

TOWN OF PILOT MOUNTAIN, NORTH CAROLINA

FINANCIAL STATEMENTS

June 30, 2017

**TOWN OF PILOT MOUNTAIN, NORTH CAROLINA  
JUNE 30, 2017**

**BOARD OF COMMISSIONERS**

Dwight Atkins, Mayor  
Gary Bell, Mayor Pro Tem  
Evan Cockerham  
Linda Needham  
Kimberly Quinn

**ADMINISTRATIVE AND FINANCIAL STAFF**

Michael Boaz, Town Manager/Finance Officer  
Holly Utt, Town Clerk

**Town of Pilot Mountain, North Carolina**  
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**June 30, 2017**

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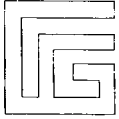
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FINANCIAL SECTION



Independent Auditor's Report

To the Honorable Mayor  
and Members of the Board of Commissioners  
Town of Pilot Mountain, 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 units, each major fund, and the aggregate remaining fund information of the Town of Pilot Mountain, North Carolina as of and for the year ended June 30, 2017, 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 conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements for the Town of Pilot Mountain 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 upon our audit, 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 units, each major fund, and the aggregate remaining fund information of Town of Pilot Mountain, North Carolina as of June 30, 2017, and the respective changes in financial position and cash flows, 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 the Management's Discussion and Analysis on pages 4 through 15, the Local Governmental Employees' Retirement System's Schedules of the Proportionate Share of Net Pension Liability (Asset) and Contributions on pages 65 and 66, respectively, and the Law Enforcement Officers' Special Separation Allowance schedules of the Changes in Total Pension Liability and Total Pension Liability as a Percentage of Covered Payroll on pages 67 and 68 be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Supplementary and Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the Town of Pilot Mountain, North Carolina. The combining and individual fund statements, budgetary schedules, and other schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

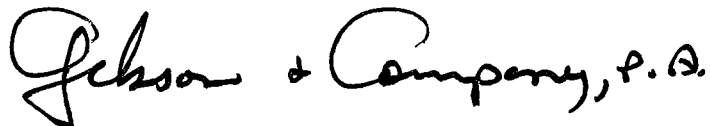
The combining and individual fund statements, budgetary schedules, and other schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information



has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit and the procedures performed as described above, the combining and individual fund statements, budgetary schedules, and other schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2017 on our consideration of Town of Pilot Mountain's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, and other matters. The purpose of 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 Town of Pilot Mountain's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Johnson & Company, P.A." in a cursive, flowing script.

Winston-Salem, North Carolina  
December 14, 2017

## Management's Discussion and Analysis

## **Town of Pilot Mountain Management's Discussion and Analysis**

As management of the Town of Pilot Mountain, we offer readers of the Town of Pilot Mountain's financial statements this narrative overview and analysis of the financial activities of the Town of Pilot Mountain for the fiscal year ended June 30, 2017. 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**

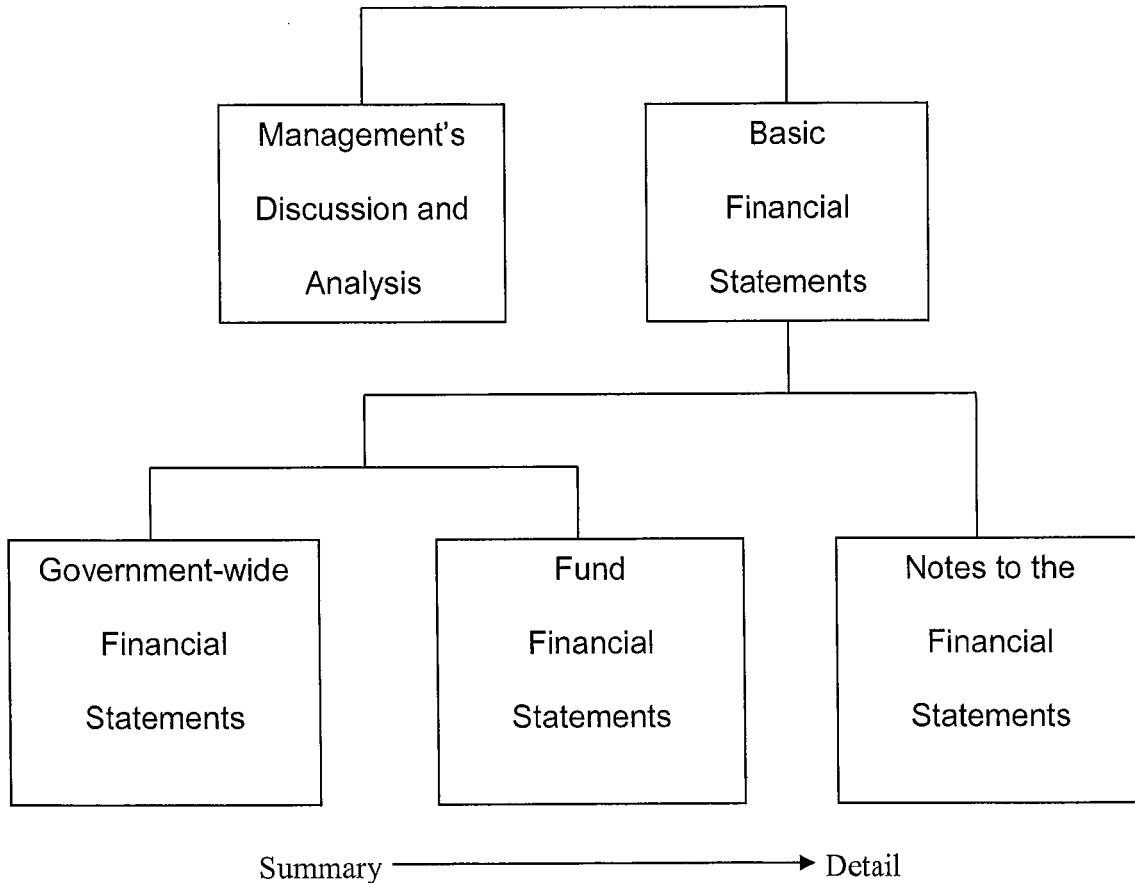
- The assets and deferred outflows of resources of the Town of Pilot Mountain exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$8,337,212 (*net position*).
- The government's total net position decreased by \$15,779.
- As of the close of the current fiscal year, the Town of Pilot Mountain's governmental funds reported combined ending fund balances of \$905,204 with a net change of \$20,298 in fund balance. Approximately 30.01 percent of this total amount, or \$271,660, is non-spendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$601,374, or 38.30 percent of total general fund expenditures for the fiscal year.
- The Town of Pilot Mountain's total debt increased by \$394,552 (35.77%) during the current fiscal year.

### **Overview of the Financial Statements**

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

**Required Components of Annual Financial Report**

**Figure 1**



**Basic Financial Statements**

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

The next statements (Exhibits 3 through 9) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the Town's government. These statements provide more detail than the government-wide statements. There are four parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the budgetary comparison statements; 3) the proprietary fund statements; and 4) the fiduciary 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 North Carolina General Statutes also can be found in this part of the statements.

**Town of Pilot Mountain**

**Government-wide Financial Statements**

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

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

The government-wide statements are divided into 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 safety, public works and general administration. Property taxes and State and federal grant funds finance most of these activities. The business-type activities are those that the Town's charges customers to provide. These include the water and sewer services offered by the Town of Pilot Mountain. The final category is the component units. The Town has two component units, the Pilot Mountain ABC Board and The Pilot Mountain Tourism Development Authority. Although legally separate from the Town, the ABC Board is important to the Town. The Town exercises control over the ABC Board by appointing its members and the Board is required to distribute its profits to the Town. The Tourism Development Authority is also legally separate from the Town. However, the Town exercises control over the Tourism Development Authority by appointing its members.

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 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 Pilot Mountain, 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 Town of Pilot Mountain can be divided into three categories: governmental funds, proprietary funds, and fiduciary 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* which provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the Town's programs. The relationship

## Management Discussion and Analysis

### Town of Pilot Mountain

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 Pilot Mountain 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 Commissioners 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 Fund** – Town of Pilot Mountain has a proprietary fund. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. Town of Pilot Mountain uses the enterprise fund to account for its water and sewer activity. This fund is the same as those functions shown in the business-type activities in the Statement of Net Position and the Statement of Activities.

**Fiduciary Funds** – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The Town of Pilot Mountain has two fiduciary funds, which are agency funds.

**Notes to the Financial Statements** – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 26 of this report.

**Other Information** – In addition to the basic financial statements and accompanying notes, this report includes required supplementary information concerning the Town of Pilot Mountain's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 65 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 changes 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 government and other holders of publicly held U.S. Treasury Securities.

Management Discussion and Analysis  
**Town of Pilot Mountain**

**Government-Wide Financial Analysis**

**Town of Pilot Mountain's Net Position**

Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 974,784	\$ 1,110,471	\$ 416,355	\$ 252,996	\$ 1,391,139	\$ 1,363,467
Capital assets	2,129,224	2,128,901	6,313,150	6,195,051	8,442,374	8,323,952
Non-current assets	252,878	84,293	-	-	252,878	84,293
Deferred outflows of resources	146,030	37,025	43,369	13,752	189,399	50,777
Total assets and deferred outflows of resources	3,502,916	3,360,690	6,772,874	6,461,799	10,275,790	9,822,489
Long-term liabilities outstanding	786,768	352,283	738,759	413,200	1,525,527	765,483
Other liabilities	146,216	273,479	245,258	195,668	391,474	469,147
Deferred inflows of resources	16,663	20,483	4,914	7,812	21,577	28,295
Total liabilities and deferred inflows of resources	949,647	646,245	988,931	616,680	1,938,578	1,262,925
Net position:						
Net investment in capital assets	1,900,642	1,879,692	5,509,980	5,684,435	7,410,622	7,564,127
Restricted	271,660	286,989	-	-	271,660	286,989
Unrestricted	380,967	547,764	273,963	160,684	654,930	708,448
Total net position	\$ 2,553,269	\$ 2,714,445	\$ 5,783,943	\$ 5,845,119	\$ 8,337,212	\$ 8,559,564

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 Pilot Mountain exceeded liabilities and deferred inflows of resources by \$8,337,212 as of June 30, 2017. The Town's net position decreased by \$15,779 for the fiscal year ended June 30, 2017. However, the largest portion (88.89%) reflects the Town's investment in capital assets (e.g. land, buildings, machinery, and equipment). The Town of Pilot Mountain uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Pilot Mountain's net investment in 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 Pilot Mountain's net position, \$271,660 represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$654,930 is unrestricted.

Management Discussion and Analysis  
**Town of Pilot Mountain**

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

- Continued success in collecting real property and motor vehicle taxes.
- Continued growth in sales tax collections.
- Continued efforts by the staff to control expenses.
- Efforts to take care of deferred maintenance and delayed capital expenditures from previous fiscal years caused the expenses to increase this fiscal year.



Management Discussion and Analysis  
**Town of Pilot Mountain**

**Town of Pilot Mountain's Changes in Net Position**  
**Figure 3**

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$ -	\$ -	\$ 854,528	\$ 811,284	\$ 854,528	\$ 811,284
Operating grants and contributions	49,264	59,804	-	-	49,264	59,804
Capital grants and contributions	-	-	37,000	138,180	37,000	138,180
General revenues:						
Property taxes	819,384	811,741	-	-	819,384	811,741
Other taxes	-	-	-	-	-	-
Grants and contributions not restricted to specific programs	545,974	545,111	-	-	545,974	545,111
Other	140,827	259,410	32,710	40,937	173,537	300,347
Gain (loss) on disposal of capital assets	16,693	-	8,891	-	25,584	-
<b>Total revenues</b>	<b>1,572,142</b>	<b>1,676,066</b>	<b>933,129</b>	<b>990,401</b>	<b>2,505,271</b>	<b>2,666,467</b>
<b>Expenses:</b>						
General government	372,078	422,306	-	-	372,078	422,306
Public safety	591,812	582,852	-	-	591,812	582,852
Transportation	177,483	164,143	-	-	177,483	164,143
Pilot Center	96,797	51,022	-	-	96,797	51,022
Economic development	42,861	14,632	-	-	42,861	14,632
Environmental protection	208,938	186,786	-	-	208,938	186,786
Cultural and recreation	35,011	38,011	-	-	35,011	38,011
Interest on long-term debt	1,765	302	-	-	1,765	302
Water and sewer	-	-	994,305	991,428	994,305	991,428
<b>Total expenses</b>	<b>1,526,745</b>	<b>1,460,054</b>	<b>994,305</b>	<b>991,428</b>	<b>2,521,050</b>	<b>2,451,482</b>
Increase (decrease) in net position before transfers	45,397	216,012	(61,176)	(1,027)	(15,779)	214,985
Transfers	-	(29,106)	-	29,106	-	-
Increase (decrease) in net position	45,397	186,906	(61,176)	28,079	(15,779)	214,985
Net position, beginning, previously reported	2,714,445	2,527,539	5,845,119	5,817,040	8,559,564	8,344,579
Restatement	(206,573)	-	-	-	(206,573)	-
Net position, beginning, restated	2,507,872	2,527,539	5,845,119	5,817,040	8,352,991	8,344,579
<b>Net position, ending</b>	<b>\$ 2,553,269</b>	<b>\$ 2,714,445</b>	<b>\$ 5,783,943</b>	<b>\$ 5,845,119</b>	<b>\$ 8,337,212</b>	<b>\$ 8,559,564</b>

**Governmental activities.** Governmental activities increased the Town's net position by \$45,397. Key elements of this increase are as follows:

- Higher than anticipated sales tax collections.
- Staff was diligent in monitoring expenditures and kept expenditures in the general fund below expectations.

Management Discussion and Analysis  
**Town of Pilot Mountain**

- The Town kept a vacant position in the Public Works Department open during the course of the fiscal year.

**Business-type activities:** Business-type activities decreased the Town of Pilot Mountain's net position by \$61,176 thereby offsetting part of the gain in the governmental activities. The key elements of this decrease are as follows:

- The Town kept a vacant position in the Public Works Department open during the fiscal year.
- Staff was diligent in securing better than anticipated pricing for various projects that kept expenses below expected levels.
- These efforts were offset by depreciation expense, which is the primary reason for the decrease in net position.

### **Financial Analysis of the Town's Funds**

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

**Governmental Funds.** The focus of the Town of Pilot Mountain's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the Town of Pilot Mountain's financing requirements.

The general fund is the chief operating fund of the Town of Pilot Mountain. At the end of the current fiscal year, Town of Pilot Mountain's fund balance available in the General Fund was \$601,374, while total fund balance reached \$905,204. The Town currently has an available fund balance of 38.30% of general fund expenditures, and total fund balance represents 57.64% of the same amount.

At June 30, 2017, the governmental funds of the Town of Pilot Mountain reported a combined fund balance of \$905,204 with a net increase in fund balance of \$20,298. Included in this change in fund balance is an increase in the fund balance for the General Fund and an increase in the fund balance for the Capital Projects Fund.

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

These included an amendment to appropriate additional local option sales tax revenue in order to cover unanticipated expenses in the police department and Pilot Center. In addition, the Town appropriated available contingency to cover certain capital expenses.

Management Discussion and Analysis  
**Town of Pilot Mountain**

**Proprietary Funds.** The Town of Pilot Mountain's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the Water and Sewer Fund at the end of the fiscal year amounted to \$273,963. The total decrease in net position for the fund was \$61,176. The change in net position in the Water and Sewer Fund is primarily the result of the charge for depreciation expense.

**Capital Asset and Debt Administration**

**Capital assets.** The Town of Pilot Mountain's investment in capital assets for its governmental and business-type activities as of June 30, 2017, totals \$8,442,374 (net of accumulated depreciation). These assets include land, buildings, sewer lines, equipment, and vehicles.

Major capital asset transactions during the year include the following:

- The Town spent \$55,000 on a new tractor during the fiscal year.
- The Town spent \$475,000 on a water meter replacement project during the fiscal year.

**Town of Pilot Mountain's Capital Assets  
(net of depreciation)**

**Figure 4**

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Land	\$ 316,040	\$ 316,040	\$ 168,864	\$ 168,864	\$ 484,904	\$ 484,904
Building and systems	1,533,598	1,586,846	5,530,419	5,816,243	7,064,017	7,403,089
Machinery and equipment	112,294	104,279	155,364	115,261	267,658	219,540
Infrastructure	102,553	107,160	-	-	102,553	107,160
Vehicles and motorized equipment	64,739	14,576	1,721	2,868	66,460	17,444
Construction in progress	-	-	456,782	91,815	456,782	91,815
<b>Total</b>	<b>\$ 2,129,224</b>	<b>\$ 2,128,901</b>	<b>\$ 6,313,150</b>	<b>\$ 6,195,051</b>	<b>\$ 8,442,374</b>	<b>\$ 8,323,952</b>

Additional information on the Town's capital assets can be found in Note II.A.4 of the Basic Financial Statements.

**Long-term Debt.** As of June 30, 2017, the Town of Pilot Mountain had total debt outstanding of \$1,497,488. Of this amount, \$603,737 is debt backed by the full faith and credit of the Town, \$158,913 is secured by a building, and \$194,338 is secured by equipment. The remainder of the Town's debt is secured solely by specified revenue sources.

Management Discussion and Analysis  
**Town of Pilot Mountain**

**Outstanding Debt**

**Figure 5**

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Loan agreement	\$ -	\$ -	\$ 190,500	\$ 217,714	\$ 190,500	\$ 217,714
General obligation bonds	-	-	138,000	150,000	138,000	150,000
Non-general obligation	-	-	-	56,681	-	56,681
Promissory note	158,913	158,913	-	-	158,913	158,913
Note payable	-	4,075	-	-	-	4,075
Equipment loan payable	69,669	86,221	69,669	86,221	139,338	172,442
Water meter project	-	-	350,000	-	350,000	-
Vehicle loan payable	-	-	55,000	-	55,000	-
Compensated absences	47,372	51,240	31,458	30,859	78,830	82,099
Total pension liability (LEO)	202,902	206,573	-	-	202,902	206,573
Net pension liability (LRS)	137,150	39,408	46,855	15,031	184,005	54,439
	<u>\$ 616,006</u>	<u>\$ 546,430</u>	<u>\$ 881,482</u>	<u>\$ 556,506</u>	<u>\$ 1,497,488</u>	<u>\$ 1,102,936</u>

**Town of Pilot Mountain's Outstanding Debt**

The Town of Pilot Mountain's total debt increased by \$394,552 (35.77%) during the past fiscal year.

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for the Town of Pilot Mountain is \$10,299,987.

Additional information regarding the Town of Pilot Mountain's long-term debt can be found in Note II.B.6 of this report.

**Economic Factors and Next Year's Budgets and Rates**

The following key economic indicator reflects the growth and prosperity of the Town:

The Town's economy has not recovered as quickly as the State and national economies. However, the Town has seen growth in sales tax revenues and expects that moderate growth to continue. The Town saw a new residential development with 14 units mostly completed during the course of FY 2017. These additional units added new water/sewer customers and nearly \$1 million to the tax base.

**Budget Highlights for the Fiscal Year Ending June 30, 2018**

**Governmental Activities:**

- The Board of Commissioners continued to make capital expenditures that were deferred during the economic downturn.

## Management Discussion and Analysis

### **Town of Pilot Mountain**

- The Board made minor adjustments to the fee schedule to insure that our fees were covering the cost to provide service.

#### **Business-type Activities:**

- The Town finished its meter infrastructure upgrade project. This will lead to increased water/sewer revenues.
- The Board of Commissioners added a new fee to the Town's fee schedule during the year to help fund future water/sewer infrastructure projects. This fee is reserved for capital expenditures.
- The Board of Commissioners made capital expenditures that were deferred during the economic downturn.

#### **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 Michael Boaz, Town Manager/Finance Officer or Holly Utt, Town Clerk, Town of Pilot Mountain, 124 West Main Street, Box 1, Pilot Mountain, NC 27041. One can also call (336) 368-2248, visit our website at [www.pilotmountainnc.org](http://www.pilotmountainnc.org) or send an email to [mboaz@pilotmountainnc.org](mailto:mboaz@pilotmountainnc.org) or [hutt@pilotmountainnc.org](mailto:hutt@pilotmountainnc.org).

## Basic Financial Statements

Town of Pilot Mountain, North Carolina  
Statement of Net Position  
June 30, 2017

	Primary Government			Pilot Mountain Tourism Development Authority	
	Governmental Activities	Business-type Activities	Total	Pilot Mountain ABC Board	Development Authority
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$ 700,914	\$ 198,251	\$ 899,165	\$ 133,459	\$ 37,591
Taxes receivables (net)	5,478	-	5,478	-	-
Accounts receivable (net)	8,453	113,563	122,016	307	4,562
Grant repayment	252,878	-	252,878	-	-
Due from other governments	140,612	29,262	169,874	-	-
Due from component unit	3,772	-	3,772	-	-
Internal balances	(3,268)	3,268	-	-	-
Grant receivable	-	37,000	37,000	-	-
Inventory	-	-	-	100,087	-
Prepaid items	-	-	-	2,319	-
Restricted cash and cash equivalents	118,823	35,011	153,834	-	-
Total current assets	1,227,662	416,355	1,644,017	236,172	42,153
Non-current assets:					
Capital assets:					
Land, non-depreciable improvements, and construction in progress	316,040	625,646	941,686	-	-
Other capital assets, net of depreciation	1,813,184	5,687,504	7,500,688	17,343	-
Total capital assets	2,129,224	6,313,150	8,442,374	17,343	-
Security deposit	-	-	-	5,000	-
Total assets	3,356,886	6,729,505	10,086,391	258,515	42,153
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
Pension deferral	146,030	43,369	189,399	10,779	-
Total deferred outflows of resources	146,030	43,369	189,399	10,779	-
<b>LIABILITIES</b>					
Current liabilities:					
Accounts payable	64,100	60,647	124,747	52,456	1,645
Accrued interest payable	-	6,877	6,877	-	-
Grant repayment	252,878	-	252,878	-	-
Due to primary government	-	-	-	3,772	-
Current portion of long-term liabilities	82,116	142,723	224,839	8,339	-
Payable from restricted assets	-	35,011	35,011	-	-
Total current liabilities	399,094	245,258	644,352	64,567	1,645
Long-term liabilities:					
Net pension liability (LGRS)	137,150	46,855	184,005	12,523	-
Total pension liability (LEO)	202,902	-	202,902	-	-
Due in more than one year	193,838	691,904	885,742	14,657	-
Total liabilities	932,984	984,017	1,917,001	91,747	1,645
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Pension deferrals	16,663	4,914	21,577	2,787	-
Total deferred inflows of resources	16,663	4,914	21,577	2,787	-
<b>NET POSITION</b>					
Net investment in capital assets	1,900,642	5,509,980	7,410,622	(5,653)	-
Restricted for:					
Stabilization by State Statute	152,837	-	152,837	-	-
Streets-Powell Bill	118,823	-	118,823	-	-
Other functions	-	-	-	29,509	40,508
Unrestricted	380,967	273,963	654,930	150,904	-
Total net position	\$ 2,553,269	\$ 5,783,943	\$ 8,337,212	\$ 174,760	\$ 40,508

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



Town of Pilot Mountain, North Carolina  
Statement of Activities  
For the Year Ended June 30, 2017

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position				
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	Pilot Mountain ABC Board	Pilot Mountain Tourism Development Authority
<b>Primary Government:</b>									
Governmental Activities:									
General government	\$ 372,078	\$ -	\$ -	\$ -	\$ (372,078)	\$ -	\$ (372,078)	\$ -	\$ -
Public safety	591,812	-	4,500	-	(587,312)	-	(587,312)	-	-
Transportation	177,483	-	44,764	-	(132,719)	-	(132,719)	-	-
Pilot Center	96,797	-	-	-	(96,797)	-	(96,797)	-	-
Economic development	42,861	-	-	-	(42,861)	-	(42,861)	-	-
Environmental protection	208,938	-	-	-	(208,938)	-	(208,938)	-	-
Cultural and recreation	35,011	-	-	-	(35,011)	-	(35,011)	-	-
Interest on long-term debt	1,765	-	-	-	(1,765)	-	(1,765)	-	-
<b>Total governmental activities</b>	<b>1,526,745</b>	<b>-</b>	<b>49,264</b>	<b>-</b>	<b>(1,477,481)</b>	<b>-</b>	<b>(1,477,481)</b>	<b>-</b>	<b>-</b>
<b>Business-type activities:</b>									
Water and sewer	994,305	854,528	-	37,000	-	(102,777)	(102,777)	-	-
Total business-type activity	994,305	854,528	-	37,000	-	(102,777)	(102,777)	-	-
<b>Total primary government</b>	<b>\$ 2,521,050</b>	<b>\$ 854,528</b>	<b>\$ 49,264</b>	<b>\$ 37,000</b>	<b>\$ (1,477,481)</b>	<b>\$ (102,777)</b>	<b>(1,580,258)</b>	<b>-</b>	<b>-</b>
<b>Component units:</b>									
ABC Board	\$ 918,576	\$ 988,269	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 69,693	\$ -
Tourism Development Authority	32,258	37,037	-	-	-	-	-	-	4,779
<b>Total component units</b>	<b>\$ 950,834</b>	<b>\$ 1,025,306</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 69,693</b>	<b>\$ 4,779</b>
<b>General revenues:</b>									
<b>Taxes:</b>									
Property taxes, levied for general purpose					819,384		819,384		
Unrestricted intergovernmental revenues					545,974		545,974		
Unrestricted investment earnings					2,333		2,333		
Miscellaneous					138,494	32,710	171,204		
Gain on disposal of capital assets					16,693	8,891	25,584		
<b>Total general revenues not including transfers</b>					<b>1,522,878</b>	<b>41,601</b>	<b>1,564,479</b>		
<b>Transfers</b>									
Total general revenues and transfers					1,522,878	41,601	1,564,479		
Change in net position					45,397	(61,176)	(15,779)	69,693	4,779
Net position, beginning, as previously reported					2,714,445	5,845,119	8,559,564	105,067	35,729
Restatement					(206,573)	-	(206,573)	-	-
Net position, beginning, restated					2,507,872	5,845,119	8,352,991	105,067	35,729
Net position, ending					<b>2,553,269</b>	<b>5,783,943</b>	<b>8,337,212</b>	<b>174,760</b>	<b>40,508</b>

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

Town of Pilot Mountain, North Carolina  
Balance Sheet  
Governmental Funds  
June 30, 2017

	Major Fund	
	General	Total Governmental Funds
<b>ASSETS</b>		
Cash and cash equivalents	\$ 700,914	\$ 700,914
Restricted cash	118,823	118,823
Receivables, net:		
Taxes	5,478	5,478
Other	8,453	8,453
Due from other governments	140,612	140,612
Due from component unit	3,772	3,772
Total assets	<u>978,052</u>	<u>978,052</u>
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	64,102	64,102
Due to other funds	3,268	3,268
Total liabilities	<u>67,370</u>	<u>67,370</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Property taxes receivable	5,478	5,478
Total deferred inflows of resources	<u>5,478</u>	<u>5,478</u>
<b>FUND BALANCES</b>		
Restricted		
Stabilization by State Statute	152,837	152,837
Streets	118,823	118,823
Assigned		
Subsequent year's expenditures	32,170	32,170
Unassigned	601,374	601,374
Total fund balances	<u>905,204</u>	<u>905,204</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 978,052</u>	

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

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

Gross capital assets at historical cost	\$ 3,592,749	
Accumulated depreciation	<u>1,463,525</u>	2,129,224

Grant repayment receivable	252,878
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Deferred outflows of resources related to pensions are not reported in the funds	146,030
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Liabilities for earned revenues considered deferred inflows of resources in fund statements.	5,478
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Long-term liabilities used in governmental activities are not financial uses and therefore are not reported in the funds.

Compensated absences	(47,372)
Long-term debt	(228,581)
Net pension liability	(340,052)
Grant repayment payable	(252,878)

Deferred inflows of resources related to pensions are not reported in the funds	<u>(16,662)</u>
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Net position of governmental activities	<u>\$ 2,553,269</u>
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The notes to the financial statements are an integral part of this statement.

**Town of Pilot Mountain, North Carolina**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Governmental Funds**  
**For the Year Ended June 30, 2017**

	Major Fund		Total Governmental Funds
	General Fund		
<b>REVENUES</b>			
Ad valorem taxes	\$ 837,857	\$	837,857
Unrestricted intergovernmental	545,974		545,974
Restricted intergovernmental	52,597		52,597
Permits and fees	3,490		3,490
Investment earnings	2,333		2,333
Miscellaneous	131,669		131,669
Total revenues	1,573,920		1,573,920
<b>EXPENDITURES</b>			
Current:			
General government	349,613		349,613
Public safety	670,165		670,165
Transportation	182,547		182,547
Pilot Center	63,559		63,559
Economic development	42,861		42,861
Environmental protection	204,167		204,167
Culture and recreation	35,009		35,009
Debt service:			
Principal	20,628		20,628
Interest and other charges	1,766		1,766
Total expenditures	1,570,315		1,570,315
Excess (deficiency) of revenues over expenditures	3,605		3,605
<b>OTHER FINANCING SOURCES (USES)</b>			
Sale of capital assets	16,693		16,693
	16,693		16,693
Net change in fund balance	20,298		20,298
Fund balances, beginning	884,906		884,906
Fund balances, ending	\$ 905,204	\$	905,204

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

**Town of Pilot Mountain, North Carolina**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Governmental Funds**  
**For the Year Ended June 30, 2017**

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

Net changes in fund balances - total governmental funds		\$	20,298
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.</p>			
Capital outlay expenditures which were capitalized	\$	96,195	
Depreciation expense for governmental activities		(95,872)	
Sale on disposal of capital assets		(16,693)	
Gain on sale of capital assets		<u>16,693</u>	323
<p>Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities</p>			
			37,611
<p>Benefit payments paid and administrative expense for the LEOSSA are not included on the Statement of Activities</p>			
			17,539
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>			
Change in unavailable revenue for tax revenues			(18,474)
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.</p>			
Principal payments on long-term debt			20,628
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>			
Compensated absences		3,868	
Pension expense		<u>(36,396)</u>	<u>(32,528)</u>
Total changes in net position of governmental activities			<u>\$ 45,397</u>

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

**Town of Pilot Mountain, North Carolina**  
**General Fund**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual**  
**For the Year Ended June 30, 2017**

General Fund				
	Original	Final	Actual Amounts	Variance with Final Budget - Positive (Negative)
<b>Revenues:</b>				
Ad valorem taxes	\$ 794,000	\$ 819,000	\$ 837,857	\$ 18,857
Unrestricted intergovernmental	503,590	516,990	545,974	28,984
Restricted intergovernmental	45,000	51,300	52,597	1,297
Permits and fees	2,500	2,500	3,490	990
Investment earnings	1,000	1,000	2,333	1,333
Miscellaneous	95,710	130,010	131,669	1,659
Total revenues	1,441,800	1,520,800	1,573,920	53,120
<b>Expenditures:</b>				
<b>Current:</b>				
General government	432,120	367,190	349,613	17,577
Public safety	567,990	655,540	670,165	(14,625)
Transportation	143,380	269,110	182,547	86,563
Pilot Center	-	52,250	63,559	(11,309)
Economic development	-	61,320	42,861	18,459
Environmental protection	198,140	201,700	204,167	(2,467)
Cultural and recreation	83,360	61,110	35,009	26,101
<b>Debt service:</b>				
Principal retirement	16,520	16,520	20,628	(4,108)
Interest and other charges	1,800	1,800	1,766	34
Contingency	43,070	3,060	-	3,060
Total expenditures	1,486,380	1,689,600	1,570,315	119,285
Revenues over (under) expenditures	(44,580)	(168,800)	3,605	172,405
<b>Other financing sources (uses):</b>				
Sale of capital assets	1,000	15,220	16,693	1,473
Total other financing sources (uses)	1,000	15,220	16,693	1,473
Fund balance appropriated	43,580	153,580	-	(153,580)
Net change in fund balance	\$ -	\$ -	20,298	\$ 20,298
Fund balances, beginning			884,906	
Fund balances, ending			\$ 905,204	

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

Town of Pilot Mountain, North Carolina  
Statement of Fund Net Position  
Proprietary Fund  
June 30, 2017

	Major Enterprise Fund	
	Water and Sewer Fund	Total
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 198,251	\$ 198,251
Accounts receivable (net)	113,563	113,563
Due from other governments	29,264	29,264
Grant receivable	37,000	37,000
Due from other funds	3,268	3,268
Restricted cash and cash equivalents	35,011	35,011
Total current assets	<u>416,357</u>	<u>416,357</u>
Noncurrent assets:		
Capital Assets:		
Land and other non-depreciable assets	625,646	625,646
Other capital assets, net of depreciation	5,687,502	5,687,502
Total capital assets (net)	<u>6,313,148</u>	<u>6,313,148</u>
Total noncurrent assets	<u>6,313,148</u>	<u>6,313,148</u>
Total assets	<u>6,729,505</u>	<u>6,729,505</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Pension deferrals	43,369	43,369
Total deferred outflows of resources	<u>43,369</u>	<u>43,369</u>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable and accrued liabilities	60,647	60,647
Accrued interest payable	6,877	6,877
General obligation bonds payable - current	13,000	13,000
Note payable - current	35,071	35,071
Revolving loan - current	46,302	46,302
Equipment loan - current	16,891	16,891
Compensated absences - current	31,459	31,459
Liabilities payable from restricted assets:		
Customer deposits	35,011	35,011
Total current liabilities	<u>245,258</u>	<u>245,258</u>
Noncurrent liabilities:		
Net pension liability	46,855	46,855
General obligation bonds payable - noncurrent	125,000	125,000
Note payable - noncurrent	210,428	210,428
Revolving loan - noncurrent	303,698	303,698
Equipment loan - noncurrent	52,778	52,778
Total noncurrent liabilities	<u>738,759</u>	<u>738,759</u>
Total liabilities	<u>984,017</u>	<u>984,017</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Pension deferrals	4,914	4,914
Total deferred inflows of resources	<u>4,914</u>	<u>4,914</u>
<b>NET POSITION</b>		
Net investment in capital assets	5,509,980	5,509,980
Unrestricted	273,963	273,963
Total net position	<u>\$ 5,783,943</u>	<u>\$ 5,783,943</u>

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

Town of Pilot Mountain, North Carolina  
Statement of Revenues, Expenses, and Changes in Fund Net Position  
Proprietary Fund  
For the Year Ended June 30, 2017

	Major Enterprise Fund	
	Water and Sewer Fund	Total
<b>OPERATING REVENUES</b>		
Water and sewer charges	\$ 854,528	\$ 854,528
Other operating revenues	32,710	32,710
<b>Total operating revenues</b>	<u>887,238</u>	<u>887,238</u>
<b>OPERATING EXPENSES</b>		
Sewer department	192,874	192,874
Water administration	87,614	87,614
Sewer treatment	210,584	210,584
Line maintenance	162,016	162,016
Depreciation	319,370	319,370
<b>Total operating expenses</b>	<u>972,458</u>	<u>972,458</u>
<b>Operating income (loss)</b>	<u>(85,220)</u>	<u>(85,220)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Gain on sale of capital assets	8,891	8,891
Interest and other charges	(21,847)	(21,847)
<b>Total nonoperating revenues (expenses)</b>	<u>(12,956)</u>	<u>(12,956)</u>
<b>Income (loss) before contributions and transfers</b>	<u>(98,176)</u>	<u>(98,176)</u>
Capital contributions	<u>37,000</u>	<u>37,000</u>
<b>Change in net position</b>	<u>(61,176)</u>	<u>(61,176)</u>
<b>Total net position, beginning</b>	<u>5,845,119</u>	<u>5,845,119</u>
<b>Total net position, ending</b>	<u>\$ 5,783,943</u>	<u>\$ 5,783,943</u>

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

**Town of Pilot Mountain, North Carolina**  
**Statement of Cash Flows**  
**Proprietary Fund**  
**For the Year Ended June 30, 2017**

	<b>Major Enterprise Fund</b>	
	<b>Water and Sewer Fund</b>	<b>Totals</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	\$ 847,933	\$ 847,933
Cash paid for goods and services	(401,423)	(401,423)
Cash paid on behalf of employees for services	(255,500)	(255,500)
Customer deposits collected, net	(1,596)	(1,596)
Other operating revenues	32,710	32,710
Net cash provided (used) by operating activities	<u>222,124</u>	<u>222,124</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Principal paid on long-term liabilities	(112,448)	(112,448)
Issuance of long-term liability	405,000	405,000
Gain of sale of capital assets	8,891	8,891
Interest paid on long-term liabilities	(16,804)	(16,804)
Acquisition and construction of capital assets	(437,468)	(437,468)
Capital contributions - State grant	37,000	37,000
Net cash provided (used) by capital and related financing activities	<u>(115,829)</u>	<u>(115,829)</u>
Net increase (decrease) in cash and cash equivalents	106,295	106,295
Balances, beginning	126,967	126,967
Balances, ending	<u>\$ 233,262</u>	<u>\$ 233,262</u>
Reconciliation of operating income (loss) to net cash provided by operating activities		
Operating income (loss)	<u>\$ (85,220)</u>	<u>\$ (85,220)</u>
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	319,370	319,370
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(3,594)	(3,594)
(Increase) decrease in due from other funds	(3,268)	(3,268)
(Increase) decrease in due from other governments	(13,204)	(13,204)
(Increase) decrease in grant receivable	(37,000)	(37,000)
(Increase) decrease in deferred outflows of resources	(29,617)	(29,617)
Increase (decrease) in accounts payable and accrued liabilities	43,535	43,535
Increase (decrease) in customer deposits	1,596	1,596
Increase (decrease) in compensated absences	600	600
Increase (decrease) in net pension liability	31,824	31,824
Decrease in deferred inflow	(2,898)	(2,898)
Total adjustments	<u>307,344</u>	<u>307,344</u>
Net cash provided by operating activities	<u>\$ 222,124</u>	<u>\$ 222,124</u>

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



**Town of Pilot Mountain  
Statement of Fiduciary Net Position  
Fiduciary Fund  
For the Year Ended June 30, 2017**

	<b>Agency Fund</b>
<b>Assets</b>	
Cash and cash equivalents	\$ 18,518
Total assets	\$ 18,518
<b>Liabilities</b>	
Liabilities:	
Intergovernmental payable	\$ 18,518
Total liabilities	\$ 18,518

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

## Notes to the Financial Statements

# Town of Pilot Mountain, North Carolina

## Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2017

### I. Summary of Significant Accounting Policies

The accounting policies of the Town of Pilot Mountain and its discretely presented component units conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant accounting policies:

#### A. Reporting Entity

The Town of Pilot Mountain is a municipal corporation that is governed by an elected mayor and a four-member council. As required by generally accepted accounting principles, these financial statements present the Town and its component units, legally separate entities for which the Town is financially accountable. The discretely presented component units presented below are reported in separate columns in the Town's financial statements in order to emphasize that they are legally separate from the Town.

#### Pilot Mountain 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 Pilot Mountain ABC Board, PO Box 1478, Pilot Mountain, NC 27041.

#### Pilot Mountain Tourism Development Authority

The members of the Tourism Development Authority's governing board are appointed by the Town. In addition, the Town of Pilot Mountain transfers all of the occupancy tax collected to the Tourism Development Authority to be used to promote tourism. The Tourism Development Authority, which has a June 30 year-end, is presented as if it were a proprietary fund (discrete presentation). A separate report was not issued for the Tourism Development Authority.

#### 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 units. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the Town. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

## Town of Pilot Mountain, North Carolina

### Notes to the Financial Statements

#### For the Fiscal Year Ended June 30, 2017

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.

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

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

The Town reports the following major governmental funds:

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

The Town reports the following major enterprise fund:

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

**Town of Pilot Mountain, North Carolina**

**Notes to the Financial Statements**

**For the Fiscal Year Ended June 30, 2017**

The Town reports the following fund type:

**Agency Fund.** Agency funds are custodial in nature and do not involve the measurement of operating results. An agency fund is used to account for assets the Town holds on behalf of others. The Town reports the following agency funds:

**Mount Pilot Now Agency Fund**

The Town maintains fiduciary responsibility over the bank account for Mount Pilot Now.

**Pilot Mountain Area Business Association Committee Agency Fund**

The Town maintains fiduciary responsibility over the bank account for the Pilot Mountain Area Business Association Committee.

**C. Measurement Focus and Basis of Accounting**

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

*Government-wide, Proprietary, and Fiduciary Fund Financial Statements.* The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide, proprietary, and fiduciary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the Town gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, 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.

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

## Town of Pilot Mountain, North Carolina

### Notes to the Financial Statements

#### For the Fiscal Year Ended June 30, 2017

portion of tap fees intended to recover the cost of connecting new customers to the water and sewer system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

The Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable for property other than motor vehicles are materially past due and are not considered to be an available resource to finance the operations of the current year. 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 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 beer and wine 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 of Pilot Mountain because the tax is levied by Surry 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 is both restricted and unrestricted net position available to finance the program. It is the Town's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

## **Town of Pilot Mountain, North Carolina**

### **Notes to the Financial Statements**

#### **For the Fiscal Year Ended June 30, 2017**

##### 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 Proprietary Fund. All annual appropriations lapse at the fiscal-year end. 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 funds. All amendments must be approved by the governing board and the board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

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

###### 1. Deposits and Investments

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

State law [G.S. 159-30(c)] authorizes the Town and its component units to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances and the North Carolina Capital Management Trust (NCCMT). The Town's and component units' investments are reported at fair value. Non-participating interest earning contracts are accounted for at cost. The NCCMT Government Portfolio, a 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.

###### 2. Cash and Cash Equivalents

The Town pools money from several funds to facilitate disbursement and investment and to maximize investment income and considers all cash and investments to be cash and cash equivalents. The ABC Board and the Tourism Development Authority consider all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash and cash equivalents.

**Town of Pilot Mountain, North Carolina**

**Notes to the Financial Statements**

**For the Fiscal Year Ended June 30, 2017**

3. Restricted Assets

Customer deposits held by the Town before any services are supplied are restricted to the service for which the deposit was collected. Powell Bill funds are also classified as restricted cash because it can be expended only for the purposes outlined in G.S. 136-41.1 through 136-41.4.

Town of Pilot Mountain Restricted Cash

Governmental Activities

General Fund

Streets \$ 118,823

Total Governmental Activities 118,823

Business-Type Activities

Water and Sewer Fund

Customer deposits 35,011

Total Business-Type Activities 35,011

Total Restricted Cash \$ 153,834

4. 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<sup>st</sup>, the beginning of the fiscal year. The taxes are due on September 1<sup>st</sup> (lien date); however, interest does not accrue until the following January 6<sup>th</sup>. These taxes are based on the assessed values as of January 1, 2016. As allowed by State law, the Town has established a schedule of discounts that apply to taxes that are paid prior to the due date. In the Town's General Fund, ad valorem tax revenues are reported net of such discounts.

5. 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.



**Town of Pilot Mountain, North Carolina**

**Notes to the Financial Statements**

**For the Fiscal Year Ended June 30, 2017**

6. Inventory and Prepaid Items

The inventories of the ABC Board are valued at the lower of cost (first-in, first-out) or market. The inventories of the ABC Board consist of goods held for sale. The cost of these inventories is expensed when consumed rather than when purchased.

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

7. Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. Minimum capitalization costs are set at \$2,000. Donated capital assets received prior to June 15, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 15, 2015 are recorded at acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical cost. 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
Buildings and systems	20 to 50
Infrastructure	30
Plant and distribution systems	40
Equipment	3 to 10
Furniture and maintenance equipment	3 to 20
Vehicles	3 to 20

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

Asset Class	Estimated Useful Lives
Equipment	5 to 10

## Town of Pilot Mountain, North Carolina

### Notes to the Financial Statements

#### For the Fiscal Year Ended June 30, 2017

##### 8. 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 one item that meets this criterion, contributions made to the pension plan in the 2017 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 Town has two items that meets the criterion for this category - property taxes receivable and pension deferrals.

##### 9. Long-Term Obligations

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

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

##### 10. Compensated Absences

The vacation policy of the Town provides for the accumulation of up to thirty days earned vacation leave. Any unused vacation at the end of each calendar year in excess of the thirty days is converted to sick leave. 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.

## Town of Pilot Mountain, North Carolina

### Notes to the Financial Statements

#### For the Fiscal Year Ended June 30, 2017

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.

Upon initial eligibility, ABC Board employees earn 96 vacation hours per year and after 10 years of eligible service, 144 vacation hours per year. Unused vacation at the end of each calendar year may not be carried over to the next year.

ABC Board employees can accumulate an unlimited amount of sick leave. Sick leave may be used in the determination of length of service for retirement benefit purposes. Since the ABC Board has no obligation for accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

#### 11. Net Position/Fund Balances

##### **Net Position**

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

##### **Fund Balances**

In the governmental fund financial statements, fund balance is composed of two 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:

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

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

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

**Town of Pilot Mountain, North Carolina**

**Notes to the Financial Statements**

**For the Fiscal Year Ended June 30, 2017**

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

The Town of Pilot Mountain 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, 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.

**12. Defined Benefit Cost-Sharing Plans**

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 Town of Pilot Mountain's employer contributions are recognized when due and the Town of Pilot Mountain 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 Pilot Mountain, North Carolina

## Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2017

### **II. Detail Notes on All Funds**

#### A. Assets

##### 1. Deposits

All the deposits of the Town and its component units are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the Town's or its component units' 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 and its component units, these deposits are considered to be held by the Town's and component units' agents in their names. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Town, its component units, or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Town and its component units under the Pooling Method, the potential exists for under-collateralization. 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 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 Town complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured. The ABC Board and the Tourism Development Authority have no formal policy regarding custodial credit risk for deposits.

At June 30, 2017, the Town's deposits had a carrying amount of \$469,096 and a bank balance of \$441,707. Of the bank balance \$275,031 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method. The carrying amount of deposits for the ABC Board was \$131,559 and the bank balance was \$151,306. All of the bank balance was covered by federal depository insurance. The carrying amount of the deposits for the Mount Pilot Now Agency Fund was \$17,668 and the bank balance was \$17,775. All of this bank balance was covered by federal depository insurance. The carrying amount of the deposits for the Pilot Mountain Area Business Association Committee Agency Fund was \$850 and the bank balance was \$902. All of the bank balance was covered by federal depository insurance. The carrying amount of deposits for the Tourism Development Authority was \$37,541 and the bank balance was \$37,541. All of this bank balance was covered by federal depository

## Town of Pilot Mountain, North Carolina

### Notes to the Financial Statements

#### For the Fiscal Year Ended June 30, 2017

insurance. At June 30, 2017, the Town's petty cash fund totaled \$662. At June 30, 2017, the ABC Board's petty cash fund totaled \$1,900. At June 30, 2017, the Tourism Development Authority's petty cash fund totaled \$50.

#### 2. Investments

At June 30, 2017, the Town of Pilot Mountain had \$583,241 invested with the North Carolina Capital Management Trust's Government Portfolio which carried a credit rating of AAAM by Standard and Poor's. The Town has no policy regarding credit risk.

#### 3. Receivables – Allowances for Doubtful Accounts

The amounts presented in the Balance Sheet and the Statement of Net Position for the year ended June 30, 2017 is net of the following allowances for doubtful accounts:

General Fund:	
Taxes receivable	\$ 19,287
Total	<u>\$ 19,287</u>

#### 4. Capital Assets

##### **Primary Government**

Capital asset activity for the Primary Government for the year ended June 30, 2017, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
<b>Governmental activities:</b>				
<b>Capital assets not being depreciated:</b>				
Land	\$ 316,040	\$ -	\$ -	\$ 316,040
Construction in progress	-	-	-	-
Total capital assets not being depreciated	<u>316,040</u>	<u>-</u>	<u>-</u>	<u>316,040</u>
<b>Capital assets being depreciated:</b>				
Buildings and systems	2,547,542	-	-	2,547,542
Machinery and equipment	333,235	35,502	26,731	342,006
Vehicles and motorized equipment	230,436	60,693	42,168	248,961
Infrastructure	138,200	-	-	138,200
Total capital assets being depreciated	<u>3,249,413</u>	<u>96,195</u>	<u>68,899</u>	<u>3,276,709</u>
<b>Less accumulated depreciation for:</b>				
Buildings and systems	960,696	53,248	-	1,013,944
Machinery and equipment	228,956	27,487	26,731	229,712
Vehicles and motorized equipment	215,860	10,530	42,168	184,222
Infrastructure	31,040	4,607	-	35,647
Total accumulated depreciation	<u>1,436,552</u>	<u>95,872</u>	<u>68,899</u>	<u>1,463,525</u>
Total capital assets being depreciated, net	<u>1,812,861</u>			<u>1,813,184</u>
<b>Governmental activity capital assets, net</b>	<u>\$ 2,128,901</u>			<u>\$ 2,129,224</u>

**Town of Pilot Mountain, North Carolina**

**Notes to the Financial Statements**

**For the Fiscal Year Ended June 30, 2017**

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

General government	\$	21,280
Public safety		9,191
Transportation		22,141
Pilot Center		33,238
Environmental protection		10,022
Total depreciation expense	<u>\$</u>	<u>95,872</u>

	Beginning Balances	Increases	Decreases	Ending Balances
<b>Business-type activities:</b>				
<i>Water and Sewer Fund</i>				
<b>Capital assets not being depreciated:</b>				
Land	\$ 168,864	\$ -	\$ -	\$ 168,864
Construction in progress	91,815	364,967	-	456,782
Total capital assets not being depreciated	<u>260,679</u>	<u>364,967</u>	<u>-</u>	<u>625,646</u>
<b>Capital assets being depreciated:</b>				
Buildings and systems	14,009,639	-	-	14,009,639
Machinery and equipment	222,836	72,502	5,744	289,594
Vehicles and motorized equipment	55,283	-	18,361	36,922
Total capital assets being depreciated	<u>14,287,758</u>	<u>72,502</u>	<u>24,105</u>	<u>14,336,155</u>
<b>Less accumulated depreciation for:</b>				
Buildings and systems	8,193,396	285,824	-	8,479,220
Machinery and equipment	107,575	32,399	5,744	134,230
Vehicles and motorized equipment	52,415	1,147	18,361	35,201
Total accumulated depreciation	<u>8,353,386</u>	<u>319,370</u>	<u>24,105</u>	<u>8,648,651</u>
Total capital assets being depreciated, net	<u>5,934,372</u>			<u>5,687,504</u>
<b>Business-type activity capital assets, net</b>	<u>\$ 6,195,051</u>			<u>\$ 6,313,150</u>

**Town of Pilot Mountain, North Carolina**

**Notes to the Financial Statements**

**For the Fiscal Year Ended June 30, 2017**

**Discretely presented component unit**

Activity for the ABC Board for the year ended June 30, 2017, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
<b>Capital assets being depreciated:</b>				
Furniture and equipment	\$ 88,821	\$ -	\$ -	\$ 88,821
Total capital assets being depreciated	88,821	-	-	88,821
<b>Less accumulated depreciation for:</b>				
Furniture and equipment	64,754	6,724	-	71,478
Total accumulated depreciation	64,754	6,724	-	71,478
<b>ABC Board capital assets, net</b>	<u>\$ 24,067</u>			<u>\$ 17,343</u>

**B. Liabilities**

**1. Pension Plan Obligations**

**a. Local Governmental Employees' Retirement System**

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



## **Town of Pilot Mountain, North Carolina**

### **Notes to the Financial Statements**

#### **For the Fiscal Year Ended June 30, 2017**

benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service (age 55 for firefighters). Survivor benefits are available to eligible beneficiaries of members who die while in active service or within 180 days of their last day of service and who have either completed 20 years of creditable service regardless of age (15 years of creditable service for firefighters and rescue squad members who are killed in the line of duty) or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

LGERS plan members who are LEOs are eligible to retire with full retirement benefits at age 55 with five years of creditable service as an officer, or at any age with 30 years of creditable service. LEO plan members are eligible to retire with partial retirement benefits at age 50 with 15 years of creditable service as an officer. Survivor benefits are available to eligible beneficiaries of LEO members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed 15 years of service as a LEO and have reached age 50, or have completed five years of creditable service as a LEO and have reached age 55, or have completed 15 years of creditable service as a LEO if killed in the line of duty. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions.

*Contributions.* Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. Town of Pilot Mountain employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Town of Pilot Mountain's contractually required contribution rate for the year ended June 30, 2017, was 8.00% of compensation for law enforcement officers and 7.25% for general employees and firefighters, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Town of Pilot Mountain were \$50,736 for the year ended June 30, 2017.

*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.

**Town of Pilot Mountain, North Carolina**

**Notes to the Financial Statements**

**For the Fiscal Year Ended June 30, 2017**

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

At June 30, 2017, the Town reported a liability of \$184,005 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015. The total pension liability was then rolled forward to the measurement date of June 30, 2016 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, 2016, the Town's proportion was .00867%, which was a decrease of .00346% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the Town recognized pension expense of \$48,830. At June 30, 2017, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 3,457	\$ 6,448
Changes in assumptions	12,603	-
Net difference between projected and actual earnings on pension plan investments	101,731	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	4,723	12,848
Town contributions subsequent to the measurement date	50,736	-
Total	<u>\$ 173,250</u>	<u>\$ 19,296</u>

\$50,736 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as an decrease of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

## Town of Pilot Mountain, North Carolina

### Notes to the Financial Statements

#### For the Fiscal Year Ended June 30, 2017

**Year ended June 30:**

2018	\$	15,772
2019		15,768
2020		45,314
2021		26,364
2022		-
Thereafter		-
	\$	<u>103,218</u>

*Actuarial Assumptions.* The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	3.50 to 7.75 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, 2015 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

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

## Town of Pilot Mountain, North Carolina

### Notes to the Financial Statements

#### For the Fiscal Year Ended June 30, 2017

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%	1.4%
Global Equity	42.0%	5.3%
Real Estate	8.0%	4.3%
Alternatives	8.0%	8.9%
Credit	7.0%	6.0%
Inflation Protection	6.0%	4.0%
Total	<u>100%</u>	

The information above is based on 30 year expectations developed with the consulting actuary for the 2016 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 Town's proportionate share of the net pension asset to changes in the discount rate.* The following presents the Town's proportionate share of the net pension 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:

**Town of Pilot Mountain, North Carolina**

**Notes to the Financial Statements**

**For the Fiscal Year Ended June 30, 2017**

	<b>1% Decrease (6.25%)</b>	<b>Discount Rate (7.25%)</b>	<b>1% Increase (8.25%)</b>
Town's proportionate share of the net pension liability (asset)	\$ 436,733	\$ 184,005	\$ (27,090)

*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.

**b. Law Enforcement Officers Special Separation Allowance**

*1. Plan Description.*

The Town of Pilot Mountain 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 under the age of 62 who have completed at least 30 years of creditable service or have attained 55 years of age and have completed five or more years of creditable service. The Separation Allowance is equal to 0.85 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, 2016, the Separation Allowance's membership consisted of:

Retirees receiving benefits	1
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	<u>8</u>
Total	<u>9</u>

*2. 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.

**Town of Pilot Mountain, North Carolina**

**Notes to the Financial Statements**

**For the Fiscal Year Ended June 30, 2017**

The Separation Allowance has no assets accumulated in a trust that meets the criteria which are outlined in GASB Statement 73.

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

*3. Actuarial Assumptions*

The entry age actuarial cost method was used in the December 31, 2015 valuation. The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	3.50 to 7.35 percent, including inflation and productivity factor
Discount rate	3.86 percent

The discount rate is based on the yield of the S&P Municipal Bond 20 Year High Grade Rate Index as of December 31, 2016.

Mortality rates are based on the RP-2000 Mortality tables with adjustments for mortality improvements based on Scale AA.

*4. Contributions.*

The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the benefit payments on a pay as you go basis through appropriations made in the General Fund operating budget. The Town's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. There were no contributions made by employees. Administration costs of the Separation Allowance are financed through investment earnings. The Town paid \$16,149 as benefits came due in the reporting period.

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

At June 30, 2017, the Town reported a total pension liability of \$202,902. The total pension liability was measured as of June 30, 2016 based on a December 31, 2015 actuarial valuation. The total pension liability was then rolled forward to the measurement date of June 30, 2016 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2017, the Town recognized pension revenue of \$3,671.

**Town of Pilot Mountain, North Carolina**

**Notes to the Financial Statements**

**For the Fiscal Year Ended June 30, 2017**

	Deferred Outflows of	Deferred Inflows of
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions		2,281
Town benefit payments and plan administrative expense made subsequent to measurement date	16,149	-
	\$ 16,149	\$ 2,281

\$16,149 reported as deferred outflows of resources related to pensions resulting from benefit payments made and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total pension liability in the year ended June 30, 2018. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

**Year ended June 30:**

2018	\$ 621
2019	621
2020	621
2021	418
2022	-
Thereafter	-

\$16,149 paid as benefits came due subsequent to the measurement date are reported as deferred outflows of resources.

Sensitivity of the Town's total pension liability to changes in the discount rate. The following presents the Town's total pension liability calculated using the discount rate of 3.86 percent, as well as what the Town's total pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.86 percent) or 1-percentage-point higher (4.86 percent) than the current rate:

	1% Decrease (2.86%)	Discount Rate (3.86%)	1% Increase (4.86%)
Town's proportionate share of the net pension liability (asset)	\$ 213,014	\$ 202,902	\$ 193,107

**Town of Pilot Mountain, North Carolina**

**Notes to the Financial Statements**

**For the Fiscal Year Ended June 30, 2017**

**Schedule of Changes in Total Pension Liability  
Law Enforcement Officers' Special Separation Allowance**

	2017
Beginning balance	\$ 206,573
Service Cost	8,294
Interest on the total pension liability	7,086
Changes of benefit terms	-
Differences between expected and actual experience in measurement of the total pension liability	-
Changes in assumptions or other inputs	(2,902)
Benefit payments	(16,149)
Other changes	-
Ending balance of total pension liability	<u>\$ 202,902</u>

The plan currently uses mortality tables that vary by age, 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, 2015 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

**c. Supplemental Retirement Income Plan for Law Enforcement Officers**

*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 employed by the Town. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Supplemental Retirement Income Plan for law enforcement officers is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes the pension trust fund financial statements for the Internal Revenue Code Section 401(k) plan that includes the Supplemental Retirement Income Plan for law enforcement officers. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

*Funding Policy.* Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to five percent of each officer's and employee's salary, and all amounts contributed are vested immediately. Also, law enforcement officers and employees may make voluntary contributions to the plan.



## Town of Pilot Mountain, North Carolina

### Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2017

#### d. Other Employment Benefit

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.

#### e. Pilot Mountain ABC Board Retirement Plan

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

## Town of Pilot Mountain, North Carolina

### Notes to the Financial Statements

#### For the Fiscal Year Ended June 30, 2017

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.

LGERS plan members who are LEOs are eligible to retire with full retirement benefits at age 55 with five years of creditable service as an officer, or at any age with 30 years of creditable service. LEO plan members are eligible to retire with partial retirement benefits at age 50 with 15 years of creditable service as an officer. Survivor benefits are available to eligible beneficiaries of LEO members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed 15 years of service as a LEO and have reached age 50, or have completed five years of creditable service as a LEO and have reached age 55, or have completed 15 years of creditable service as a LEO if killed in the line of duty. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions.

*Contributions.* Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. The ABC Board employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The ABC Board's contractually required contribution rate for the year ended June 30, 2017, was 7.25% 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 ABC Board were \$2,763 for the year ended June 30, 2017.

*Refunds of Contributions* – Board 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.

**Town of Pilot Mountain, North Carolina**

**Notes to the Financial Statements**

**For the Fiscal Year Ended June 30, 2017**

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

At June 30, 2017, the Board reported a liability of \$12,523 for its proportionate share of the net pension liability. The net pension asset was measured as of June 30, 2016. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2015. The total pension liability was then rolled forward to the measurement date of June 30, 2016 utilizing update procedures incorporating the actuarial assumptions. The Board's proportion of the net pension asset was based on a projection of the Board'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 Board's proportion was 0.00059%, which was a decrease of 0.00001% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2017, the Board recognized pension expense of \$2,492. At June 30, 2017, the Board 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	\$ 235	\$ 439
Changes in assumptions	858	-
Net difference between projected and actual earnings on pension plan investments	6,923	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	2,348
Employer contributions subsequent to the measurement date	2,763	-
	<u>\$ 10,779</u>	<u>\$ 2,787</u>

\$2,763 reported as deferred outflows of resources related to pensions resulting from Board contributions subsequent to the measurement date will be recognized as an increase of the net pension asset in the year ended June 30, 2018. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

**Town of Pilot Mountain, North Carolina**

**Notes to the Financial Statements**

**For the Fiscal Year Ended June 30, 2017**

Year ended June 30:

2018	\$	276
2019		279
2020		2,702
2021		1,972
2022		-
Thereafter		-
	\$	<u>5,229</u>

*Actuarial Assumptions.* The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	3.50 to 7.75 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, 2015 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

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

## Town of Pilot Mountain, North Carolina

### Notes to the Financial Statements

#### For the Fiscal Year Ended June 30, 2017

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, 2016 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed income	29.0%	1.4%
Global Equity	42.0%	5.3%
Real Estate	8.0%	4.3%
Alternatives	8.0%	8.9%
Credit	7.0%	6.0%
Inflation Protection	6.0%	4.0%
	<u>100.0%</u>	

The information above is based on 30 year expectations developed with the consulting actuary for the 2016 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 Board's proportionate share of the net pension asset to changes in the discount rate.* The following presents the Board's proportionate share of the net pension asset calculated using the discount rate of 7.25 percent, as well as what the Board's proportionate share of the net pension asset or net pension liability would be if it were

**Town of Pilot Mountain, North Carolina**

**Notes to the Financial Statements**

**For the Fiscal Year Ended June 30, 2017**

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%)
ABC Board's proportionate share of net pension liability (asset)	\$ 29,720	\$ 12,522	\$ (1,843)

*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.

**2. Deferred Outflows and Inflows of Resources**

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

Contributions to pension plan in current fiscal year	\$	50,736
Benefit payments made and administrative expense for LEOSSA		16,149
Differences between expected and actual experience		3,457
Changes in assumptions		12,603
Net difference between projected and actual		101,731
Changes in proportion and differences between employer contributions and proportionate share of contributions		4,723
Total	\$	189,399

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

**Town of Pilot Mountain, North Carolina**

**Notes to the Financial Statements**

**For the Fiscal Year Ended June 30, 2017**

	Statement of Net Position	General Fund Balance Sheet
Taxes Receivable, less penalties (General Fund)	\$ -	\$ 5,478
Changes in assumptions	2,281	-
Differences between expected and actual experience	6,448	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	12,848	-
Total	<u>\$ 21,577</u>	<u>\$ 5,478</u>

3. 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. Excess insurance coverage is purchased by the Board of Trustees to protect against large workers' compensation claims that exceed certain dollar cost levels. Medical 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.

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

The Town does not carry flood insurance as none of the Town's property is within flood zones.

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 individually bonded for \$50,000. The remaining employees that have access to funds are bonded under a blanket bond for \$30,000.

**Town of Pilot Mountain, North Carolina**

**Notes to the Financial Statements**

**For the Fiscal Year Ended June 30, 2017**

The ABC Board 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 ABC Board has commercial property, general liability, auto liability, workmen's compensation and employee health coverage. The board also has liquor legal liability.

There have been no significant reductions in insurance coverage for the ABC Board from coverage in the prior year and settled claims have not exceeded coverage in any of the past three fiscal years.

In accordance with G.S. 18B-700(i), each ABC Board member and employees designated as the general manager and finance officer are bonded in the amount of \$50,000, secured by a corporate surety.

The finance officer of the Tourism Development Authority is bonded in the amount of \$50,000, secured by a corporate surety.

**4. Claims, Judgments and Contingent Liabilities**

As of June 30, 2017, the Town was aware of several unasserted possible claims or assessments. In the opinion of the Town's management, the ultimate effect of these matters will not have a material adverse effect on the Town's financial position.

**5. Commitments**

The Town has entered into a contract for solid waste collection expiring June, 2020 for approximately \$60,000 per year.

The ABC Board has an operating lease for its facility at 630 S. Key Street, Suite C, Pilot Mountain, North Carolina. The lease expires December 31, 2019. Rental expense was \$27,417 for the year ended June 30, 2017. The future minimum lease payments under this operating lease as at June 30, 2017 are as follows:

Year Ending June 30,	
2018	\$ 28,240
2019	29,087
2020	14,759
	<u>\$ 72,086</u>

The ABC Board is responsible for utilities and insurance. The payment of the rentals is guaranteed by the Town of Pilot Mountain.



**Town of Pilot Mountain, North Carolina**

**Notes to the Financial Statements**

**For the Fiscal Year Ended June 30, 2017**

6. Long-term Obligations

a. Loan Agreement

The Town has pledged future water and sewer revenues, net of specified operating expenses, to repay \$544,284 in water and sewer system revenue bonds issued in June, 2004. Proceeds from the bonds provided financing for the construction of water line extensions and water plant renovations. The bonds are secured solely by water and sewer revenues, net of specified operating expenses and are payable, including interest at 2.57%, through 2024. Annual principal and interest payments on the bonds are expected to require substantially all water and sewer net revenues. The total principal and interest remaining to be paid on the bonds is \$210,081. Principal and interest paid for the current year and total water and sewer revenues, net of specified operating expenses were \$32,809 and \$234,150, respectively.

Annual debt service requirements to maturity for long-term obligations are as follows:

Year Ending June 30	Principal	Interest
2018	\$ 27,214	\$ 4,896
2019	27,214	4,196
2020	27,214	3,497
2021	27,214	2,798
2022	27,214	2,098
2023-2024	<u>54,430</u>	<u>2,098</u>
	<u>\$ 190,500</u>	<u>\$ 19,583</u>

b. General Obligation Bonds

The Town's general obligation bonds issued to finance the construction of facilities utilized in the operations of the water and sewer system and which are being retired by its resources are reported as long-term debt in the Water and Sewer Fund. All general obligation bonds are collateralized by the full faith, credit, and taxing power of the Town. Principal and interest requirements are appropriated when due. The bonds bear interest at 5.00% per annum.

Annual debt service requirements to maturity for long-term obligations are as follows:

**Town of Pilot Mountain, North Carolina**

**Notes to the Financial Statements**

**For the Fiscal Year Ended June 30, 2017**

Year Ending June 30	Principal	Interest
2018	\$ 13,000	\$ 6,900
2019	13,000	6,250
2020	14,000	5,600
2021	14,000	4,900
2022	14,000	4,200
2023-2027	<u>70,000</u>	<u>10,500</u>
	<u>\$ 138,000</u>	<u>\$ 38,350</u>

c. Non-General Obligation

The Town had pledged future water and sewer revenues, net of specified operating expenses, to repay \$1,133,634 in water and sewer system revenue bonds issued in December, 1995. Proceeds from the bonds provided financing for the cost of the “Effluent Pump Station” under the State Clean Water Bond Loan Program. The bonds were secured solely by water and sewer revenues, net of specified operating expenses, and are payable, including interest at 3.43%, through 2017. Annual principal and interest payments on the bonds were expected to require substantially all water and sewer net revenues. The bonds were repaid during the current year.

d. Promissory Note

On March 23, 2009 the Town entered into an interlocal agreement with Surry County, North Carolina for the creation of a workforce development center. Surry County purchased the building to house the project for \$540,040, and named the Town as the owner on the deed. Surry County has gifted one half of the building to the Town and the Town has signed a promissory note for the remaining half at \$270,020. The promissory note calls for interest at 3%. Payments of \$11,243, which includes interest, are due each October 1 and April 1 through April 1, 2025. The promissory note is secured by a Deed of Trust on the building. The Town has agreed to assume certain costs related to the project such as site assessment, renovations, and improvements. Upon sale of the property or any portion thereof, the sales proceeds will accrue to the County and Town equally.

Annual debt service requirements to maturity for long-term obligations are as follows:

**Town of Pilot Mountain, North Carolina**

**Notes to the Financial Statements**

**For the Fiscal Year Ended June 30, 2017**

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 17,853	\$ 4,634
2019	18,393	4,094
2020	18,949	3,538
2021	19,521	2,965
2022	20,112	2,375
2023-2025	<u>64,085</u>	<u>3,405</u>
	<u>\$ 158,913</u>	<u>\$ 21,011</u>

On January 18, 2013, the Town of Pilot Mountain recorded a declaration of Pilot Center Condominium, which encumbered the property. In conjunction with the creation of the Condominium, there also was incorporated under the laws of the State of North Carolina an association known as the Pilot Center Condominium Association. Subsequent to that date on January 30, 2013, the Town of Pilot Mountain sold a portion of the property.

During the prior year Surry County forgave the 2016 and 2017 payments.

e. Note Payable

On November 18, 2013, the Town borrowed \$28,158 from a bank to purchase a vehicle. The note payable required monthly payments of \$822 which includes interest at 3.2% through November, 2016. The note was secured by the vehicle. The note was repaid during the current year.

f. Equipment Loan Payable

On November 30, 2015, the Town borrowed \$172,442 from a financing organization to purchase a dump truck and backhoe. The note payable requires yearly payments of \$36,636 which includes interest at 2.05% through November, 2020. The note is secured by the equipment. The loan will be repaid by the general and enterprise funds equally.

Annual debt service requirements to maturity for long-term obligations for each fund are as follows:

**Town of Pilot Mountain, North Carolina**

**Notes to the Financial Statements**

**For the Fiscal Year Ended June 30, 2017**

Year Ending June 30	General Fund		Enterprise Fund		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$ 16,891	\$ 1,427	\$ 16,891	\$ 1,427	\$ 33,782	\$ 2,854
2019	17,237	1,081	17,237	1,081	34,474	2,162
2020	17,590	727	17,590	727	35,180	1,454
2021	17,951	367	17,951	367	35,902	734
	<u>\$ 69,669</u>	<u>\$ 3,602</u>	<u>\$ 69,669</u>	<u>\$ 3,602</u>	<u>\$ 139,338</u>	<u>\$ 7,204</u>

g. Water Meter Note Payable

On December 15, 2016, the Town borrowed \$350,000 from a financing organization to improve water meters. The note payable requires annual payments of \$54,792 which includes interest at 2.8% through January, 2024.

Annual debt service requirements to maturity for long-term obligations are as follows:

Year Ending June 30	Principal	Interest
2018	\$ 46,303	\$ 8,490
2019	47,771	7,020
2020	48,876	4,916
2021	49,992	4,799
2022	51,161	3,631
2023-2024	<u>105,897</u>	<u>3,687</u>
	<u>\$ 350,000</u>	<u>\$ 32,543</u>

h. Note payable

On November 2, 2017, the Town borrowed \$55,000 from a bank to purchase a vehicle. The note payable requires annual payments of \$7,857 plus interest of 2.28% through November, 2023. The note is secured by the vehicle.

Annual debt service requirements to maturity for long-term obligations are as follows:

**Town of Pilot Mountain, North Carolina**

**Notes to the Financial Statements**

**For the Fiscal Year Ended June 30, 2017**

Year Ending June 30	Principal	Interest
2018	\$ 7,857	\$ 1,271
2019	7,857	1,090
2020	7,857	908
2021	7,857	729
2022	7,857	545
2023-2025	<u>15,715</u>	<u>545</u>
	<u><u>\$ 55,000</u></u>	<u><u>\$ 5,088</u></u>

**i. Changes in Long-Term Liabilities**

Compensated absences for governmental activities have typically been liquidated in the General Fund.

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion of Balance
Governmental activities:					
Promissory note	\$ 158,913	\$ -	\$ -	\$ 158,913	\$ 17,853
Note payable	4,075	-	4,075	-	-
Equipment loan payable	86,221	-	16,552	69,669	16,891
Compensated absences	51,240	-	3,868	47,372	47,372
Total pension liability (LEO)	206,573	-	3,671	202,902	-
Net pension liability (LGERS)	39,408	97,742		137,150	-
Governmental activity long-term liabilities	<u>\$ 546,430</u>	<u>\$ 97,742</u>	<u>\$ 28,166</u>	<u>\$ 616,006</u>	<u>\$ 82,116</u>
Business-type activities:					
Loan agreement	\$ 217,714	\$ -	\$ 27,214	\$ 190,500	\$ 27,214
General obligation bonds	150,000	-	12,000	138,000	13,000
Non-General obligation	56,681	-	56,681	-	-
Equipment loan payable	86,221	-	16,552	69,669	16,891
Water meter project	-	350,000	-	350,000	46,303
Vehicle loan payable	-	55,000	-	55,000	7,857
Compensated absences	30,859	599	-	31,458	31,458
Net pension liability (LGERS)	15,031	31,824	-	46,855	-
Business-type activity long-term liabilities	<u>\$ 556,506</u>	<u>\$ 437,423</u>	<u>\$ 112,447</u>	<u>\$ 881,482</u>	<u>\$ 142,723</u>

At June 30, 2017, the Town had a legal debt margin of \$10,628,487.

**Town of Pilot Mountain, North Carolina**

**Notes to the Financial Statements**

**For the Fiscal Year Ended June 30, 2017**

7. Pilot Mountain ABC Board – Long-Term Debt

The ABC Board has long-term debt consisting of the following at June 30, 2017:

Note payable to a bank that requires monthly payments of \$759, including interest at 3.98% through February, 2020. The note is secured by certain equipment.

\$ 22,996

Note payable to a bank that requires monthly payments of \$2,122 including interest at the bank's prime rate plus 1%, with a minimum of 4.25%. The monthly payment amount could adjust annually in August of each year if prime does increase. Prime would have to increase above 4.25% to see a change in monthly payment. This monthly payment will continue until maturity of the loan in August, 2018, when all remaining principal and interest will be due. The note is guaranteed by the Town of Pilot Mountain.

-

22,996

Less current portion

(8,339)

\$ 14,657

Maturities of long-term debt are as follows:

Year Ending		
June 30,		
2018	\$	8,339
2019		8,677
2020		5,980
	\$	<u>22,996</u>

**Town of Pilot Mountain, North Carolina**

**Notes to the Financial Statements**

**For the Fiscal Year Ended June 30, 2017**

**C. Interfund Balances and Activity**

Balances due to/from other funds at June 30, 2017, consist of the following:

Due to Water and Sewer Fund from

General Fund for cash advances                      \$     3,268

The interfund balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

**D. Net Investment in Capital Assets**

	<u>Governmental</u>	<u>Business-type</u>
Capital assets	\$ 2,129,224	\$ 6,313,150
Less: long-term debt	<u>228,582</u>	<u>803,170</u>
Net investment in capital assets	<u>\$ 1,900,642</u>	<u>\$ 5,509,980</u>

**E. Fund Balance**

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

Total fund balance - General Fund	\$ 905,204
Less:	
Stabilization by State Statute	152,837
Streets - Powell Bill	118,823
Appropriated Fund Balance in 2018 budget	32,170
Remaining Fund Balance	601,374

**III. Jointly Governed Organizations**

The Town, in conjunction with twelve counties and sixty other municipalities established the Piedmont Triad Regional 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 membership fees of \$756 to the Council during the fiscal year ended June 30, 2017.

**Town of Pilot Mountain, North Carolina**

**Notes to the Financial Statements**

**For the Fiscal Year Ended June 30, 2017**

**IV. Summary Disclosure 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 agreements. Such audits could result in the refund of grant monies to the grantor agencies. Management believes that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant monies.

**V. Grant Repayment Receivable and Payable**

In prior years, the Town served as a conduit for a flow through grant to a third party.

In a prior year, the Town was advised that the third party failed its baseline employment goal and therefore is required to repay \$337,172 over 4 years to the grantor. \$84,293 of this amount was repaid by the third party to the Town and the Town remitted same to the grantor leaving \$252,878 outstanding at June 30, 2017. The outstanding balance is reflected in the financial statements in accordance with the repayment document which requires a payment in full on June 30, 2018. No payments were made in the current year.

During the year, a Promissory Note and Deed of Trust on the third party property in the amount of \$252,878 was established to collateralize the balance of the obligation. The Town and the Department of Commerce are co-beneficiaries of both the Promissory Note and the Deed of Trust. The property is to be marketed, and when it is sold, the Note will be paid off with the NC Department of Commerce receiving the funds and the Town therefore would be released from its repayment obligation to the NC Department of Commerce.

In the opinion of the Town's management this repayment will occur as described and the ultimate effect of these matters will not have a material effect on the Town's net position.



**Town of Pilot Mountain, North Carolina**

**Notes to the Financial Statements**

**For the Fiscal Year Ended June 30, 2017**

**VI. Change in Accounting Principles/Restatement**

The Town implemented Governmental Accounting Standards Board (GASB) No. Statement 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, in the fiscal year ending June 30, 2017. The implementation of the statement required the Town to record beginning total pension liability and the effects on net position of benefit payments and administrative expenses paid by the Town to the Law Enforcement Officers' Special Separation Allowance during the measurement period (fiscal year ending December 31, 2016). As a result, net position for the governmental activities decreased \$206,573.

**VII. Subsequent Events**

Subsequent events have been evaluated through December 14, 2017, which is the date the financial statements were available to be issued.

Required Supplementary Financial Data

Town of Pilot Mountain, North Carolina  
Town of Pilot Mountain's Proportionate Share of Net Pension Liability (Asset)  
Required Supplementary Information  
Last Four Fiscal Years \*

Local Governmental Employees' Retirement System

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Pilot Mountain's proportion of the net pension liability (asset) (%)	0.00867%	0.01213%	0.01217%	0.01180%
Pilot Mountain's proportion of the net pension liability (asset) (\$)	\$ 184,006	\$ 54,439	\$ (71,772)	\$ 142,235
Pilot Mountain's covered-employee payroll	\$ 631,972	\$ 722,998	\$ 732,684	\$ 716,954
Pilot Mountain's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	29.12%	7.53%	( 9.80%)	19.84%
Plan fiduciary net position as a percentage of the total pension liability**	91.47%	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 Pilot Mountain, North Carolina  
Town of Pilot Mountain's Contributions  
Required Supplementary Information  
Last Four Fiscal Years

Local Governmental Employees' Retirement System

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 50,736	\$ 43,857	\$ 52,139	\$ 52,433
Contributions in relation to the contractually required contribution	50,736	43,857	52,139	52,433
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Pilot Mountain's covered-employee payroll	\$ 666,276	\$ 631,972	\$ 722,998	\$ 732,684
Contributions as a percentage of covered-employee payroll	7.61%	6.94%	7.21%	7.16%

**Town of Pilot Mountain, North Carolina**  
**Schedule of Changes in Total Pension Liability**  
**Law Enforcement Officers' Special Separation Allowance**  
**June 30, 2017**

	2017
Beginning balance	\$ 206,573
Service cost	8,294
Interest on the total pension liability	7,086
Changes of benefit terms	-
Differences between expected and actual experience in the measurement of the total pension liability	-
Changes of Assumptions or other inputs	(2,902)
Benefit payments	(16,149)
Other changes	-
Ending balance of the total pension liability	\$ 202,902

The amounts presented for each fiscal year were determined as of the prior fiscal year ending December 31.

**Town of Pilot Mountain, North Carolina**  
**Schedule of Total Pension Liability as a Percentage of Covered Payroll**  
**Law Enforcement Officers' Special Separation Allowance**  
**June 30, 2017**

	<u>2017</u>
Total pension liability	\$ 202,902
Covered payroll	313,814
Total pension liability as a percentage of covered payroll	64.66%

Notes to the schedules:

The Town of Pilot Mountain has no assets accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 73 to pay related benefits.

## Individual Fund Schedules

Town of Pilot Mountain, North Carolina  
 General Fund  
 Schedule of Revenues, Expenditures, and  
 Changes in Fund Balance - Budget and Actual  
 For the Year Ended June 30, 2017

	Budget	Actual	Variance Positive (Negative)
<b>Revenues:</b>			
Ad valorem taxes:			
Taxes	\$	\$ 829,632	\$
Interest		8,225	
Total	<u>819,000</u>	<u>837,857</u>	<u>18,857</u>
Unrestricted intergovernmental:			
Local option sales taxes		425,848	
Controlled substance tax		-	
Utilities sales tax		112,699	
Beer and wine tax		7,225	
Court fees and charges		202	
Total	<u>516,990</u>	<u>545,974</u>	<u>28,984</u>
Restricted intergovernmental:			
Powell Bill allocation		44,764	
ABC revenue for law enforcement		2,324	
Solid waste disposal tax		1,009	
Grant income		4,500	
Total	<u>51,300</u>	<u>52,597</u>	<u>1,297</u>
Permits and fees:			
Inspection and zoning	<u>2,500</u>	<u>3,490</u>	<u>990</u>
Investment earnings			
	<u>1,000</u>	<u>2,333</u>	<u>1,333</u>
Miscellaneous:			
Cemetery income		9,000	
Rental income		3,550	
Sanitation fees		64,866	
Grant repayment		-	
Miscellaneous		54,253	
Total	<u>130,010</u>	<u>131,669</u>	<u>1,659</u>
Total revenues	<u>1,520,800</u>	<u>1,573,920</u>	<u>53,120</u>

(continued)



**Town of Pilot Mountain, North Carolina**  
**General Fund**  
**Schedule of Revenues, Expenditures, and**  
**Changes in Fund Balance - Budget and Actual**  
**For the Year Ended June 30, 2017**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>Expenditures:</b>			
General government:			
Governing body:			
Salaries and employee benefits		5,607	
Grant repayment		-	
Other operating expenditures		35,268	
Total	<u>39,040</u>	<u>40,875</u>	<u>(1,835)</u>
Administration:			
Salaries and employee benefits		183,542	
Professional services		25,446	
Supplies		9,355	
Travel and training		15,140	
Postage		1,183	
Utilities		8,037	
Maintenance and repairs		8,982	
Advertising		77	
Contracted services		40,676	
Insurance and bonds		11,060	
Dues and subscriptions		2,651	
Miscellaneous		2,589	
Total	<u>328,150</u>	<u>308,738</u>	<u>19,412</u>
Total general government	<u>367,190</u>	<u>349,613</u>	<u>17,577</u>
Public safety:			
Police department:			
Salaries and employee benefits		504,798	
Supplies		17,986	
Uniforms		5,446	
Automotive supplies		10,948	
Travel and training		3,121	
Telephone and postage		6,810	
Utilities		3,701	
Maintenance and repairs		15,881	
Contracted services		4,263	
Insurance and bonds		16,333	
Dues and subscription		808	
Miscellaneous		4,477	
Capital outlay		65,593	
Total	<u>645,540</u>	<u>660,165</u>	<u>(14,625)</u>
Rescue squad:			
Contributions		10,000	
Total	<u>10,000</u>	<u>10,000</u>	<u>-</u>
Total public safety	<u>655,540</u>	<u>670,165</u>	<u>(14,625)</u>

(continued)

Town of Pilot Mountain, North Carolina  
General Fund  
Schedule of Revenues, Expenditures, and  
Changes in Fund Balance - Budget and Actual  
For the Year Ended June 30, 2017

	Budget	Actual	Variance Positive (Negative)
Transportation:			
Public works:			
Salaries and employee benefits		17,756	
Supplies		9,434	
Training and travel		7	
Utilities		40,054	
Maintenance and repairs		12,136	
Contracted services		7,120	
Insurance		12,970	
Rents		4,545	
Miscellaneous		442	
Capital outlay		27,102	
Total	214,110	131,566	82,544
Powell Bill:			
Street maintenance and repairs		50,981	
Total	55,000	50,981	4,019
Total transportation	269,110	182,547	86,563
Pilot Center:			
Utilities		15,670	
Maintenance and repairs		4,252	
Contracted services		43,637	
Total Pilot Center	52,250	63,559	(11,309)
Economic development			
Contracted services		20,032	
Professional services		15,000	
Miscellaneous		7,829	
Total economic development	61,320	42,861	18,459
Environmental protection:			
Sanitation:			
Salaries and employee benefits		74,514	
Supplies		1,546	
Utilities		1,988	
Maintenance and repairs		15,301	
Telephone		58	
Contracted services		101,062	
Miscellaneous		6,198	
Capital outlay		3,500	
Total	201,700	204,167	(2,467)
Cemetery:			
Maintenance and repairs		-	
Total	-	-	-
Total environmental protection	201,700	204,167	(2,467)

(continued)

Town of Pilot Mountain, North Carolina  
General Fund  
Schedule of Revenues, Expenditures, and  
Changes in Fund Balance - Budget and Actual  
For the Year Ended June 30, 2017

	Budget	Actual	Variance Positive (Negative)
Cultural and recreation:			
Library:			
Contributions		34,000	
Maintenance and repairs		1,009	
Total cultural and recreation	<u>61,110</u>	<u>35,009</u>	<u>26,101</u>
Debt service:			
Principal		20,628	
Interest and other charges		1,766	
Total debt service	<u>18,320</u>	<u>22,394</u>	<u>(4,074)</u>
Contingency	<u>3,060</u>	-	<u>3,060</u>
Total expenditures	<u>1,689,600</u>	<u>1,570,315</u>	<u>119,285</u>
Revenues over (under) expenditures	<u>(168,800)</u>	<u>3,605</u>	<u>172,405</u>
Other financing sources (uses):			
Transfers to other funds	-	-	-
Loan proceeds - equipment loan	-	-	-
Sale of capital assets	15,220	16,693	1,473
Total other financing sources (uses)	<u>15,220</u>	<u>16,693</u>	<u>1,473</u>
Fund balance appropriated	153,580	-	(153,580)
Net change in fund balance	<u>\$ -</u>	20,298	<u>\$ 20,298</u>
Fund balances, beginning		<u>884,906</u>	
Fund balances, ending		<u>\$ 905,204</u>	

Town of Pilot Mountain, North Carolina  
Water and Sewer Fund  
Schedule of Revenues and Expenditures  
Budget and Actual (Non - GAAP)  
For the Year Ended June 30, 2017

	Budget	Actual	Variance Positive (Negative)
<b>Revenues:</b>			
Water sales	\$ 499,330	\$ 480,393	\$ (18,937)
Sewer charges	362,620	359,261	(3,359)
Water and sewer taps	3,000	14,874	11,874
Other operating revenues	35,090	32,710	(2,380)
Total operating revenues	<u>900,040</u>	<u>887,238</u>	<u>(12,802)</u>
Total revenues	<u>900,040</u>	<u>887,238</u>	<u>(12,802)</u>
<b>Expenditures:</b>			
Sewer department:			
Salaries and employee benefits		2,043	
Professional services		6,405	
Utilities		56,806	
Maintenance & repairs		23,509	
Chemicals		4,793	
Supplies		2,912	
Contracted services		85,752	
Insurance and bonds		4,600	
Miscellaneous		6,220	
Total sewer department	<u>196,120</u>	<u>193,040</u>	<u>3,080</u>
Water administration:			
Salaries		63,056	
Professional services		11,920	
Utilities		909	
Maintenance & repairs		-	
Chemicals		-	
Supplies		1,025	
Contracted services		-	
Insurance and bonds		4,600	
Miscellaneous		6,030	
Total water administration	<u>89,060</u>	<u>87,540</u>	<u>1,520</u>

(continued)

**Town of Pilot Mountain, North Carolina**  
**Water and Sewer Fund**  
**Schedule of Revenues and Expenditures**  
**Budget and Actual (Non - GAAP)**  
**For the Year Ended June 30, 2017**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>Sewer treatment:</b>			
Salaries and employee benefits		108,797	
Professional services		9,503	
Utilities		45,083	
Maintenance & repairs		10,571	
Chemicals		16,509	
Supplies		3,879	
Contracted services		4,618	
Insurance and bonds		4,600	
Miscellaneous		6,919	
<b>Total sewer treatment</b>	<u>241,360</u>	<u>210,479</u>	<u>30,881</u>
<b>Line maintenance:</b>			
Salaries and employee benefits		83,563	
Professional services		2,769	
Utilities		1,280	
Maintenance & repairs		31,086	
Chemicals		-	
Supplies		8,176	
Contracted services		20,900	
Insurance and bonds		4,600	
Miscellaneous		9,745	
	<u>224,570</u>	<u>162,119</u>	<u>62,451</u>

(continued)

**Town of Pilot Mountain, North Carolina**  
**Water and Sewer Fund**  
**Schedule of Revenues and Expenditures**  
**Budget and Actual (Non - GAAP)**  
**For the Year Ended June 30, 2017**

	Budget	Actual	Variance Positive (Negative)
Debt service:			
Interest and other charges		16,805	
Principal retirement		112,448	
Total debt service	138,370	129,253	9,117
Capital outlay:			
Capital outlay		72,501	
Total capital outlay	75,220	72,501	2,719
Contingency	-	-	-
Total expenditures	964,700	854,932	109,768
Revenues over (under) expenditures	(64,660)	32,306	96,966
Other financing sources (uses):			
Transfers from other funds	-	-	-
Issuance of debt	54,660	405,000	350,340
Sale of capital assets	-	8,891	8,891
Transfers to other funds	-	-	-
Total other financing sources (uses)	54,660	413,891	359,231
Fund balance appropriated	10,000	-	(10,000)
Revenues and other sources over (under) expenditures and other uses	\$ -	\$ 446,197	\$ 446,197

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

Reconciling items:	
Principal retirement	112,448
Issuance of debt	(405,000)
Capital outlay	72,501
Increase in accrued interest payable	(5,042)
Increase in accrued vacation pay	(601)
Decrease in deferred outflows of resources - pensions	29,617
Depreciation	(319,370)
Decrease in deferred outflows of resources - pensions	2,898
Increase in net pension liability	(31,824)
Capital contributions	37,000
Total reconciling items	(507,373)
Change in net position	\$ (61,176)

**Town of Pilot Mountain, North Carolina**  
**Capital Projects Fund - Water Meter**  
**Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)**  
**From Inception and For the Fiscal Year Ended June 30, 2017**

	Project Author - ization	Prior Year	Actual Current Year	Total to Date	Variance Positive (Negative)
<b>Revenues:</b>					
Restricted intergovernmental:					
Surry County grant	\$ 125,000	\$ 125,000	\$ -	\$ 125,000	\$ -
Total revenues	<u>125,000</u>	<u>125,000</u>	<u>-</u>	<u>125,000</u>	<u>-</u>
<b>Expenditures:</b>					
Capital outlay	473,550	23,048	327,967	351,015	122,535
Total expenditures	<u>473,550</u>	<u>23,048</u>	<u>327,967</u>	<u>351,015</u>	<u>122,535</u>
Excess of revenues over (under) expenditures	<u>(348,550)</u>	<u>101,952</u>	<u>(327,967)</u>	<u>(226,015)</u>	<u>122,535</u>
<b>Other financing sources (uses)</b>					
Transfers from other funds:					
Water and Sewer Fund	12,235	12,235	-	12,235	-
Loan proceeds	336,315		350,000	350,000	13,685
Total other financing sources (uses)	<u>348,550</u>	<u>12,235</u>	<u>350,000</u>	<u>362,235</u>	<u>13,685</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 114,187</u>	22,033	<u>\$ 136,220</u>	<u>\$ 136,220</u>
Fund balance , beginning			114,187		
Fund balance , ending			<u>\$ 136,220</u>		

Town of Pilot Mountain, North Carolina  
 Capital Projects Fund - Water/Sewer Interconnection / Regionalization Study  
 Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)  
 From Inception and For the Fiscal Year Ended June 30, 2017

	Project Author - ization	Prior Year	Actual Current Year	Total to Date	Variance Positive (Negative)
Revenues:					
Restricted intergovernmental:					
State grants	\$ 100,000	\$ -	\$ 37,000	\$ 37,000	\$ (63,000)
Total revenues	<u>100,000</u>	<u>-</u>	<u>37,000</u>	<u>37,000</u>	<u>(63,000)</u>
Expenditures:					
Capital outlay	100,000	-	37,000	37,000	63,000
Total expenditures	<u>100,000</u>	<u>-</u>	<u>37,000</u>	<u>37,000</u>	<u>63,000</u>
Excess of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other financing sources (uses)					
Transfers from other funds:					
Water and Sewer Fund	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>	<u>\$ -</u>
Fund balance, beginning			-		
Fund balance, ending			<u>\$ -</u>		



**Town of Pilot Mountain, North Carolina**  
**Combining Statement of Fiduciary Net Position**  
**Fiduciary Funds**  
**For the Fiscal Year Ended June 30, 2017**

	<u>Mount Pilot Now Agency Fund</u>	<u>Pilot Mountain Area Business Association Committee Agency Fund</u>	<u>Total</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 17,668	\$ 850	\$ 18,518
Total assets	<u>\$ 17,668</u>	<u>\$ 850</u>	<u>\$ 18,518</u>
<b>Liabilities</b>			
Intergovernmental payable	\$ 17,668	\$ 850	\$ 18,518
Total liabilities	<u>\$ 17,668</u>	<u>\$ 850</u>	<u>\$ 18,518</u>

**Town of Pilot Mountain, North Carolina**  
**Mount Pilot Now Agency Fund**  
**Statement of Changes in Assets and Liabilities**  
**For the Fiscal Year Ended June 30, 2017**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
<b>Assets:</b>				
Cash and cash equivalents	<u>\$ 21,299</u>	<u>\$ 49,483</u>	<u>\$ 53,114</u>	<u>\$ 17,668</u>
<b>Liabilities:</b>				
Intergovernmental payable	<u>\$ 21,299</u>	<u>\$ 49,483</u>	<u>\$ 53,114</u>	<u>\$ 17,668</u>

**Town of Pilot Mountain, North Carolina**  
**Pilot Mountain Area Business Association Committee Agency Fund**  
**Statement of Changes in Assets and Liabilities**  
**For the Fiscal Year Ended June 30, 2017**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
<b>Assets:</b>				
Cash and cash equivalents	<u>\$ 2,186</u>	<u>\$ 312</u>	<u>\$ 1,648</u>	<u>\$ 850</u>
<b>Liabilities:</b>				
Intergovernmental payable	<u>\$ 2,186</u>	<u>\$ 312</u>	<u>\$ 1,648</u>	<u>\$ 850</u>

**Town of Pilot Mountain, North Carolina**  
**Pilot Mountain Tourism Development Authority**  
**Schedule of Revenues and Expenditures**  
**Budget and Actual (Non-GAAP)**  
**For the Fiscal Year Ended June 30, 2017**

	Budget	Actual	Variance Positive (Negative)
Revenues	\$ 26,000	\$ 37,037	\$ 11,037
Expenditures:			
Economic development	34,481	32,258	2,223
Revenues over (under) expenditures	(8,481)	4,779	13,260
Other financing sources (uses)	-	-	-
Fund balance appropriated	8,481	-	(8,481)
Revenues and other sources over (under) expenditures and other uses	\$ -	\$ 4,779	\$ 4,779

## Other Schedules

**Town of Pilot Mountain, North Carolina**  
**Schedule of Ad Valorem Taxes Receivable**  
**June 30, 2017**

<u>Fiscal Year</u>	<u>Uncollected Balance June 30, 2016</u>	<u>Additions</u>	<u>Collections And Credits</u>	<u>Uncollected Balance June 30, 2017</u>
2016-2017	\$ -	\$ 821,551	\$ 814,204	\$ 7,347
2015-2016	9,032	-	6,375	2,657
2014-2015	3,659	-	1,717	1,942
2013-2014	3,590	-	1,940	1,650
2012-2013	2,201	-	1,208	993
2011-2012	2,726	-	1,201	1,525
2010-2011	3,957	-	1,328	2,629
2009-2010	2,297	-	61	2,236
2008-2009	3,325	-	796	2,529
2007-2008	2,227	-	970	1,257
2006-2007	5,398	-	5,398	-
	<u>\$ 38,412</u>	<u>\$ 821,551</u>	<u>\$ 835,198</u>	<u>24,765</u>
	Less: allowance for uncollectible accounts:			
				General Fund
				<u>19,287</u>
				Ad valorem taxes receivable - net
				<u>\$ 5,478</u>
	<u>Reconciliation to revenues:</u>			
				Ad valorem taxes - General Fund
				\$ 837,857
				Reconciling items:
				Interest collected
				(8,225)
				Discounts allowed
				168
				Taxes written off
				<u>5,398</u>
				Subtotal
				<u>(2,659)</u>
				Total collections and credits
				<u>\$ 835,198</u>

Town of Pilot Mountain, North Carolina  
 Analysis of Current Tax Levy  
 Town - Wide Levy  
 June 30, 2017

	Town - Wide		Total Levy		
	Property Valuation	Rate	Total Levy	Property excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Property taxed at current rate	\$ 139,004,138	0.58	\$ 806,224	\$ 728,046	\$ 78,178
Discoveries - current and prior years	2,912,241	0.58	16,891	16,891	-
Releases	(269,655)	0.58	(1,564)	(1,564)	-
Total property valuation	<u>\$ 141,646,724</u>				
Net levy			821,551	743,373	78,178
Unpaid (by taxpayer) taxes at June 30, 2017			<u>(7,347)</u>	<u>(7,347)</u>	<u>-</u>
Current year's taxes collected			<u>\$ 814,204</u>	<u>\$ 736,026</u>	<u>\$ 78,178</u>
Current levy collection percentage			<u>99.11%</u>	<u>99.01%</u>	<u>100.00%</u>

## Compliance Section





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

Independent Auditor's Report

To the Honorable Mayor and  
Members of the Board of Commissioners  
Town of Pilot Mountain, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Pilot Mountain, North Carolina, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprises the Town of Pilot Mountain's basic financial statements, and have issued our report thereon dated December 14, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of Pilot Mountain's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Pilot Mountain's 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

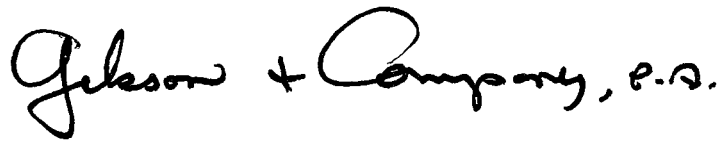
Our consideration of the internal control over financial reporting was for limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in black ink that reads "Gibson + Company, P.A." The signature is written in a cursive, flowing style.

Winston-Salem, North Carolina  
December 14, 2017

