

VILLAGE OF FLAT ROCK, NORTH CAROLINA

Financial Statements

June 30, 2016

Village Council Members

Robert V. Staton, Mayor
Nick Weedman, Vice Mayor/Finance Officer

Ginger Brown
Anne Coletta
John Dockendorf
Albert Gooch
Sheryl Jamerson

Administrative and Financial Staff

Judy Boleman, Village Administrator
Martha Orr, Deputy Village Clerk/Tax Collector
Michelle Parker, Village Clerk

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Independent Auditor's Report

To the Honorable Mayor
and Members of the Governing Board
Village of Flat Rock, North Carolina

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Village of Flat Rock, North Carolina, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Village'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

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, based on my audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Village of Flat Rock, North Carolina as of June 30, 2016, and the respective changes in financial position, where appropriate, 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 Management's Discussion and Analysis and the Local Governmental Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension 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 the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I 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 I obtained during our audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the Village of Flat Rock, North Carolina. The budgetary schedules and other schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

To the Honorable Mayor and
Members of the Governing Board
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The budgetary schedules and other schedules are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by me. In my opinion, based on my audit, the budgetary schedules and other schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

November 7, 2016

Carl E. Shaw, CPA, PLLC

Management's Discussion and Analysis

As management of the Village of Flat Rock, we offer readers of the Village of Flat Rock's financial statements this narrative overview and analysis of the financial activities of the Village of Flat Rock 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 Village's financial statements, which follow this narrative.

Financial Highlights

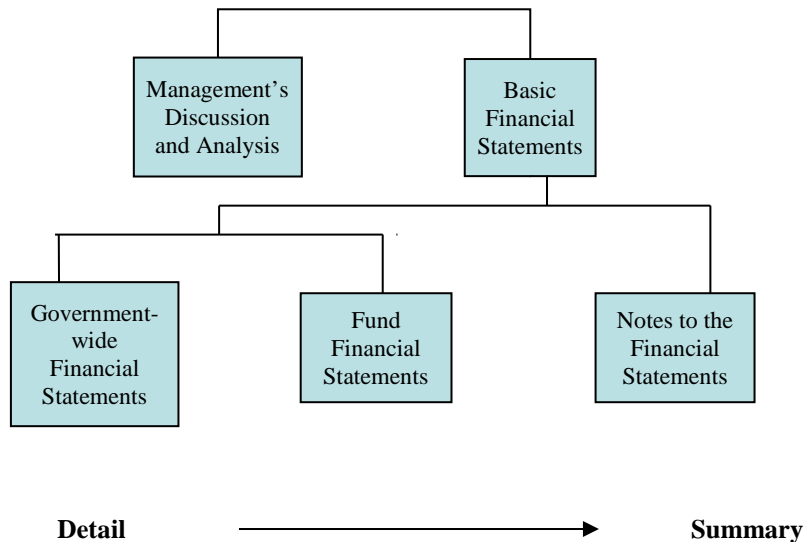
- The assets and deferred outflows of resources of the Village of Flat Rock *exceeded* its liabilities and deferred inflows of resources at the close of the fiscal year by \$7,100,511.
- The government's total net position *increased* by \$390,545 primarily due to the capitalization of expenditures incurred this year at the Park at Flat Rock. While shown as assets on the Statement of Net Position, these expenditures are expensed on the Statement of Revenues, Expenditures, and Changes in Fund Balance.
- As of the close of the current fiscal year, the Village of Flat Rock's governmental funds reported combining ending fund balances of \$3,647,038 a *decrease* of \$90,700 in comparison with the prior year. Approximately 94% of this total amount, or \$3,414,455 is available for spending at the government's discretion.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to Village of Flat Rock's basic financial statements. The Village'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 Village 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 Village of Flat Rock.

Figure 1

Required Components of Annual Financial Report



Basic Financial Statements

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

The next statements (Exhibits 3 through 5) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the Village's government. These statements provide more detail than the government-wide statements. There are two parts to the Fund Financial Statements: 1) the governmental funds statements; and 2) the budgetary comparison 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 Village's property taxes.

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the Village'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 Village's financial status as a whole.

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

The government-wide statements could be divided into three categories: 1) governmental activities; 2) business-type activities; and 3) component units. The governmental activities include the Village's basic services such as general government, public safety, and environmental protection. Property taxes and State-shared revenues finance most of these activities. The Village has no business-type activities. There are no component units.

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

Fund Financial Statements

The fund financial statements (see Figure 1) provide a more detailed look at the Village'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 Village of Flat Rock, 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 Village budget ordinance. The Village has three governmental funds.

Governmental Funds – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. The Village's basic services are accounted for in its 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* that provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance Village 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 Village 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 Village, the management of the Village, and the decisions of the Council about which services to provide and how to pay for them. It also authorizes the Village to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the Village complied with the budget ordinance and whether or not the Village 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.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin after Exhibit 5.

Interdependence with Other Entities – The Village depends on financial resources flowing from, or associated with the State of North Carolina. Because of this dependency, the Village is subject to changes in specific flows of intergovernmental revenues based on modifications to State laws 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

Figure 2
Village of Flat Rock, North Carolina
Statement of Net Position
June 30

	2016	2015
Current and Other Assets	\$ 3,671,810	\$ 3,781,861
Capital Assets	3,449,280	2,972,511
Deferred Outflows of Resources	14,258	10,266
Total Assets and Deferred		
Outflows of Resources	7,135,348	6,764,638
Current Liabilities	20,376	30,266
Noncurrent Liabilities	9,471	2,047
Deferred Inflows of Resources	4,990	22,359
Total Liabilities and Deferred		
Inflows of Resources	34,837	54,672
Net Position		
Net Investment in Capital Assets	3,449,281	2,972,511
Restricted	232,583	196,148
Unrestricted	3,418,647	3,541,307
Total Net Position	\$ 7,100,511	\$ 6,709,966

As noted earlier, net position may serve over time as one useful indicator of a government’s financial condition. The assets and deferred outflows of the Village of Flat Rock exceeded liabilities and deferred inflows by \$7,100,511 as of June 30, 2016. The Village net position *increased* by \$390,545 for the fiscal year ended June 30, 2016. However, approximately 49% of the Village’s net position reflects its investment in capital assets (e.g. land, building, furniture and equipment). The Village of Flat Rock uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. An additional portion of the Village of Flat Rock’s net position, \$232,583, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$3,418,648 is unrestricted.

Particular aspects of the Village’s financial operations positively influenced the total unrestricted governmental net position:

- The capitalization of expenditures incurred in the development of the Park at Flat Rock.

Figure 3
Village of Flat Rock, North Carolina
Changes in Net Position
Years Ended June 30

	<u>2016</u>	<u>2015</u>
Revenues		
Program Revenues		
Capital Grants and Contributions	\$ 434,121	\$ 377,107
Charges for Services	5,279	5,150
General Revenues		
Ad Valorem Taxes	977,541	720,580
Other Taxes	547,381	533,247
Investment Earnings	6,813	3,475
Miscellaneous	38,820	2,646
Total Revenues	<u>2,009,955</u>	<u>1,642,205</u>
Expenses		
General Government	362,074	347,520
Public Safety	941,097	749,425
Environmental Protection	4,500	1,000
Cultural and Recreation	285,508	186,517
Economic and Physical Development	26,231	76,520
Total Expenses	<u>1,619,410</u>	<u>1,360,982</u>
Change in Net Position	390,545	281,223
Net Position, July 1	<u>6,709,966</u>	<u>6,428,743</u>
Net Position, June 30	<u>\$ 7,100,511</u>	<u>\$ 6,709,966</u>

Governmental Activities – Governmental activities increased the Net Position of the Village by \$390,545. Key elements of this increase are as follows:

- Sales tax and utility franchise tax collections exceeded budgetary projections.
- General Government expenses were lower than budgeted.

Financial Analysis of the Village’s Fund

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

Governmental Fund – The focus of the Village of Flat Rock’s governmental fund is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the Village of Flat Rock’s financing requirements. Specifically, available fund balance can be a useful measure of a government’s net resources available for spending at the end of the fiscal year.

The General Fund is the chief operating fund of the Village of Flat Rock. At the end of the current fiscal year, fund balance available in the General Fund was \$3,004,230, while total fund balance equaled \$3,127,184. As a measure of the General Fund’s liquidity, it may be useful to compare available fund balance to total fund expenditures. Available fund balance represents approximately two times annual General Fund expenditures.

Governmental Funds Budgetary Highlights – During the fiscal year, the Village revised its budget when it became necessary. 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.

Capital Asset and Debt Administration

Capital Assets – The Village of Flat Rock’s investment in capital assets for its governmental activities as of June 30, 2016 totals \$3,449,280, (net of accumulated depreciation). See Figure 4 for the Village’s capital assets.

During the year ended June 30, 2016, The Village spent \$568,912 on the Park at Flat Rock which includes completion of the pavilion and playground. The Village also upgraded computer equipment at a cost of \$5,322. These represent the additions to Village capital assets during the year ended June 30, 2016. There were no dispositions of capital assets this year.

Additional information on the capital assets of the Village can be found in Note 4 of the Basic Financial Statements.

Figure 4
Village of Flat Rock, North Carolina
Capital Assets
June 30

	2016	2015
Capital Assets		
Land	\$1,329,776	\$1,329,776
Buildings	1,360,206	1,096,813
Village Centre Trail	559,933	559,933
Land Improvements	459,080	435,638
Equipment and Furniture	368,023	81,612
Computer Equipment and Software	34,140	28,818
Construction in Progress	825	5,159
Total	4,111,983	3,537,749
Less: Accumulated Depreciation	662,703	565,238
Capital Assets, Net of Depreciation	<u>\$3,449,280</u>	<u>\$2,972,511</u>

Economic Factors and Next Year’s Budgets and Rates

The following key economic indicators were used in the budget preparation for the fiscal year ended June 30, 2016.

- The Village expected to achieve a property tax collection rate approaching 100%.
- Interest rates continued at lower than historical levels, thus lowering effective income earnings.
- The cost of providing services within the Village increased at a rate roughly equal to inflation.
- A capital project fund continues to be used to account for the costs involved with Park development.

Budget Highlights for the Fiscal Year Ending June 30, 2017

Governmental Activities

- The 2016-2017 budget includes the assessment of property taxes at the rate of 11.0 cents per hundred dollar valuation. The Village has attained a property tax collection rate of 100%.
- Costs associated with the Park development will continue to be accounted for in the capital project fund.
- The budget continues to provide for fire protection services for the Village through contracts with three volunteer fire departments.

Requests for Information

This report is designed to provide an overview of the Village 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 Nick Weedman, Finance Officer, P. O. Box 1288, Flat Rock, North Carolina, 28731, or (828) 697-8100.

Exhibit 1

**Village of Flat Rock, North Carolina
Statement of Net Position
June 30, 2016**

	Governmental Activities
Assets	
Current Assets:	
Cash and Investments	\$ 3,437,969
Taxes Receivable	1,258
Pledges Receivable	97,811
Due from Other Governments	134,772
Total Current Assets	3,671,810
Noncurrent Assets:	
Capital Assets:	
Land and Construction in Progress	1,330,601
Other Capital Assets, Net of Depreciation	2,118,679
Total Capital Assets, Net	3,449,280
Total Assets	7,121,090
Deferred Outflows of Resources	
Pension Deferrals	14,258
Total Deferred Outflows of Resources	14,258
Liabilities	
Current Liabilities:	
Accounts Payable and Accrued Expenses	14,312
Current Portion of Long-term Liabilities	6,064
Total Current Liabilities	20,376
Long-term Liabilities:	
Net Pension Liability	7,450
Due in More Than One Year	2,021
Total Long-term Liabilities	9,471
Total Liabilities	29,847
Deferred Inflows of Resources	
Prepaid Taxes	1,117
Pension Deferrals	3,873
Total Deferred Inflows of Resources	4,990
Net Position	
Net Investment in Capital Assets	3,449,280
Restricted for:	
Stabilization by State Statute	232,583
Unrestricted	3,418,648
Total Net Position	\$ 7,100,511

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

**Village of Flat Rock, North Carolina
Statement of Activities
For the Year Ended June 30, 2016**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense)</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Revenue and Changes in Net Position</u>
					<u>Governmental Activities</u>
Governmental Activities:					
General Government	\$ 362,074	\$ 5,279	\$ -	\$ -	\$ (356,795)
Public Safety	941,097	-	-	-	(941,097)
Environmental Protection	4,500	-	-	-	(4,500)
Economic and Physical Development	26,231	-	-	-	(26,231)
Cultural and Recreation	285,508	-	-	434,121	148,613
Total Governmental Activities	<u>\$ 1,619,410</u>	<u>\$ 5,279</u>	<u>\$ -</u>	<u>\$ 434,121</u>	<u>(1,180,010)</u>
General revenues:					
Taxes:					
Ad Valorem Taxes					977,541
Unrestricted Intergovernmental					547,381
Unrestricted Investment Earnings					6,813
Miscellaneous					38,820
					<u>1,570,555</u>
					Change in Net Position 390,545
					<u>Net Position - Beginning of Year</u> 6,709,966
					<u>Net Position - End of Year</u> \$ 7,100,511

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

Fund Financial Statements

Village of Flat Rock, North Carolina
Balance Sheet
Governmental Funds
June 30, 2016

	<u>Major Funds</u>			<u>Total Governmental Funds</u>
	<u>General Fund</u>	<u>Capital Project Fund</u>	<u>Special Revenue Fund</u>	
Assets				
Cash	\$ 3,027,744	\$ -	\$ 410,225	\$ 3,437,969
Taxes Receivable	1,258	-	-	1,258
Pledges Receivable	-	-	97,811	97,811
Due from Other Governments	122,954	10,904	914	134,772
Total Assets	<u>3,151,956</u>	<u>10,904</u>	<u>508,950</u>	<u>3,671,810</u>
Liabilities, Deferred Inflows of Resources and Fund Balances				
Liabilities:				
Accounts Payable and Accrued Expenses	14,312	-	-	14,312
Accrued Vacation Pay	8,085	-	-	8,085
Total Liabilities	<u>22,397</u>	<u>-</u>	<u>-</u>	<u>22,397</u>
Deferred Inflows of Resources:				
Property Taxes Receivable	1,258	-	-	1,258
Prepaid Taxes	1,117	-	-	1,117
Total Deferred Inflows of Resources	<u>2,375</u>	<u>-</u>	<u>-</u>	<u>2,375</u>
Fund Balance:				
Restricted				
Stabilization by State Statute	122,954	10,904	98,725	232,583
Assigned				
Subsequent Year's Expenditures	270,314	-	-	270,314
Cultural and Recreation	-	-	410,225	410,225
Unassigned	2,733,916	-	-	2,733,916
Total Fund Balance	<u>3,127,184</u>	<u>10,904</u>	<u>508,950</u>	<u>3,647,038</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 3,151,956</u>	<u>\$ 10,904</u>	<u>\$ 508,950</u>	<u>\$ 3,671,810</u>

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

**Village of Flat Rock, North Carolina
Balance Sheet
Governmental Funds
June 30, 2016**

**Exhibit 3
(continued)**

Amounts reported for Governmental Activities in the Statement of Net Position (Exhibit 1) are different because:

Total Fund Balance - Governmental Funds		\$ 3,647,038
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the general fund.		
Gross Capital Assets at Historical Cost	4,111,983	
Accumulated Depreciation	<u>(662,703)</u>	3,449,280
Deferred outflows of resources related to pensions are not reported in the funds		14,258
Liabilities for earned revenues considered deferred inflows of resources in fund statements		1,258
Long-term liabilities used in governmental activities are not financial uses and, therefore, are not reported in the funds		
Net Pension Liability		(7,450)
Pension related deferrals		<u>(3,873)</u>
Net Position of Governmental Activities		<u>\$ 7,100,511</u>

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

Village of Flat Rock, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2016

	Major Funds			Total Governmental Funds
	General Fund	Capital Project Fund	Special Revenue Fund	
Revenues				
Ad Valorem Taxes	\$ 977,712	\$ -	\$ -	\$ 977,712
Unrestricted Intergovernmental	547,381	-	-	547,381
Contributions	-	-	453,408	453,408
Permits and Fees	5,279	-	-	5,279
Investment Earnings	6,813	-	-	6,813
Miscellaneous	19,533	-	-	19,533
Total Revenues	1,556,718	-	453,408	\$ 2,010,126
Expenditures				
Current:				
General Government	340,249	-	-	340,249
Public Safety	941,097	-	-	941,097
Economic and Physical Development	26,231	-	-	26,231
Environmental Protection	4,500	-	-	4,500
Cultural and Recreation	124,241	3,979	86,295	214,515
Capital Outlay	5,322	568,912	-	574,234
Total Expenditures	1,441,640	572,891	86,295	2,100,826
Excess (deficiency) of revenues over expenditures	115,078	(572,891)	367,113	(90,700)
Other Financing Sources (Uses)				
Transfers to other funds	(640,663)	-	(273,172)	(913,835)
Transfers from other funds	273,172	583,663	57,000	913,835
Total other financing sources (uses)	(367,491)	583,663	(216,172)	-
Net Change in Fund Balance	(252,413)	10,772	150,941	(90,700)
Fund Balances				
Beginning of Year	3,379,597	132	358,009	3,737,738
End of Year	\$ 3,127,184	\$ 10,904	\$ 508,950	\$ 3,647,038

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

Village of Flat Rock, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2016

Exhibit 4
(continued)

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Net Changes in Fund Balance - Total Governmental Funds	\$	(90,700)
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Change in unavailable revenue for tax revenues		(171)
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Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay	\$ 574,234		
Depreciation Expense	<u>(97,465)</u>		476,769

Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities.		10,004
---	--	--------

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position.

This amount is the net effect of these differences in the treatment of long-term debt and related items.

Principal payments on long-term debt

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Pension expense		<u>(5,357)</u>
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Total Change in Net Position of Governmental Activities	\$	<u>390,545</u>
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The notes to the financial statements are an integral part of this statement.

Village of Flat Rock, North Carolina
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance -
Annual Budget and Actual
For the Year Ended June 30, 2016

	Budget		Actual Amounts	Variance with Final Budget
	Original	Final		Positive (Negative)
Revenues				
Ad Valorem Taxes	\$ 962,131	\$ 962,131	\$ 977,712	\$ 15,581
Unrestricted Intergovernmental	490,100	490,100	547,381	57,281
Permits and Fees	5,000	5,000	5,279	279
Investment Earnings	4,000	4,000	6,813	2,813
Miscellaneous	1,000	1,000	19,533	18,533
	1,462,231	1,462,231	1,556,718	94,487
Total Revenues				
Expenditures				
Current:				
General Government	363,123	370,667	345,571	25,096
Public Safety	968,249	968,249	941,097	27,152
Environmental Protection	18,000	10,456	4,500	5,956
Economic and Physical Development	38,100	38,100	26,231	11,869
Cultural and Recreation	121,620	121,620	124,241	(2,621)
Contingency	-	-	-	-
	1,509,092	1,509,092	1,441,640	67,452
Total Expenditures				
Revenues Over (Under) Expenditures	(46,861)	(46,861)	115,078	161,939
Other Financing Sources (Uses)				
Transfers from other funds	-	-	273,172	273,172
Transfers to other funds	(535,200)	(558,728)	(640,663)	(81,935)
	(535,200)	(558,728)	(367,491)	191,237
Total Other Financing Sources (Uses)				
Fund Balance Appropriated	582,061	605,589	-	605,589
Net Change in Fund Balance	\$ -	\$ -	(252,413)	\$ (252,413)
Fund Balance				
Beginning of Year			3,379,597	
End of Year			\$ 3,127,184	

Village of Flat Rock, North Carolina
Notes to the Financial Statements
For the Year Ended June 30, 2016

Note 1 – Summary of Significant Accounting Policies:

The Village of Flat Rock, North Carolina (the Village) was incorporated on June 29, 1995. The accounting policies of the Village 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 Village 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 Village and its component unit, a legally separate entity for which the Village is financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations.

Blended component unit. The Flat Rock Park and Recreation Foundation, Inc. (the Foundation) serves to aid and further the development, equipping and operation of the Park at Flat Rock. The Foundation is governed by a board that is appointed by the Village Council. The Foundation is reported as a special revenue fund. Complete financial statements for the Foundation may be obtained from the entity's administrative office at the Flat Rock Park and Recreation Foundation, Inc., 110 Village Center Drive, Flat Rock, NC 28731.

B. Basis of Presentation

Government-wide Statements: The statement of net position and the statement of activities display information about the Village's financial activities. These statements include the financial activities of the overall government. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the Village'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. 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.

Fund Financial Statements: The fund financial statements provide information about the Village's funds.

The Village reports the following major governmental funds:

General Fund – The General Fund, the general operating fund of the Village, is used to account for all financial resources. The primary revenue sources are ad valorem taxes and State-shared revenues. The primary expenditures are for general government services, public safety, cultural and recreation and environmental protection.

Park Capital Project Fund – This fund is used to account for the construction costs of the Park at Flat Rock, a new municipal park.

Park Foundation Special Revenue Fund – This fund is used to account for the activity of the Flat Rock Park and Recreation Foundation, Inc.

C. Measurement Focus and Basis of Accounting

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

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

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.

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

The Village considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as 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 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 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 sales tax, collected and held by the State at year-end on behalf of the Village, are recognized as revenue. Sales taxes are considered a shared revenue for the Village of Flat Rock because the tax is levied by Henderson County and then remitted to and distributed by the State. Intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. Grant revenues that are unearned at year-end are recorded as unearned revenues. Under the terms of grant agreements, the Village could fund certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there would be both restricted and unrestricted net position available to finance the program. It is the Village'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 Village's budget is adopted as required by North Carolina General Statutes. An annual budget ordinance is adopted for the General Fund. All annual appropriations lapse at fiscal year-end. A project ordinance was adopted for the Park Capital Project Fund. All budgets are prepared using the modified accrual basis of accounting.

Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the project level for the multi-year fund. The budget officer may transfer amounts up to \$10,000 between departments, including contingency appropriations, providing that an official report of such transfers be made at the next regular meeting of the Council. The governing board must approve any revisions that alter total expenditures of any fund. 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. The Park Foundation Special Revenue Fund is not required to be budgeted.

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

Deposits and Investments – All deposits of the Village are made in board-designated official depositories and are secured as required by State law [G.S. 159-31]. The Village may designate as an official depository any bank or savings association whose principal office is located in North Carolina. Also, the Village 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 Village to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local

government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances and the North Carolina Capital Management Trust (NCCMT). The Village's investments are reported at fair value. The NCCMT – Cash Portfolio, a SEC-registered (2a-7) external investment pool, is measured at amortized cost, which is the NCCMT's share price.

The Village's investments with a maturity of more than one year at acquisition and non-money market investments are reported at fair value as determined by quoted market prices.

Cash and Cash Equivalents – The Village's cash and investments are essentially demand deposits and are considered cash and cash equivalents.

Ad Valorem Taxes Receivable – In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the Village 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 subject to be shown net of an allowance for doubtful accounts. This amount will be estimated by analyzing the percentage of receivables that were written off in prior years. The Village has not established an allowance due to the immaterial amounts of receivables subject to being uncollectible.

Capital Assets – Capital assets are defined by the Village as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. The minimum capitalization cost is \$5,000. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

Asset Class	Estimated Useful Lives (in years)
Buildings	40
Land Improvements	10
Equipment and Furniture	3-10

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 Village has the following item that meet the criterion for this category – contributions made to the pension plan in the 2016 fiscal year.

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 Village has two items that meet the criterion for this category – prepaid taxes and deferrals of pension expense that result from the implementation of GASB Statement 68.

Long-Term Obligations – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position.

Compensated Absences – The vacation policy of the Village provides for the accumulation of up to thirty days earned vacation leave with such leave being fully vested when earned. An expense and liability for compensated absences and the salary-related payments are recorded as the leave is earned. 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 Village'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 Village has no obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

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

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

The governmental fund types classify fund balances as follows:

Nonspendable 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.

The Village has no fund balance that would be required to be presented under this category.

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

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

Committed Fund Balance – Portion of fund balance that can only be used for specific purpose imposed by majority vote by quorum of the Village’s governing body. Any changes or removal of specific purpose requires majority action by the governing body.

The governing board of the Village has made no commitments of its fund balances that would require separate financial statement disclosure.

Assigned Fund Balance – Portion of fund balance that the Village intends to use for specific purposes.

Subsequent year’s expenditures – Portion of fund balance that is appropriated in the next year’s budget that is not already classified in restricted or committed fund balances. The governing body approves the appropriation; however, the budget ordinance authorizes the budget officer to transfer appropriations under certain conditions.

Cultural and Recreation – Portion of fund balance that will be used for the further development of The Park at Flat Rock. These funds are being held by the Flat Rock Park Foundation, Inc.

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

Pensions

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

Note 2 – Deposits and Investments:

Deposits:

All the deposits of the Village 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 Village’s agents in the unit’s names. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer’s agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Village, these deposits are considered to be held by the Village in its name. The amount of 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 Village or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Village 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 Village has no formal policy regarding custodial credit risk for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The Village 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 Village's deposits had a carrying amount of \$896,260 and a bank balance of \$905,376. \$743,945 of the bank balance was covered by federal depository insurance and the remainder was covered by collateral held under the Pooling Method. At June 30, 2016, the Village's petty cash fund totaled \$200.

Investments:

At June 30, 2016, the Village had \$2,541,559 invested with the North Carolina Capital Management Trust's Cash Portfolio, which carried a credit rating of AAAM by Standard and Poor's. The Village's cash and investment policy identifies the specific investment types allowed for the Village, thus addressing its credit risk policy.

Note 3 – Pledges Receivable

The Flat Rock Park Foundation has the following pledges receivable outstanding at June 30, 2016:

Pledges Receivable	<u>\$ 97,811</u>
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Note 4 – Capital Assets:

Capital asset activity for the Village for the year ended June 30, 2016 was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental Activities:				
Capital Assets Not Being Depreciated:				
Land	\$ 1,329,776	\$ -	\$ -	\$ 1,329,776
Construction in Progress	5,159	825	5,159	825
Total Capital Assets Not Being Depreciated	<u>1,334,935</u>	<u>825</u>	<u>5,159</u>	<u>1,330,601</u>
Capital Assets Being Depreciated:				
Buildings	1,096,813	267,342	-	1,364,155
Village Centre Trail	559,933	-	-	559,933
Land Improvements	435,638	23,442	-	459,080
Equipment and Furniture	81,612	282,462	-	364,074
Computer Equipment and Software	28,818	5,322	-	34,140
Total Capital Assets Being Depreciated	<u>2,202,814</u>	<u>578,568</u>	<u>-</u>	<u>2,781,382</u>
Less: Accumulated Depreciation For:				
Buildings	209,094	28,004	-	237,098
Village Centre Trail	194,822	37,328	-	232,150
Equipment and Furniture	70,887	3,356	-	74,243
Land Improvements	61,617	28,511	-	90,128
Computer Equipment and Software	28,818	266	-	29,084
Total Accumulated Depreciation	<u>565,238</u>	<u>97,465</u>	<u>-</u>	<u>662,703</u>
Total Capital Assets Being Depreciated - Net	<u>1,637,576</u>	<u>481,103</u>	<u>-</u>	<u>2,118,679</u>
Governmental Activity Capital Assets - Net	<u>\$ 2,972,511</u>	<u>\$ 481,928</u>	<u>\$ 5,159</u>	<u>\$ 3,449,280</u>

Depreciation expense of \$97,465 was charged to the Village's general government function.

Note 5 – Pension Plan Obligations:

Local Governmental Employees' Retirement System

Plan Description. The Village is a participating employer in the statewide Local Governmental Employees' Retirement System (LGERS), a cost-sharing, multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS provides retirement and disability benefits to plan members and beneficiaries. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the State Senate, one appointed by the State House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. The Local

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

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

Contributions. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. Village employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Village of Flat Rock's contractually required contribution rate for the year ended June 30, 2016, was 6.67%, 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 Village of Flat Rock were \$10,004 for the year ended June 30, 2016.

Refunds of Contributions – Village 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 Village reported a liability of \$7,450 for its proportionate share of the net pension liability. The net pension asset was measured as of June 30, 2015. The total pension liability used to calculate the net pension 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 Village's proportion of the net pension liability was based on a projection of the Village'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, 2016, the Village's proportion was 0.0017%, which was a decrease of 0.0001% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2016, the Village recognized pension expense of \$5,357. At June 30, 2016, the Village reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 1,751
Net difference between projected and actual earnings on pension plan investments	-	2,122
Changes in proportion and differences between Village contributions and proportionate share of contributions	4,254	-
Village contributions subsequent to the measurement date	<u>10,004</u>	<u>-</u>
	<u>\$ 14,258</u>	<u>\$ 3,873</u>

\$10,004 is reported as deferred outflows of resources related to pensions resulting from Village contributions subsequent to the measurement date will be recognized as a decrease in the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ending June 30</u>	
2017	\$ (1,198)
2018	(1,198)
2019	(1,203)
2020	3,980
2021	-
2020	<u>-</u>
Total	<u>\$ 381</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 per year
Salary Increases	4.25 to 8.55 percent, including inflation and productivity factor
Investment rate of return	7.25 percent, net of pension plan investment expense, including inflation

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

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

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Fixed Income	29.0%	2.2%
Global Equity	42.0%	5.8%
Real Estate	8.0%	5.2%
Alternatives	8.0%	9.8%
Credit	7.0%	6.8%
Inflation Protection	6.0%	3.4%
	<u>100%</u>	

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

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

Sensitivity of the Village’s proportionate share of the net pension liability to changes in the discount rate. The following presents the Village’s proportionate share of the net pension liability calculated using the discount rate of 7.25 percent, as well as what the Village’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%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Village's proportionate share of the net pension liability (asset)	\$ 51,950	\$ 7,450	\$ (30,040)

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.

Note 6 – Other Employment Benefits:

The Village 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. All death benefit payments are made from the Death Benefit Plan. The Village has no liability beyond the payment of monthly contributions. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount. The Village considers these contributions to be immaterial.

Note 7 – Deferred Outflows and Inflows of Resources:

Deferred outflows of resources at June 30, 2016 is comprised of the following:

Changes in proportion and differences between employer contributions and proportionate share of contributions	\$ 4,254
Employer contributions subsequent to the measurement date	10,004
	<u>\$ 14,258</u>

Deferred inflows of resources at June 30, 2016 is comprised of the following:

Prepaid Taxes (General Fund)	\$ 1,117
Taxes Receivable (General Fund)	1,258
Differences between expected and actual experience	1,751
Net difference between projected and actual earnings on pension plan investments	2,122
	<u>\$ 6,248</u>

Note 8 – Risk Management:

The Village 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 Village participates in three self-funded risk-financing pools administered by the North Carolina League of Municipalities. Through these pools, the Village obtains general liability of \$5,000,000 and auto liability coverage of \$3,000,000 per occurrence, property coverage up to the total insurance values of the property policy, workers’ compensation coverage up to statutory limits, and employee health coverage up to a \$2,000,000 lifetime limit. The pools are reinsured through commercial companies for single occurrence claims against general liability, auto liability, and property in excess of \$500,000 and \$300,000 up to statutory limits for workers’ compensation. The pools are reinsured for annual employee health claims in excess of \$150,000. The property liability pool has an aggregate limit for the total property losses in a single year, with the reinsurance limit based upon a percentage of the total insurance values.

The Village 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 Village does not carry flood insurance through the National Flood Insurance Plan.

In accordance with G.S. 159-29, the Village's employees that have access to \$100 or more at any given time of the Village's funds are performance bonded through a commercial surety bond. The finance officer is bonded for \$50,000 and the remaining employees that have access to funds are bonded under a blanket bond for \$50,000.

Note 9 – Long-term Debt:

A schedule of the changes in long-term debt that occurred during the year ended June 30, 2016 is as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>	<u>Current Portion of Balance</u>
Governmental Activities:					
Compensated Absences	\$ 8,187	\$ -	\$ 102	\$ 8,085	\$ 6,064
Net Pension Liability (LGRS)	-	7,450	-	7,450	-
Total	<u>\$ 8,187</u>	<u>\$ 7,450</u>	<u>\$ 102</u>	<u>\$ 15,535</u>	<u>\$ 6,064</u>

Note 10 – Interfund Balances and Activity:

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

From the General Fund to the Capital Project Fund	\$ 583,663
From the General Fund to the Special Revenue Fund	57,000
From the Special Revenue Fund to the General Fund	<u>(273,172)</u>
Total	<u>\$ 367,491</u>

Transfers are used to move unrestricted revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts provided matching funds for various grant programs.

During fiscal 2016, the Village transferred \$583,663 from the General Fund to the Capital Project Fund to fund the construction of the municipal park. The Village also transferred \$57,000 to the Special Revenue Fund to fund the activities of the Flat Rock Park and Recreation Foundation. The Foundation transferred \$273,172 to the Village General Fund for various construction projects at the park.

Note 11 – Jointly Governed Organization:

The Village, in conjunction with other area counties and municipalities, has established the Land of Sky Regional Council (Council). The participating governments established the Council to coordinate various funding received from federal and State agencies. Each participating government, including the Village, appoints one member to the Council's governing board.

Note 12 – Joint Ventures:

Effective September 1, 2012, the Village began its participation in a joint venture to operate the Henderson County Tourism Development Authority. The Authority consists of nine members, three appointed by Henderson County, three appointed by the City of Hendersonville, one appointed by the Village, one appointed by the Town of Fletcher, and a ninth member, appointed by the Henderson County Board of Commissioners upon the recommendation of the Henderson County Chamber of Commerce.

The Village does not have an equity interest in the Authority, so no equity interest has been reflected in these financial statements.

Complete financial statements for the Authority can be obtained from the Authority's offices at 201 South Main Street, Hendersonville, NC 28792.

Note 13 – Summary Disclosures of Significant Contingencies:

The Village has received proceeds from federal and State grants. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant moneys 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.

The Village is periodically involved in legal actions and claims arising in the normal course of operations. The ultimate resolution of these actions is not expected to have a material effect upon the financial position of the Village.

Note 14 – Construction Commitments:

The Village has a contract for Park landscaping that was in process as of June 30, 2016. At year-end, the Village's commitment with the contractor is as follows:

	Original Contract Amount	Remaining Commitment
Playground Planting	<u>\$ 19,751</u>	<u>\$ 19,751</u>

Note 15 – Stewardship, Compliance and Accountability

Noncompliance with North Carolina General Statutes

Excess of Expenditures over Appropriations

During the year ended June 30, 2016, actual transfers from the general fund exceeded the authorized appropriation made by the governing board. The overage occurred when the Village failed to budget for additional expenditures owed at June 30, 2016. Management and the Board will consider year end payable amounts when preparing end-of-year budget amendments.

During the year ended June 30, 2016, actual cultural and recreation expenses exceeded the authorized appropriation made by the governing board. The overage occurred when the Village did not budget for additional expenditures owed at June 30, 2016. Management and the Board will consider year end payable amounts when preparing end-of-year budget amendments.

Required Supplementary Information

**Village of Flat Rock, North Carolina
Proportionate Share of Net Pension Liability (Asset)
Required Supplementary Information
Last Three Fiscal Years ***

Local Governmental Employees' Retirement System

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Flat Rock's proportion of the net pension liability (asset) (%)	0.0017%	0.0018%	0.0017%
Flat Rock's proportion of the net pension liability (asset) (\$)	\$ 7,450	\$ (10,380)	\$ 20,492
Flat Rock's covered-employee payroll	\$ 149,878	\$ 145,206	\$ 140,021
Flat Rock's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	4.97%	-7.15%	14.63%
Plan fiduciary net position as a percentage of the total pension liability**	98.09%	102.64%	94.35%

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

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

**Village of Flat Rock, North Carolina
Schedule of Contributions
Required Supplementary Information
Last Three Fiscal Years**

Local Governmental Employees' Retirement System

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 10,004	\$ 10,266	\$ 9,900
Contributions in relation to the contractually required contribution	<u>10,004</u>	<u>10,266</u>	<u>9,900</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Flat Rock's covered-employee payroll	\$ 149,878	\$ 145,206	\$ 140,021
Contributions as a percentage of covered-employee payroll	<u>6.67%</u>	<u>7.07%</u>	<u>7.07%</u>

Individual Fund Schedules

**Village of Flat Rock, North Carolina
General Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
For the Year Ended June 30, 2016**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Ad Valorem Taxes:			
Current Year		\$ 976,853	
Interest and Penalties		859	
Total	<u>\$ 962,131</u>	<u>977,712</u>	<u>\$ 15,581</u>
Unrestricted Intergovernmental:			
Local Option Sales Taxes		305,273	
Sales Tax - Utilities		156,034	
Sales Tax - Telecommunication		30,072	
Sales Tax - Video Programming		41,793	
Beer and Wine Tax		14,209	
Total	<u>490,100</u>	<u>547,381</u>	<u>57,281</u>
Permits and Fees:			
Building Permits	<u>5,000</u>	<u>5,279</u>	<u>279</u>
Investment Earnings	<u>4,000</u>	<u>6,813</u>	<u>2,813</u>
Miscellaneous	<u>1,000</u>	<u>19,533</u>	<u>18,533</u>
Total Revenues	<u>1,462,231</u>	<u>1,556,718</u>	<u>94,487</u>
Expenditures:			
General Government:			
Governing Body	<u>28,000</u>	<u>3,490</u>	<u>24,510</u>
Administration:			
Salaries and Employee Benefits		202,115	
Other Operating Expenditures		109,703	
Total	<u>301,723</u>	<u>311,818</u>	<u>(10,095)</u>
Finance:			
Professional Services		11,300	
Tax Department		650	
Other Operating Expenditures		554	
Total	<u>14,000</u>	<u>12,504</u>	<u>1,496</u>

**Village of Flat Rock, North Carolina
General Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
For the Year Ended June 30, 2016**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Elections	\$ 2,400	\$ 1,830	\$ 570
Legal:			
Contracted Services		4,420	
Other Operating Expenditures		477	
Total	<u>13,000</u>	<u>4,897</u>	<u>8,103</u>
Public Building:			
Capital Outlay		5,322	
Other Operating Expenditures		5,710	
Total	<u>11,544</u>	<u>11,032</u>	<u>512</u>
Total General Government	<u>370,667</u>	<u>345,571</u>	<u>25,096</u>
Public Safety:			
Payments to Fire Departments	967,249	941,097	26,152
Other Operating Expenditures	<u>1,000</u>	<u>-</u>	<u>1,000</u>
Total Public Safety	<u>968,249</u>	<u>941,097</u>	<u>27,152</u>
Environmental Protection:			
Operating Expenditures	<u>10,456</u>	<u>4,500</u>	<u>5,956</u>
Economic and Physical Development			
Planning and Zoning:			
Other Operating Expenditures	<u>100</u>	<u>-</u>	<u>100</u>
Community Development:			
Other Operating Expenditures	<u>38,000</u>	<u>26,231</u>	<u>11,769</u>
Total Economic and Physical Development	<u>38,100</u>	<u>26,231</u>	<u>11,869</u>

**Village of Flat Rock, North Carolina
General Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
For the Year Ended June 30, 2016**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Cultural and Recreation			
Operating Expenditures	\$ 121,620	\$ 124,241	\$ (2,621)
Contingency	-	-	-
Total Expenditures	<u>1,509,092</u>	<u>1,441,640</u>	<u>67,452</u>
Revenues Over (Under) Expenditures	(46,861)	115,078	161,939
Other Financing Sources (Uses):			
Transfers from Other Funds			
Special Revenue Fund	-	273,172	273,172
Transfers to Other Funds			
Capital Project Fund	(501,728)	(583,663)	(81,935)
Special Revenue Fund	(57,000)	(57,000)	-
Total	<u>(558,728)</u>	<u>(367,491)</u>	<u>191,237</u>
Fund Balance Appropriated	<u>605,589</u>	-	<u>(605,589)</u>
Net Change in Fund Balance	<u>\$ -</u>	(252,413)	<u>\$ (252,413)</u>
Fund Balance:			
Beginning of Year		<u>3,379,597</u>	
End of Year		<u>\$ 3,127,184</u>	

**Village of Flat Rock, North Carolina
Capital Projects Fund - Village Park
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			Variance Positive (Negative)
		Prior Years	Current Year	Total to Date	
Revenues					
Restricted Intergovernmental					
Revenues	\$ 475,000	\$ 475,000	\$ -	\$ 475,000	\$ -
Contributions	-	-	-	-	-
Total Revenues	475,000	475,000	-	475,000	-
Expenditures					
Cultural and Recreation:					
Debt Service	625,000	625,000	-	625,000	-
Capital Outlay	2,357,000	659,515	572,615	1,232,130	1,124,870
Other Expenditures	18,000	17,353	276	17,629	371
Total Expenditures	3,000,000	1,301,868	572,891	1,874,759	1,125,241
Revenues Over (Under)					
Expenditures	(2,525,000)	(826,868)	(572,891)	(1,399,759)	1,125,241
Other Financing Sources					
Transfers from Other Funds:					
General Fund	2,525,000	827,000	583,663	1,410,663	(1,114,337)
Net Change in Fund Balance	\$ -	\$ 132	10,772	\$ 10,904	\$ 10,904
Fund Balance:					
Beginning of Year			132		
End of Year			\$ 10,904		

Other Schedules

Village of Flat Rock, North Carolina
General Fund
Schedule of Ad Valorem Taxes Receivable
June 30, 2016

<u>Fiscal Year</u>	<u>Uncollected Balance at June 30, 2015</u>	<u>Additions</u>	<u>Collections and Credits</u>	<u>Uncollected Balance at June 30, 2016</u>
2015-2016	\$ -	\$ 976,664	\$ 976,664	\$ -
2014-2015	-	-	-	-
2013-2014	136	-	31	105
2012-2013	218	-	-	218
2011-2012	94	-	-	94
2010-2011	122	-	-	122
2009-2010	82	-	-	82
2008-2009	101	-	-	101
2007-2008	211	-	-	211
2006-2007	325	-	-	325
2005-2006	140	-	140	-
	<u>\$ 1,429</u>	<u>\$ 976,664</u>	<u>\$ 976,835</u>	1,258
				Less: Allowance for Uncollectible Accounts
				<u>-</u>
				Ad Valorem Taxes Receivable - Net
				<u>\$ 1,258</u>

Reconciliation with Revenues:

Ad Valorem Taxes Collected	
Current and Prior Years	\$ 976,852
Taxes Written Off	140
Releases, Refunds and Adjustments	<u>(157)</u>
	<u>\$ 976,835</u>

**Village of Flat Rock, North Carolina
Analysis of Current Tax Levy
For the Year Ended June 30, 2016**

	Village-wide			Total Levy	
	Total Property Valuation	Tax Rate	Levy Amount	Property Excluding Registered Vehicles	Registered Motor Vehicles
Original Levy Taxed at Current Rate	\$ 877,952,727	\$ 0.11	\$ 965,748	\$ 915,033	\$ 50,715
Discoveries	9,930,000		10,923	10,923	-
Releases	<u>(6,364)</u>		<u>(7)</u>	<u>(7)</u>	<u>-</u>
Total Property Valuation	<u>\$ 887,876,363</u>				
Net Levy			976,664	925,949	50,715
Less: Uncollected Taxes at June 30, 2016			<u>-</u>	<u>-</u>	<u>-</u>
Current Year's Taxes Collected			<u>\$ 976,664</u>	<u>\$ 925,949</u>	<u>\$ 50,715</u>
Percent Collected			<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>