remaining amortization period	8 years
Amortization factor	7.0021
Asset valuation method	Market value of assets
Actuarial assumptions:	
Investment rate of return *	4.00%

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

Local Government Employees' Retirement System			
	2016	2015	2014
Town of Granite Falls' proportion of the net pension liability (asset) (%)	0.03119%	0.03193%	0.03320%
Town of Granite Falls' proportion of the net pension liability (asset) (\$)	\$ 139,980	\$ (188,306)	\$ 400,187
Town of Granite Falls' covered-employee payroll	\$ 1,984,104	\$ 1,936,360	\$ 2,017,612
Town of Granite Falls' proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	7.06%	(9.72%)	19.83%
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 GRANITE FALLS, NORTH CAROLINA

**TOWN OF GRANITE FALLS' CONTRIBUTIONS
REQUIRED SUPPLEMENTARY INFORMATION
LAST THREE FISCAL YEARS**

Local Government Employees' Retirement System

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 144,423	\$ 139,313	\$ 134,326
Contributions in relation to the contractually required contribution	<u>144,423</u>	<u>139,313</u>	<u>134,326</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Town of Granite Falls' covered-employee payroll	\$ 2,143,926	\$ 1,984,104	\$ 1,936,360
Contributions as a percentage of covered-employee payroll	6.74%	7.02%	6.94%

TOWN OF GRANITE FALLS, NORTH CAROLINA

GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2016
WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2015

	2016			2015
	Budget	Actual	Variance Over/Under	Actual
Revenues:				
Ad Valorem Taxes:				
Taxes	\$ 1,723,000	\$ 1,827,148	\$ 104,148	\$ 1,731,600
Penalties and interest	9,000	30,269	21,269	9,107
Total	1,732,000	1,857,417	125,417	1,740,707
Other Taxes and Licenses:				
Privilege licenses	-	180	180	56,967
Cable TV franchise tax	37,000	36,129	(871)	37,950
Local option sales tax	850,000	886,949	36,949	857,273
Total	887,000	923,258	36,258	952,190
Unrestricted Intergovernmental Revenues:				
Franchise tax	246,000	252,230	6,230	265,405
Beer and wine tax	21,000	20,460	(540)	22,306
Food stamps sales tax reimbursement	25,000	37,921	12,921	28,178
ABC Board profit distribution	34,158	67,663	33,505	68,917
Total	326,158	378,274	52,116	384,806
Restricted Intergovernmental Revenues:				
Special State revenue - police drug tax	2,000	926	(1,074)	1,295
Powell Bill allocation	151,000	151,417	417	152,914
Miscellaneous grants	263,122	101,600	(161,522)	73,178
Total	416,122	253,943	(162,179)	227,387
Sales and Services:				
Receipt for services	1,800	1,871	71	1,871
Cellular One lease	19,000	19,008	8	17,424
Court costs and jail fees	1,500	1,275	(225)	1,133
Tipping fees	8,000	8,719	719	8,745
Cemetery plots	13,000	17,798	4,798	17,308
Recreation	56,200	74,413	18,213	63,758
Total	99,500	123,084	23,584	110,239
Investment Earnings	3,700	3,596	(104)	11,375

TOWN OF GRANITE FALLS, NORTH CAROLINA

GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2016
WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2015

	2016			2015
	Budget	Actual	Variance Over/Under	Actual
Miscellaneous:				
South Caldwell fire district tax	86,000	94,992	8,992	83,548
Donations - police and fire	-	267	267	2,472
Donations - Centennial celebration	3,550	6,836	3,286	9,474
Other	93,673	96,132	2,459	57,077
Total	183,223	198,227	15,004	152,571
Total revenues	3,647,703	3,737,799	90,096	3,579,275
Expenditures:				
General Government:				
Governing body	21,500	17,681	3,819	15,156
Administration:				
Salaries and employee benefits	291,300	285,196	6,104	262,540
Operating expenses	545,680	355,945	189,735	287,213
Capital outlay	8,780	1,654	7,126	-
Cost redistribution	(307,300)	(307,300)	-	(190,000)
Total	559,960	353,176	206,784	374,909
Public Safety - Police:				
Salaries and employee benefits	832,000	802,914	29,086	740,221
Operating expenses	171,900	141,494	30,406	143,526
Capital outlay	53,200	50,186	3,014	77,784
Total	1,057,100	994,594	62,506	961,531
Public Safety - Fire:				
Salaries and employee benefits	391,000	384,871	6,129	394,003
Operating expenses	145,400	115,092	30,308	130,253
Capital outlay	86,000	82,735	3,265	4,951
Total	622,400	582,698	39,702	529,207
Street and Public Works:				
Salaries and employee benefits	261,300	223,348	37,952	269,077
Operating expenses	220,700	213,895	6,805	168,931
Powell Bill expenditures	151,000	149,897	1,103	80,247
Capital outlay	47,300	47,291	9	-
Total	680,300	634,431	45,869	518,255

TOWN OF GRANITE FALLS, NORTH CAROLINA

**GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2016
WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2015**

	<u>2016</u>			<u>2015</u>
	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>	<u>Actual</u>
Sanitation	<u>183,750</u>	<u>174,004</u>	<u>9,746</u>	<u>171,980</u>
Cultural and Recreational:				
Salaries and employee benefits	219,500	199,966	19,534	210,927
Operating expenses	168,493	163,476	5,017	166,539
Capital outlay	<u>24,700</u>	<u>24,172</u>	<u>528</u>	<u>3,143</u>
Total	<u>412,693</u>	<u>387,614</u>	<u>25,079</u>	<u>380,609</u>
Debt Service:				
Principal retirement	122,500	110,131	12,369	107,261
Interest and fees	<u>9,000</u>	<u>19,893</u>	<u>(10,893)</u>	<u>24,100</u>
Total	<u>131,500</u>	<u>130,024</u>	<u>1,476</u>	<u>131,361</u>
Total expenditures	<u>3,647,703</u>	<u>3,256,541</u>	<u>391,162</u>	<u>3,067,852</u>
Revenues over (under) expenditures	-	481,258	481,258	511,423
Other Financing Sources (Uses):				
Transfers out	<u>-</u>	<u>(252)</u>	<u>(252)</u>	<u>(326,374)</u>
Net change in fund balance	<u>\$ -</u>	<u>481,006</u>	<u>\$ 481,006</u>	<u>185,049</u>
Fund Balance:				
Beginning of year - July 1		<u>2,069,662</u>		<u>1,884,613</u>
End of year - June 30		<u>\$ 2,550,668</u>		<u>\$ 2,069,662</u>

TOWN OF GRANITE FALLS, NORTH CAROLINA

NONMAJOR CAPITAL PROJECT FUND - FEMA ASSISTANCE TO FIREFIGHTERS GRANT
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCE - BUDGET AND ACTUAL
 FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2016

	Project Authorization	Actual		Total to Date
		Prior Years	Current Year	
Revenues:				
Restricted intergovernmental revenues:				
FEMA Grant #EMW-2012-FO-02271 (equipment)	\$ 163,063	\$ 163,063	\$ -	\$ 163,063
FEMA Grant #EMW-2012-FV-01331 (tanker truck)	234,650	234,650	-	234,650
FEMA Grant #EMW-2014-FO-01761 (equipment)	50,600	-	50,600	50,600
FEMA Grant #EMW-2013-FO-04568 (equipment)	42,750	42,750	-	42,750
Total revenues	<u>491,063</u>	<u>440,463</u>	<u>50,600</u>	<u>491,063</u>
Expenditures:				
Purchase tanker truck and upfit	395,011	395,011	-	395,011
Purchase personal protective equipment	123,107	123,107	-	123,107
Purchase rescue tools	48,672	48,672	-	48,672
Professional consultant (JMCM)	24,434	24,433	-	24,433
Fire hose equipment	53,130	-	50,852	50,852
Purchase breathing air compressor	45,074	45,074	-	45,074
Total expenditures	<u>689,428</u>	<u>636,297</u>	<u>50,852</u>	<u>687,149</u>
Revenues over (under) expenditures	(198,365)	(195,834)	(252)	(196,086)
Other Financing Sources (Uses):				
Transfers in	<u>198,365</u>	<u>195,834</u>	<u>252</u>	<u>196,086</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

TOWN OF GRANITE FALLS, NORTH CAROLINA

ELECTRIC FUND

SCHEDULE OF REVENUES AND EXPENDITURES -

BUDGET AND ACTUAL (NON-GAAP)

FOR THE YEAR ENDED JUNE 30, 2016

WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2015

	2016			2015
	Budget	Actual	Variance Over/Under	Total
Revenues:				
Operating revenues:				
Charges for services	\$ 6,564,000	\$ 6,549,595	\$ (14,405)	\$ 6,502,799
Other operating revenue	123,000	140,538	17,538	133,840
Total operating revenues	<u>6,687,000</u>	<u>6,690,133</u>	<u>3,133</u>	<u>6,636,639</u>
Non-operating revenues:				
Capital contributions	10,000	5,000	(5,000)	-
Investment earnings	<u>4,800</u>	<u>4,742</u>	<u>(58)</u>	<u>1,045</u>
Total non-operating revenues	<u>14,800</u>	<u>9,742</u>	<u>(5,058)</u>	<u>1,045</u>
Total revenues	<u>6,701,800</u>	<u>6,699,875</u>	<u>(1,925)</u>	<u>6,637,684</u>
Expenditures:				
Operating expenses:				
Electrical operations	1,772,700	1,570,484	202,216	1,431,335
Electrical purchases	<u>4,603,000</u>	<u>4,617,464</u>	<u>(14,464)</u>	<u>4,873,011</u>
Total operating expenses	<u>6,375,700</u>	<u>6,187,948</u>	<u>187,752</u>	<u>6,304,346</u>
Capital outlay	<u>508,000</u>	<u>240,153</u>	<u>267,847</u>	<u>167,935</u>
Total expenditures	<u>6,883,700</u>	<u>6,428,101</u>	<u>455,599</u>	<u>6,472,281</u>
Revenues over (under) expenditures	(181,900)	271,774	453,674	165,403
Other Financing Sources (Uses):				
Appropriated fund balance	<u>181,900</u>	<u>-</u>	<u>(181,900)</u>	<u>-</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>271,774</u>	<u>\$ 271,774</u>	<u>165,403</u>
Reconciliation from Budgetary Basis (Modified Accrual) To Full Accrual:				
Change in inventory		18,959		(86,293)
Change in compensated absences		(4,248)		(2,396)
Capital outlay		240,153		167,935
Change in other post-employment benefits		845		(509)
Pension benefit (expense)		15,769		29,650
Depreciation		<u>(216,147)</u>		<u>(197,339)</u>
Change in net position		<u>\$ 327,105</u>		<u>\$ 76,451</u>

TOWN OF GRANITE FALLS, NORTH CAROLINA

WATER AND SEWER FUND
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2016
WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2015

	<u>2016</u>			<u>2015</u>
	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>	<u>Total</u>
Revenues:				
Operating revenues:				
Charges for services	\$ 1,832,000	\$ 1,879,790	\$ 47,790	\$ 1,812,280
Other operating revenue	15,500	25,154	9,654	17,826
Total operating revenues	<u>1,847,500</u>	<u>1,904,944</u>	<u>57,444</u>	<u>1,830,106</u>
Non-operating revenues:				
Investment earnings	3,500	3,906	406	424
Other non-operating revenue	-	2,609	2,609	5,157
Total non-operating revenues	<u>3,500</u>	<u>6,515</u>	<u>3,015</u>	<u>5,581</u>
Total revenues	<u>1,851,000</u>	<u>1,911,459</u>	<u>60,459</u>	<u>1,835,687</u>
Expenditures:				
Operating expenses	1,485,800	1,272,901	212,899	1,141,261
Repairs and maintenance	209,000	148,586	60,414	234,829
Capital outlay	388,400	323,184	65,216	150,419
Debt service - interest and fees	50,200	50,200	-	-
Total expenditures	<u>2,133,400</u>	<u>1,794,871</u>	<u>338,529</u>	<u>1,526,509</u>
Revenues over (under) expenditures	(282,400)	116,588	398,988	309,178
Other Financing Sources (Uses):				
Appropriated fund balance	<u>282,400</u>	<u>-</u>	<u>(282,400)</u>	<u>-</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	116,588	<u>\$ 116,588</u>	309,178
Reconciliation from Budgetary Basis (Modified Accrual) To Full Accrual:				
Capital outlay		323,184		150,419
Depreciation		(588,883)		(561,098)
Change in compensated absences		(2,778)		2,892
Pension benefit (expense)		10,285		19,337
Change in other post-employment benefits		<u>563</u>		<u>(339)</u>
Change in net position		<u>\$ (141,041)</u>		<u>\$ (79,611)</u>

TOWN OF GRANITE FALLS, NORTH CAROLINA

SCHEDULE OF AD VALOREM TAXES RECEIVABLE
JUNE 30, 2016

Fiscal Year	Uncollected Balance July 1, 2015	Additions	Collections and Credits	Uncollected Balance June 30, 2016
2015-2016	\$ -	\$ 1,792,408	\$ 1,732,652	\$ 59,756
2014-2015	67,064	-	21,485	45,579
2013-2014	59,243	-	15,953	43,290
2012-2013	51,659	-	21,831	29,828
2010-2011	45,534	-	25,629	19,905
2009-2010	17,422	-	5,181	12,241
2009-2010	16,586	-	3,087	13,499
2008-2009	11,489	-	933	10,556
2007-2008	13,691	-	2,934	10,757
2006-2007	9,483	-	466	9,017
2005-2006	6,767	-	6,767	-
Total	<u>\$ 298,938</u>	<u>\$ 1,792,408</u>	<u>\$ 1,836,918</u>	254,428
Less: Allowance for uncollectible accounts				<u>(175,882)</u>
Ad valorem taxes receivable, net				<u>\$ 78,546</u>
Reconciliation of Collections and Credits with Revenue:				
Ad valorem taxes:				
General Fund				\$ 1,857,417
Reconciling items:				
Interest collected				(30,269)
Taxes written off				6,767
Miscellaneous adjustments				<u>3,003</u>
Total collections and credits				<u>\$ 1,836,918</u>

TOWN OF GRANITE FALLS, NORTH CAROLINA

ANALYSIS OF CURRENT YEAR LEVY
FOR THE YEAR ENDED JUNE 30, 2016

	<u>Property Valuation</u>	<u>Rate</u>	<u>Total Levy</u>	<u>Total Levy</u>	
				<u>Property Excluding Registered Motor Vehicles</u>	<u>Registered Motor Vehicles</u>
Original Levy:					
Property taxed at current year's rate	\$ 407,327,955	\$ 0.44	\$ 1,792,243	\$ 1,636,876	\$ 155,367
Registered motor vehicles taxed at current year's rate	11,136	0.44	49	-	49
Total original levy	<u>407,339,091</u>		<u>1,792,292</u>	<u>1,636,876</u>	<u>155,416</u>
Abatements:					
Current year levy	<u>26,364</u>		<u>116</u>	<u>116</u>	<u>-</u>
Total property valuation	<u>\$ 407,365,455</u>				
Net Levy			1,792,408	1,636,992	155,416
Uncollected taxes at June 30, 2016			<u>(59,756)</u>	<u>(57,934)</u>	<u>(1,822)</u>
Current Year's Taxes Collected			<u>\$ 1,732,652</u>	<u>\$ 1,579,058</u>	<u>\$ 153,594</u>
Current Levy Collection Percentage			<u>96.67%</u>	<u>96.46%</u>	<u>98.83%</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 Granite Falls, 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 Granite Falls, 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 Granite Falls' basic financial statements, and have issued our report thereon dated September 29, 2016. Our report includes a reference to other auditors who audited the financial statements of the Granite Falls ABC Board, as described in our report on the Town of Granite Falls' financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported separately by those auditors. The financial statements of the Granite Falls 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 Granite Falls' 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 Granite Falls' internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Responses as item 2016-001, that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Granite Falls' financial statements are free from 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 Granite Falls' Response to Finding

The Town of Granite Falls' response to the finding identified in our audit is described in the accompanying Schedule of Findings and Responses. The Town's response was not subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on it.

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 Town'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 Town'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
September 29, 2016

TOWN OF GRANITE FALLS, NORTH CAROLINA

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

1. Summary of Auditor's Results

Financial Statements

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

Unmodified

Internal control over financial reporting:

• Material weakness(es) identified?

No

• Significant deficiency(ies) identified?

Yes

Non-compliance material to financial statements noted?

No

TOWN OF GRANITE FALLS, NORTH CAROLINA

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

2. Financial Statement Findings

Significant Deficiency

Finding 2016-001

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 (GASB) requires a level of technical expertise not possessed by the Town's personnel with regards to drafting full accrual, full disclosure GAAP financial statements.

Context: The external auditor prepared a draft of the basic financial statements, all required note disclosures, and supplemental schedules.

Effect: Errors in financial reporting could occur.

Cause: The cost of acquiring the technical expertise to comply with the financial reporting requirements discussed above is cost prohibitive.

Identification of a 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.

Name of Contact Person: Jerry Church, Town Manager

Views of Responsible Officials and Planned Corrective Actions: The Town agrees with this finding and will adhere to the corrective action plan in this audit report.

TOWN OF GRANITE FALLS, NORTH CAROLINA

CORRECTIVE ACTION PLAN FOR THE YEAR ENDED JUNE 30, 2016

Financial Statement Findings

Significant Deficiency

Finding 2016-001

Name of Contact Person: Jerry Church, Town Manager

Corrective Action: Management is aware of the weakness but, due to the cost benefit analysis, the Town will continue to rely on the external auditor to draft the year-end financial statements. The Town will 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.

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

TOWN OF GRANITE FALLS, NORTH CAROLINA

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

Finding 2015-001:

Status: The Town continues to exercise due care during review of the financial statements.

Corrective Action: Management is aware of the weakness but, due to the cost benefit analysis, the Town will continue to rely on the external auditor to draft the year-end financial statements. The Town will 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.