

TOWN OF BUTNER, NORTH CAROLINA

FINANCIAL STATEMENTS

JUNE 30, 2017

Town Council Members

Vickie Hicks Cates, Mayor

Christene Emory

Bill Birdsong

Michel Branch

Linda Russell Jordon

Bill McKellar

Vickie Smoak

Administrative and Financial Staff

Tommy Marrow, Town Manager

Susan Hiscocks, Finance Director

Barbara Rote, Town Clerk

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William L. Stark and Company
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Butner Town Council
Town of Butner, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Butner, North Carolina, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Town of Butner'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 basic financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Butner, North Carolina, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof, and the budgetary comparison for the General Fund for the year then ended in conformity 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 5 through 14, the Other Post Employment Benefit's Schedules of Funding Progress and Employer Contributions on page 54, the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Liability (Asset) and Contributions, on page 55, and the Law Enforcement Officers' Special Separation Allowance's Schedules of Changes in Total Pension Liability and Total Pension Liability as a Percentage of Covered Payroll, on page 56, 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 consider it 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 Town of Butner's basic financial statements. The combining and individual fund financial 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 November 15, 2017 on our consideration of the Town of Butner's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town of Butner's internal control over financial reporting and compliance.

William L. Stark and Company

Certified Public Accountants
Henderson, North Carolina

November 15, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS



Town of Butner, North Carolina Management's Discussion and Analysis

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

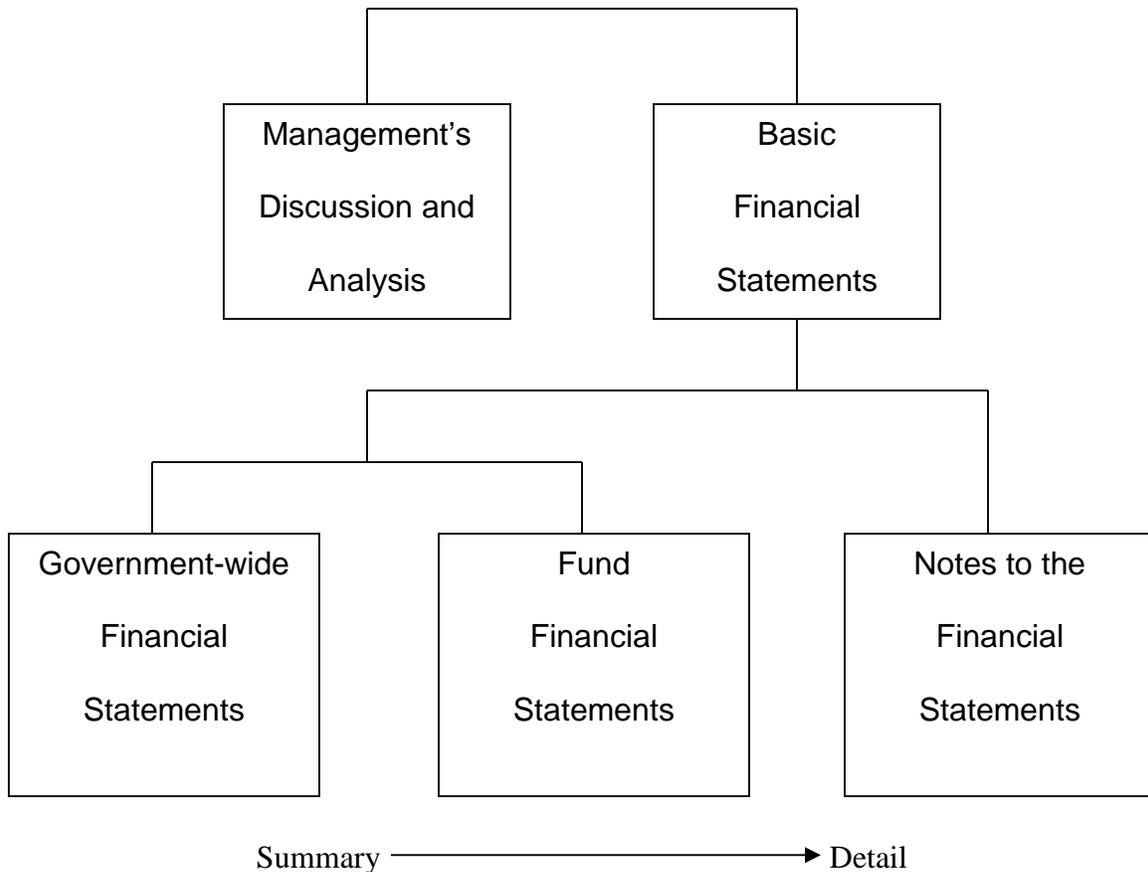
- The assets and deferred outflows of resources of the Town of Butner exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$34,485,527 (*net position*).
- The government's total net position increased by \$802,672, primarily due to diligent cost-saving measures.
- As of the close of the current fiscal year, the Town of Butner's governmental funds reported combined ending fund balances of \$8,833,206 with a net increase of \$700,059 in fund balance. Approximately 14.55% of this total amount, or \$1,285,070, is non-spendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$5,886,356 or 106.44% of total general fund expenditures for the fiscal year.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to Town of Butner'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 Butner.

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 three parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the budgetary comparison statements; and 3) the proprietary fund statements.

The next section of the basic financial statements is the **notes**. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, **supplemental information** is provided to show details about the Town's individual funds.

Budgetary information required by the North Carolina General Statutes also can be found in this part of the statements.

Government-Wide Financial Statements

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

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

The government-wide statements are divided into two categories: 1) governmental activities; and 2) business-type activities. The governmental activities include most of the Town's basic services such as public safety, parks and recreation, and general administration. Property taxes and local option sales tax revenue finance most of these activities. The business-type activities are those that the Town charges customers to provide. The stormwater oversight is provided by the Town of Butner.

The government-wide financial statements are 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 Butner, 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 Butner can be divided into two categories: governmental funds, and proprietary funds.

Governmental Funds – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the Town's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting* 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 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.

Management Discussion and Analysis
Town of Butner

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

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

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 30 of this report.

Other Information – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the Town of Butner’s progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 54 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 governments and other holders of publicly held U.S. Treasury Securities.

Government-Wide Financial Analysis

Town of Butner's Net Position

Figure 2

| | Governmental Activities | | Business-Type Activities | | Total | |
|---|-------------------------|---------------|--------------------------|------------|---------------|---------------|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Current and other assets | \$ 9,171,936 | \$ 8,510,096 | \$ 962,893 | \$ 769,139 | \$ 10,134,829 | \$ 9,279,235 |
| Capital assets | 26,709,541 | 26,647,399 | - | - | 26,709,541 | 26,647,399 |
| Deferred outflows of resources | 1,104,705 | 475,411 | 23,846 | 12,179 | 1,128,551 | 487,590 |
| Total assets and deferred outflows of resources | 36,986,182 | 35,632,906 | 986,739 | 781,318 | 37,972,921 | 36,414,224 |
| Long-term liabilities outstanding | 3,122,952 | 2,366,874 | 28,327 | 9,640 | 3,151,279 | 2,376,514 |
| Other liabilities | 267,769 | 227,918 | 8,328 | 4,349 | 276,097 | 232,267 |
| Deferred inflows of resources | 58,639 | 119,070 | 1,379 | 3,473 | 60,018 | 122,543 |
| Total liabilities and deferred inflows of resources | 3,449,360 | 2,713,862 | 38,034 | 17,462 | 3,487,394 | 2,731,324 |
| Net position: | | | | | | |
| Net investment in capital assets | 25,409,541 | 25,047,399 | - | - | 25,409,541 | 25,047,399 |
| Restricted | 1,272,441 | 839,116 | - | - | 1,272,441 | 839,116 |
| Unrestricted | 6,854,840 | 7,032,529 | 948,705 | 763,856 | 7,803,545 | 7,796,385 |
| Total net position | \$ 33,536,822 | \$ 32,919,044 | \$ 948,705 | \$ 763,856 | \$ 34,485,527 | \$ 33,682,900 |

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets and deferred outflows of the Town of Butner exceeded liabilities and deferred inflows by \$34,485,527 as of June 30, 2017. The Town's net position increased by \$802,627 for the fiscal year ended June 30, 2016. However, the largest portion (73.68%) reflects the Town's net investment in capital assets (e.g. land, buildings, machinery, and equipment). The Town of Butner uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Butner'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 Butner's net position, \$1,272,441, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$7,803,545 is unrestricted.

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

- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 99.40%. The statewide average in fiscal year 2016 was 98.78%.
- Property tax rate increase of \$0.015 contributed to increase in property tax revenues of \$150,218.

Management Discussion and Analysis
Town of Butner

- Increased sales tax revenues of approximately \$229,455 due to economic growth in the Granville County and a change in the sales tax distribution formula.

Town of Butner's Changes in Net Position

Figure 3

| | Governmental Activities | | Business-Type Activities | | Total | |
|--|-------------------------|----------------------|--------------------------|-------------------|----------------------|----------------------|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 975,565 | \$ 981,131 | \$ 364,274 | \$ 340,163 | \$ 1,339,839 | \$ 1,321,294 |
| Operating grants and contributions | 771,253 | 771,216 | - | - | 771,253 | 771,216 |
| Capital grants and contributions | 591,262 | 120,173 | - | - | 591,262 | 120,173 |
| General revenues: | | | | | | |
| Property taxes | 2,099,492 | 2,046,260 | - | - | 2,099,492 | 2,046,260 |
| Other taxes | - | - | - | - | - | - |
| Grants and contributions not restricted to specific programs | 2,203,479 | 2,022,008 | - | - | 2,203,479 | 2,022,008 |
| Other | 82,989 | 152,378 | - | - | 82,989 | 152,378 |
| Total revenues | <u>6,724,040</u> | <u>6,093,166</u> | <u>364,274</u> | <u>340,163</u> | <u>7,088,314</u> | <u>6,433,329</u> |
| Expenses: | | | | | | |
| General government | 1,415,122 | 1,378,065 | - | - | 1,415,122 | 1,378,065 |
| Public safety | 3,622,067 | 3,395,811 | - | - | 3,622,067 | 3,395,811 |
| Transportation | 100,132 | 144,535 | - | - | 100,132 | 144,535 |
| Environmental protection | 34,328 | 20,678 | - | - | 34,328 | 20,678 |
| Economic and physical development | 160,516 | 185,337 | - | - | 160,516 | 185,337 |
| Cultural and recreation | 664,814 | 723,733 | - | - | 664,814 | 723,733 |
| Stormwater | - | - | 179,425 | 159,677 | 179,425 | 159,677 |
| Total expenses | <u>5,996,979</u> | <u>5,848,159</u> | <u>179,425</u> | <u>159,677</u> | <u>6,176,404</u> | <u>6,007,836</u> |
| Increase in net position before transfers | 727,061 | 245,007 | 184,849 | 180,486 | 911,910 | 425,493 |
| Transfers | - | - | - | - | - | - |
| Extraordinary item: Butner Public Safety Reimbursement | - | 367,229 | - | - | - | 367,229 |
| Increase in net position | <u>727,061</u> | <u>612,236</u> | <u>184,849</u> | <u>180,486</u> | <u>911,910</u> | <u>792,722</u> |
| Net position, beginning | 32,919,044 | 32,225,773 | 763,856 | 583,370 | 33,682,900 | 32,809,143 |
| Net position, beginning, restated | 32,809,761 | 32,306,808 | 763,856 | 583,370 | 33,573,617 | 32,890,178 |
| Net position, June 30 | <u>\$ 33,536,822</u> | <u>\$ 32,919,044</u> | <u>\$ 948,705</u> | <u>\$ 763,856</u> | <u>\$ 34,485,527</u> | <u>\$ 33,682,900</u> |

Governmental activities. Governmental activities increased the Town's net position by \$727,061 thereby accounting for 79.73% of the total growth in the net position of the Town of Butner. The increase in net position was the result of a concerted effort to control costs and

Management Discussion and Analysis
Town of Butner

manage expenditures. Increased efforts to maximize tax collections also contributed to the favorable net position.

Key elements of this increase are as follows:

- The Town received \$24,556 from the proceeds of the sale of timber harvest from town-owned property as part of its timber management program.
- Due to an increase in interest rates, the amount of interest earned on funds invested in the North Carolina Management Trust increased significantly.

Business-type activities. Business-type activities increased the Town of Butner's net position by \$184,849, accounting for 20.27% of the total growth in the government's net position.

Key elements of this increase are as follows:

- Due to challenges in regulations of the Falls Lake watershed area, stormwater management improvements that were budgeted to be implemented during the Fiscal Year were delayed. This decrease in expenditures was the primary reason for the increase in net position.

Financial Analysis of the Town's Funds

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

Governmental Funds. The focus of the Town of Butner'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 Butner's financing requirements.

The general fund is the chief operating fund of the Town of Butner. At the end of the current fiscal year, Town of Butner's fund balance available in the General Fund was \$8,042,626, while total fund balance reached \$8,799,779. The Governing Body of Town of Butner has determined that the Town should maintain an available fund balance of 30% of general fund expenditures in case of unforeseen needs or opportunities, in addition to meeting the cash flow needs of the Town. The Town currently has an available fund balance of 145.43% of general fund expenditures, and total fund balance represents 159.12% of the same amount.

At June 30, 2017, the governmental funds of Town of Butner reported a combined fund balance of \$8,833,206 with a net increase in fund balance of \$700,059. Included in this change in fund balance is an increase in fund balance in 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

Management Discussion and Analysis
Town of Butner

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.

Although expenditures were held in check overall to comply with its budgetary requirements, the Town did amend the budget in the General Fund to account for unexpected expenditures, primarily in the Culture and Recreation, General Government, and Environmental Protection departments.

Proprietary Funds. The Town of Butner’s proprietary funds provide the same type of information found in the government-wide statements but in more detail. Net position of the Stormwater Fund at the end of the fiscal year amounted to \$948,705. The total change in net position for the Stormwater Fund was \$184,849. The change in net position in the Stormwater Fund is a result of a delay in the implementation of stormwater management upgrades as required by the Falls Lake Rules.

Capital Asset and Debt Administration

Capital assets. The Town of Butner’s investment in capital assets for its governmental and business-type activities as of June 30, 2017, totals \$26,709,541 net of accumulated depreciation). These assets include buildings, roads, land, machinery and equipment, park facilities, and vehicles.

**Town of Butner’s Capital Assets
(net of depreciation)**

Figure 4

| | Governmental Activities | | Business-type Activities | | Total | |
|-----------------------------------|-------------------------|----------------------|--------------------------|-------------|----------------------|----------------------|
| | 2016 | 2016 | 2016 | 2016 | 2016 | 2016 |
| Land | \$ 14,516,596 | \$ 14,516,596 | \$ - | \$ - | \$ 14,516,596 | \$ 14,516,596 |
| Buildings and system | 6,012,225 | 6,232,971 | - | - | 6,012,225 | 6,232,971 |
| Improvements other than buildings | 3,904,919 | 4,141,931 | - | - | 3,904,919 | 4,141,931 |
| Equipment and furniture | 192,950 | 229,050 | - | - | 192,950 | 229,050 |
| Infrastructure | 542,143 | 570,334 | - | - | 542,143 | 570,334 |
| Vehicles and motorized equipment | 474,028 | 598,434 | - | - | 474,028 | 598,434 |
| Computer Software | 13,170 | 19,023 | - | - | 13,170 | 19,023 |
| Construction in progress | 1,053,510 | 339,060 | - | - | 1,053,510 | 339,060 |
| Total | \$ 26,709,541 | \$ 26,647,399 | \$ - | \$ - | \$ 26,709,541 | \$ 26,647,399 |

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

Long-term Debt. As of June 30, 2017, the Town of Butner had no outstanding bonded debt.

Outstanding Debt

Figure 5

| | Governmental Activities | | Business-type Activities | | Total | |
|------------------------------|-------------------------|---------------------|--------------------------|-----------------|---------------------|---------------------|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Installment debt | \$ 1,300,000 | \$ 1,600,000 | \$ - | \$ - | \$ 1,300,000 | \$ 1,600,000 |
| General obligation bonds | - | - | - | - | - | - |
| Revenue bonds | - | - | - | - | - | - |
| Capital leases | - | - | - | - | - | - |
| Compensated Absences | 272,672 | 234,988 | 3,651 | 4,661 | 276,323 | 239,649 |
| OPEB | 273,697 | 259,126 | - | - | 273,697 | 259,126 |
| Pension related debt (LGERS) | 1,084,456 | 224,260 | 24,676 | - | 1,109,132 | 224,260 |
| Pension related debt (LEO) | 192,127 | 158,195 | - | - | 192,127 | 158,195 |
| Total | \$ 3,122,952 | \$ 2,476,569 | \$ 28,327 | \$ 4,661 | \$ 3,151,279 | \$ 2,481,230 |

Town of Butner’s Outstanding Debt

The Town of Butner’s total debt increased by \$670,049 (27.00%) during the past fiscal year, primarily due to an increase in the amount of potential liability from compensated absences and the reported liabilities from pension related debt and other post-employment benefits.

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8% of the total assessed value of taxable property located within that government’s boundaries. The legal debt margin for Town of Butner is \$48,382,723. The Town has no bonds authorized but unissued at June 30, 2017.

Additional information regarding the Town of Butner’s long-term debt can be found in Note III.B.6 of this report.

Economic Factors and Next Year’s Budgets and Rates

The following key economic indicators reflect the growth and prosperity of the Town.

- Low unemployment. The Granville County unemployment rate of 3.6% is well below the State average of 4.2%.
- The high cost of water and sewer in the area could deter residential and industrial growth.

Budget Highlights for the Fiscal Year Ending June 30, 2018

Governmental Activities: The Town's governmental revenues are expected to rise approximately 10% to \$6,825,367. The Town will use these increases in revenues to finance programs currently in place.

Budgeted expenditures in the General Fund are expected to rise approximately 6% to \$8,317,045. The largest increases are budgeted for the Transportation, Public Safety, and Culture and Recreation departments. The Public Safety budget includes the purchase of a new fire truck.

The Town has appropriated \$1,491,678 of fund balance in the fiscal year 2018 budget, including \$385,428 appropriated from Powell Bill funds.

Business-type Activities: The stormwater fees of the Town will not increase. Administrative and General operating expenses are budgeted to increase by 23% and 439%, respectively, to cover the cost of planned stormwater management requirements. A new rate study will begin in the near future to consider rate modifications for the five following years.

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 Susan Hiscocks, Director of Finance, Town of Butner, PO Box 270 Butner, NC 27509. One can also call (919)-575-3033, visit our website www.butnernc.org or send an email to shiscocks@butnernc.org for more information.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

TOWN OF BUTNER, NORTH CAROLINA
Statement of Net Position
June 30, 2017

| | Primary Government | | |
|---|------------------------------------|-------------------------------------|-------------------|
| | Governmental Activities | Business-type Activities | Total |
| ASSETS | | | |
| Current assets | | | |
| Cash and investments | \$ 8,954,503 | \$ - | \$ 8,954,503 |
| Restricted cash and investments | 533,017 | - | 533,017 |
| Accounts receivable | 376 | 5,306 | 5,682 |
| Taxes receivable | 76,580 | - | 76,580 |
| Accrued interest receivable on taxes | 41,428 | - | 41,428 |
| Due from other governments | 510,990 | - | 510,990 |
| Prepaid expenses | 12,629 | - | 12,629 |
| Internal balances | (957,587) | 957,587 | - |
| Total current assets | <u>9,171,936</u> | <u>962,893</u> | <u>10,134,829</u> |
| Non-current assets | | | |
| Capital assets: | | | |
| Land and construction in progress | 15,570,106 | - | 15,570,106 |
| Other capital assets, net of depreciation | 11,139,435 | - | 11,139,435 |
| Total capital assets | <u>26,709,541</u> | <u>-</u> | <u>26,709,541</u> |
| Total assets | <u>35,881,477</u> | <u>962,893</u> | <u>36,844,370</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Deferred charges – issuance costs | 3,824 | - | 3,824 |
| Pension deferrals | 1,100,881 | 23,846 | 1,124,727 |
| Total deferred outflows of resources | <u>1,104,705</u> | <u>23,846</u> | <u>1,128,551</u> |

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

TOWN OF BUTNER, NORTH CAROLINA
Statement of Net Position
June 30, 2017

| | Primary Government | | |
|--|------------------------------------|-------------------------------------|----------------------|
| | Governmental Activities | Business-type Activities | Total |
| LIABILITIES | | | |
| Current liabilities | | | |
| Accounts payable and accrued liabilities | \$ 218,306 | \$ 4,328 | \$ 222,634 |
| Accrued interest payable | 48,363 | - | 48,363 |
| Customer deposits | 1,100 | 4,000 | 5,100 |
| Current portion of long-term liabilities | <u>572,672</u> | <u>3,651</u> | <u>576,323</u> |
| Total current liabilities | 840,441 | 11,979 | 852,420 |
| Long-term liabilities | | | |
| Due in more than one year | <u>2,550,280</u> | <u>24,676</u> | <u>2,574,956</u> |
| Total liabilities | <u>3,390,721</u> | <u>36,655</u> | <u>3,427,376</u> |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Prepaid revenues | 1,316 | 257 | 1,573 |
| Pension deferrals | <u>57,323</u> | <u>1,122</u> | <u>58,445</u> |
| Total deferred inflows of resources | <u>58,639</u> | <u>1,379</u> | <u>60,018</u> |
| NET POSITION | | | |
| Net investment in capital assets | 25,409,541 | - | 25,409,541 |
| Restricted for: | | | |
| Stabilization by State Statute | 744,524 | - | 744,524 |
| Transportation (Powell Bill) | 527,917 | - | 527,917 |
| Unrestricted | <u>6,854,840</u> | <u>948,705</u> | <u>7,803,545</u> |
| Total net position | <u>\$ 33,536,822</u> | <u>\$ 948,705</u> | <u>\$ 34,485,527</u> |

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

TOWN OF BUTNER, NORTH CAROLINA
Statement of Activities
For the Year Ended June 30, 2017

| Functions/Programs | Expenses | Program Revenues | | | Net (Expense) Revenue and Changes in Net Position | | |
|--|--------------|----------------------|------------------------------------|----------------------------------|---|---|---------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Primary Government Business-type Activities | Total |
| Primary Government: | | | | | | | |
| Governmental Activities: | | | | | | | |
| General government | \$ 1,415,122 | \$ 69,330 | \$ 500,000 | \$ - | \$ (845,792) | \$ - | \$ (845,792) |
| Public safety | 3,622,067 | 782,325 | 87,681 | 1,923 | (2,750,138) | - | (2,750,138) |
| Environmental protection | 34,328 | 5,227 | - | - | (29,101) | - | (29,101) |
| Economic and physical development | 160,516 | 17,926 | - | 589,339 | 446,749 | - | 446,749 |
| Cultural and recreational | 664,814 | 100,757 | - | - | (564,057) | - | (564,057) |
| Transportation | 100,132 | - | 183,572 | - | 83,440 | - | 83,440 |
| Total governmental activities | 5,996,979 | 975,565 | 771,253 | 591,262 | (3,658,899) | - | (3,658,899) |
| Business-type Activities: | | | | | | | |
| Stormwater | 179,425 | 364,274 | - | - | - | 184,849 | 184,849 |
| Total primary government | \$ 6,176,404 | \$ 1,339,839 | \$ 771,253 | \$ 591,262 | (3,658,899) | 184,849 | (3,474,050) |
| General Revenues | | | | | | | |
| Taxes: | | | | | | | |
| Property taxes, levied for general purposes | | | | | 2,099,492 | - | 2,099,492 |
| Grants and contributions not restricted to specific programs | | | | | 2,203,479 | - | 2,203,479 |
| Unrestricted investment earnings | | | | | 43,550 | - | 43,550 |
| Other revenue | | | | | 14,883 | - | 14,883 |
| Special Item: Proceeds from sale of timber | | | | | 24,556 | - | 24,556 |
| Total general revenues not including transfers | | | | | 4,385,960 | - | 4,385,960 |
| Transfers | | | | | | | |
| Total general revenues and transfers | | | | | 4,385,960 | - | 4,385,960 |
| Change in net position | | | | | | | |
| Net position, beginning | | | | | 32,919,044 | 763,856 | 33,682,900 |
| Restatement (Note V) | | | | | (109,283) | - | (109,283) |
| Net position, beginning, restated | | | | | 32,809,761 | 763,856 | 33,573,617 |
| Net position, ending | | | | | \$ 33,536,822 | \$ 948,705 | \$ 34,485,527 |

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

FUND FINANCIAL STATEMENTS

TOWN OF BUTNER, NORTH CAROLINA
Balance Sheet
Governmental Funds
June 30, 2017

| | <u>MAJOR</u> | <u>NON-MAJOR</u> | |
|--|----------------------|---|---|
| | <u>General Fund</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
| ASSETS | | | |
| Cash and investments | \$ 8,920,924 | \$ 33,579 | \$ 8,954,503 |
| Restricted cash and investments | 533,017 | - | 533,017 |
| Accounts receivable | 376 | - | 376 |
| Taxes receivable | 76,580 | - | 76,580 |
| Due from other governments | 475,395 | 35,595 | 510,990 |
| Due from other funds | 500 | (500) | - |
| Prepaid expenses | 12,629 | - | 12,629 |
| | <u>10,019,421</u> | <u>68,674</u> | <u>10,088,095</u> |
| Total assets | <u>\$ 10,019,421</u> | <u>\$ 68,674</u> | <u>\$ 10,088,095</u> |
| LIABILITIES | | | |
| Accounts payable and accrued liabilities | \$ 183,059 | \$ 35,247 | \$ 218,306 |
| Liabilities payable from restricted assets: | | | |
| Customer deposits | 1,100 | - | 1,100 |
| Due to other funds | 957,587 | - | 957,587 |
| Total liabilities | <u>1,141,746</u> | <u>35,247</u> | <u>1,176,993</u> |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Property taxes receivable | 76,580 | - | 76,580 |
| Prepaid taxes | 1,316 | - | 1,316 |
| Total deferred inflows of resources | <u>77,896</u> | <u>-</u> | <u>77,896</u> |
| FUND BALANCES | | | |
| Non Spendable: | | | |
| Prepaid items | 12,629 | - | 12,629 |
| Restricted: | | | |
| Stabilization by State Statute | 744,524 | - | 744,524 |
| Streets – Powell Bill | 527,917 | - | 527,917 |
| Committed: | | | |
| Capital projects | 49,400 | 33,200 | 82,600 |
| Grant projects | - | 227 | 227 |
| Public Safety - LEO Special Separation | 301,368 | - | 301,368 |
| General government | 93,861 | - | 93,861 |
| Cultural and recreational | 77,474 | - | 77,474 |
| Assigned: | | | |
| Subsequent year's expenditures | 1,106,250 | - | 1,106,250 |
| Unassigned | <u>5,886,356</u> | <u>-</u> | <u>5,886,356</u> |
| Total fund balances | <u>8,799,779</u> | <u>33,427</u> | <u>8,833,206</u> |
| Total liabilities, deferred inflows of resources and fund balances | <u>\$ 10,019,421</u> | <u>\$ 68,674</u> | <u>\$ 10,088,095</u> |

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

TOWN OF BUTNER, NORTH CAROLINA
Balance Sheet
Governmental Funds
June 30, 2017

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

| | | |
|--|------------------|--------------------------|
| Total Fund Balance, Governmental Funds | \$ | 8,833,206 |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. | | |
| Gross capital assets at historical cost | \$ | 30,912,920 |
| Accumulated depreciation | | <u>(4,203,379)</u> |
| | | 26,709,541 |
| Deferred charges reported in governmental activities are not financial resources and therefore are not reported in the funds. | | |
| Loan issuance costs | | 3,824 |
| Deferred outflows of resources related to pensions are not reported in the funds | | |
| | | 1,100,881 |
| Other long-term assets are not available to pay for current-period expenditures and therefore are inflows of resources in the funds. | | |
| Accrued interest on taxes receivable | | 41,428 |
| Liabilities for earned revenues considered deferred inflows of resources in fund statements. | | |
| Property taxes receivable | | 76,580 |
| Long-term liabilities used in governmental activities are not financial uses and therefore are not reported in the funds. | | |
| Long-term debt | (1,300,000) | |
| Compensated absences | (272,672) | |
| Other postemployment benefits | (273,697) | |
| Net pension obligation - LGERS | (1,084,456) | |
| Net pension obligation - LEOSA | <u>(192,127)</u> | (3,122,952) |
| Other long term liabilities are not due and payable in the current period and therefore are not reported in the funds. | | |
| Accrued interest payable | | (48,363) |
| Deferred inflows of resources related to pensions are not reported in the funds | | |
| | | <u>(57,323)</u> |
| Net position of governmental funds | \$ | <u><u>33,536,822</u></u> |

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

TOWN OF BUTNER, NORTH CAROLINA
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2017

| | <u>MAJOR</u> | <u>NON-MAJOR</u> | |
|--|---------------------|---|---|
| | <u>General Fund</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
| REVENUES | | | |
| Ad valorem taxes | \$ 2,187,877 | \$ - | \$ 2,187,877 |
| Unrestricted intergovernmental | 3,577,896 | - | 3,577,896 |
| Restricted intergovernmental | 236,436 | 589,339 | 825,775 |
| Permits and fees | 52,844 | - | 52,844 |
| Sales and services | 85,100 | - | 85,100 |
| Investment earnings | 43,439 | 111 | 43,550 |
| Other revenue | 8,354 | - | 8,354 |
| Total revenues | <u>6,191,946</u> | <u>589,450</u> | <u>6,781,396</u> |
| EXPENDITURES | | | |
| Current: | | | |
| General government | 1,230,871 | - | 1,230,871 |
| Public safety | 3,263,389 | - | 3,263,389 |
| Environmental protection | 24,620 | - | 24,620 |
| Economic and physical development | 157,607 | - | 157,607 |
| Culture and recreation | 362,412 | - | 362,412 |
| Transportation | 141,387 | - | 141,387 |
| Debt service: | | | |
| Principal | 300,000 | - | 300,000 |
| Interest and other charges | 49,941 | - | 49,941 |
| Capital outlay | - | 589,116 | 589,116 |
| Total expenditures | <u>5,530,227</u> | <u>589,116</u> | <u>6,119,343</u> |
| Excess (deficiency) of revenues over expenditures | <u>661,719</u> | <u>334</u> | <u>662,053</u> |
| OTHER FINANCING SOURCES (USES) | | | |
| Proceeds from sale of capital assets | 5,762 | - | 5,762 |
| Insurance proceeds | 7,688 | - | 7,688 |
| Total other financing sources (uses) | <u>13,450</u> | <u>-</u> | <u>13,450</u> |
| SPECIAL AND EXTRAORDINARY ITEMS | | | |
| Proceeds from sale of timber | 24,556 | - | 24,556 |
| Net change in fund balance | 699,725 | 334 | 700,059 |
| FUND BALANCES, beginning | <u>8,100,054</u> | <u>33,093</u> | <u>8,133,147</u> |
| FUND BALANCES, ending | <u>\$ 8,799,779</u> | <u>\$ 33,427</u> | <u>\$ 8,833,206</u> |

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

TOWN OF BUTNER, 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 | \$ | 700,059 |
|---|----|---------|

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.

| | | |
|--|----------------|--------|
| Capital outlay expenditures which were capitalized | 888,507 | |
| Depreciation expense for governmental assets | (819,386) | |
| Cost basis of assets sold | <u>(6,977)</u> | 62,144 |

| | | |
|---|--|---------|
| Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities. | | 212,613 |
|---|--|---------|

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

| | | |
|--|-----------------|----------|
| Change in unavailable revenue for tax revenues | (47,960) | |
| Change in accrued interest on taxes receivable | <u>(40,425)</u> | (88,385) |

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 difference in the treatment of long-term debt and related items.

| | | |
|--|---------------|---------|
| Principal payments on long-term debt | 300,000 | |
| Amortization expense for debt issuance costs | (940) | |
| Decrease in accrued interest payable | <u>11,398</u> | 310,458 |

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.

| | | |
|-------------------------------|-----------------|------------------|
| Compensated absences | (37,686) | |
| Pension expense - LGERS | (377,711) | |
| Pension expense - LEOSSA | (39,860) | |
| Other postemployment benefits | <u>(14,571)</u> | <u>(469,828)</u> |

| | | |
|-------------------|--|---------------|
| Total adjustments | | <u>27,002</u> |
|-------------------|--|---------------|

| | | |
|--|----|----------------|
| Total changes in net position of governmental activities | \$ | <u>727,061</u> |
|--|----|----------------|

TOWN OF BUTNER, NORTH CAROLINA
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual
General Fund
For the Year Ended June 30, 2017

| | General Fund | | | |
|--|----------------------------|-------------------------|---------------------------|---|
| | Original Budget | Final Budget | Actual Amounts | Variance Positive (Negative) |
| REVENUES | | | | |
| Ad valorem taxes | \$ 2,078,999 | \$ 2,078,999 | \$ 2,187,877 | \$ 108,878 |
| Unrestricted intergovernmental | 3,391,582 | 3,391,582 | 3,577,896 | 186,314 |
| Restricted intergovernmental | 403,557 | 403,557 | 236,436 | (167,121) |
| Permits and fees | 61,242 | 61,242 | 52,844 | (8,398) |
| Sales and services | 66,000 | 66,000 | 85,100 | 19,100 |
| Investment earnings | 6,200 | 14,600 | 43,439 | 28,839 |
| Other revenue | 77,990 | 78,990 | 8,354 | (70,636) |
| Total revenues | <u>6,085,570</u> | <u>6,094,970</u> | <u>6,191,946</u> | <u>96,976</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| General government | 1,406,587 | 1,426,819 | 1,230,871 | 195,948 |
| Public safety | 3,700,102 | 3,706,102 | 3,263,389 | 442,713 |
| Environmental protection | 13,500 | 31,550 | 24,620 | 6,930 |
| Economic and physical development | 231,201 | 229,201 | 157,607 | 71,594 |
| Culture and recreation | 714,864 | 742,032 | 362,412 | 379,620 |
| Transportation | 1,338,500 | 1,328,500 | 141,387 | 1,187,113 |
| Debt service: | | | | |
| Principal | 300,000 | 300,000 | 300,000 | - |
| Interest and other charges | 64,620 | 64,620 | 49,941 | 14,679 |
| Total expenditures | <u>7,769,374</u> | <u>7,828,824</u> | <u>5,530,227</u> | <u>2,298,597</u> |
| Excess (deficiency) of revenues over expenditures | <u>(1,683,804)</u> | <u>(1,733,854)</u> | <u>661,719</u> | <u>2,395,573</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Proceeds from sale of capital assets | 41,000 | 16,444 | 5,762 | (10,682) |
| Insurance proceeds | - | - | 7,688 | 7,688 |
| Total other financing sources (uses) | <u>41,000</u> | <u>16,444</u> | <u>13,450</u> | <u>(2,994)</u> |
| SPECIAL AND EXTRAORDINARY ITEMS | | | | |
| Proceeds from sale of timber | - | 24,556 | 24,556 | - |
| Fund balance appropriated | 1,642,804 | 1,692,854 | - | (1,692,854) |
| Net change in fund balance | <u>\$ -</u> | <u>\$ -</u> | <u>699,725</u> | <u>\$ 699,725</u> |
| FUND BALANCES, beginning | | | <u>8,100,054</u> | |
| FUND BALANCES, ending | | | <u>\$ 8,799,779</u> | |

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

TOWN OF BUTNER, NORTH CAROLNA
Statement of Fund Net Position
Proprietary Fund
For the Year Ended June 30, 2017

| | <u>Major Enterprise Fund</u> |
|--|------------------------------|
| | <u>Stormwater Fund</u> |
| ASSETS | |
| Current assets | |
| Accounts receivable | \$ 5,306 |
| Due from other funds | <u>957,587</u> |
| Total assets | <u>962,893</u> |
| DEFERRED OUTFLOWS OF RESOURCES | |
| Pension deferrals | <u>23,846</u> |
| LIABILITIES | |
| Current liabilities | |
| Accounts payable and accrued liabilities | 4,328 |
| Customer deposits | 4,000 |
| Compensated absences | <u>3,651</u> |
| Total current liabilities | <u>11,979</u> |
| Long-term liabilities | |
| Net pension liability | <u>24,676</u> |
| Total liabilities | <u>36,655</u> |
| DEFERRED INFLOWS OF RESOURCES | |
| Prepaid fees | 257 |
| Pension deferrals | <u>1,122</u> |
| Total deferred inflows of resources | <u>1,379</u> |
| NET POSITION | |
| Unrestricted | <u>948,705</u> |
| Total net position | <u>\$ 948,705</u> |

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

TOWN OF BUTNER, NORTH CAROLINA
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Fund
For the Year Ended June 30, 2017

| | Major Enterprise Fund |
|--------------------------------------|------------------------------|
| | Stormwater Fund |
| OPERATING REVENUES | |
| Stormwater fees | \$ 364,274 |
| Total operating revenues | 364,274 |
| OPERATING EXPENSES | |
| Administration | 85,872 |
| Operating | 93,553 |
| Total operating expenditures | 179,425 |
| Operating income (loss) | 184,849 |
| Change in net position | 184,849 |
| Total net position, beginning | 763,856 |
| Total net position, ending | \$ 948,705 |

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

TOWN OF BUTNER, NORTH CAROLINA
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2017

| | <u>Major Enterprise Fund</u> |
|--|------------------------------|
| | <u>Stormwater Fund</u> |
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Cash received from customers | \$ 371,655 |
| Cash paid for goods and services | (96,389) |
| Cash paid to or on behalf of employees for services | <u>(82,445)</u> |
| Net cash provided (used) by operating activities | <u>192,821</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | |
| Increase in due from other funds | <u>(192,821)</u> |
| Net cash provided (used) by noncapital financing activities | <u>(192,821)</u> |
| Net increase (decrease) in cash and cash equivalents | - |
| Balances, beginning | <u>-</u> |
| Balances, ending | <u>\$ -</u> |
| Reconciliation of operating income to net cash provided by operating activities | |
| Operating income | \$ 184,849 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | |
| Changes in assets and liabilities: | |
| (Increase) decrease in accounts receivable | (933) |
| (Increase) decrease in deferred outflows of resources - pension | (11,667) |
| Increase (decrease) in net pension liability | 18,660 |
| Increase (decrease) in deferred inflows of resources - pension | (1,894) |
| Increase (decrease) in deferred inflows of resources - prepaid fees | (200) |
| Increase (decrease) in accounts payable and accrued liabilities | 979 |
| Increase (decrease) in compensated absences | 27 |
| Increase (decrease) in customer deposits | <u>3,000</u> |
| Total adjustments | <u>7,972</u> |
| Net cash provided by operating activities | <u>\$ 192,821</u> |

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

NOTES TO THE FINANCIAL STATEMENTS

TOWN OF BUTNER, NORTH CAROLINA
Notes to the Financial Statements
June 30, 2017

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Town of Butner 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 Butner is a municipal corporation that is governed by an elected mayor and a six-member council. These financial statements present only the financial operations of the Town.

B. Basis of Presentation

Government-wide Statements: The statement of net assets and the statement of activities display information about the primary government. 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 business-type activities* of the Town. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

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

Fund Financial Statements: The fund financial statements provide information about the Town's funds. Separate statements for each fund category – *governmental* and *proprietary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise fund, each displayed in a single 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 of Butner, North Carolina. 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-shared revenues, State grants, and various other taxes and licenses. The primary expenditures are for streets and highways, public safety, and general governmental services. The Town maintains a separate Powell Bill fund for accounting purposes. This fund has been consolidated into the General Fund for reporting purposes.

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The Town reports the following non-major governmental funds:

CDBG Grant Project Special Revenue Fund – This fund is used to account for grant funds that are restricted for the construction of a veteran’s shelter with CDBG funding.

Capital Project Funds – This fund is used to account for funds that are restricted for the use for a particular purpose. The Central Sidewalk Phase II Project Fund and the Lyon Station Greenway Extension I Project Fund are capital project funds.

The Town reports the following major enterprise fund.

Stormwater Fund – The Stormwater Fund is used for the Town’s stormwater operations.

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 and Proprietary Financial Fund Statements. The government-wide fund and proprietary financial statements are reported using the economic resources measurement focus. The government-wide fund and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the 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. 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 of Butner considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as a revenue because the amount is not susceptible to accrual. At June 30, taxes receivable are materially past

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due and are not considered to be an available resource to finance 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 because the tax is levied by Granville 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. Grant revenues, which are unearned at year-end, are recorded as unearned revenues. Under the terms of grant agreements, the Town funds certain programs by combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets 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 revenue.

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. All annual appropriations lapse at the fiscal year-end. Project ordinances are adopted for the Grant Project Special Revenue Funds and Capital Project Funds. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the object level for the multi-year funds. Amendments are required for any revisions that alter total expenditures of any fund or that change functional appropriations by more than \$2,500. 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. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

E. Assets, Liabilities, and Fund Equity

1. Deposits and Investments

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

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

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2. Cash and Cash Equivalents

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

3. Restricted Assets

Customer deposits held by the City before any services are supplied are restricted to the service for which the deposit was collected. Powell Bill funds are classified as restricted cash because they can be expended only for the purposes of maintaining, repairing, constructing, reconstructing or widening of local streets per G.S. 136-41.1 through 136-41.4. Unexpended grant revenues in the Grant Projects and Capital Projects Funds are classified as restricted when the use of such funds is subject to external restriction.

Town of Butner Restricted Cash

Governmental Activities

General Fund

| | |
|--|--------------|
| Transportation (Powell Bill) | \$ 527,917 |
| Customer deposits | 1,100 |
| Customer deposits (due to Stormwater Fund) | <u>4,000</u> |

Total restricted cash \$ 533,017

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, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, interest does not accrue until the following January 6. These taxes are based on the assessed values as of January 1, 2016. As allowed by State law, the Town of Butner, North Carolina 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. Prepaid Expenses

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

6. Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. Minimum capitalization costs are \$5,000 for all categories of capital assets. 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.

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

| <u>Asset Class</u> | <u>Estimated Useful Lives</u> |
|-------------------------|-------------------------------|
| Buildings | 30-40 |
| Improvements | 15 |
| Infrastructure | 30 |
| Vehicles | 5 |
| Furniture and equipment | 7 |
| Computer Equipment | 5 |

7. Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents 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 several items that meet this criterion: deferred charges on debt issuance, and pension related deferrals, including contributions made to the pension plan in the current 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 several items that meet the criterion for the category: prepaid taxes, property taxes receivable, and pension deferrals.

8. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, 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 are reported as deferred charges and amortized over the term of the related 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.

9. Compensated Absences

The vacation policy for the Town provides for the accumulation of up to thirty days earned vacation leave with such leave being fully vested when earned. For the Town's government-wide 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 is estimated in the next fiscal year has been designated as a current liability in the government-wide financial statements.

The Town's sick leave policy provides for an unlimited accumulation of earned sick leave. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since the Town does not

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have any obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

10. Net Position/Fund Balances

Net Position

Net position in government-wide and proprietary fund financial statements are classified as 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 five classifications designed to disclose the hierarchy of constraints placed on how fund balance can be spent.

The governmental fund types classify fund balances as follows:

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

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.

Committed Fund Balance – portion of fund balance that can only be used for specific purposes imposed by majority vote by quorum of the Town of Butner’s Town Council. The governing body can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Committed for Capital Projects – portion of the fund balance committed by the Town Council for capital project expenditures. Fund balance of \$33,199 and \$49,401 is committed for the Central Sidewalk Phase II and Lyon Station Greenway Extension I capital projects, respectively.

Committed for Grant Projects – portion of the fund balance committed by the Town Council for grant project expenditures. Fund balance of \$227 is committed for the CDBG grant project.

Committed for Public Safety - Leo Special Separation Allowance – portion of the fund balance committed by the Town Council for the purpose of Law Enforcement Officers’ Special Separation Allowance (LEOSSA) contributions.

Committed for General Government – portion of fund balance that is committed for the future establishment of a community center for the citizens of the Town.

TOWN OF BUTNER, NORTH CAROLINA
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Committed for Cultural and Recreational – portion of the fund balance that is committed for the establishment of a museum about the history of the Town and Camp Butner.

Assigned fund balance – portion of fund balance that the Town of Butner intends to use for specific purposes.

Subsequent year's expenditures – portion of fund balance that is appropriated in the next year's budget that is not already classified in restricted or committed. The governing body approves the appropriation; however, the budget ordinance authorizes the manager to modify the appropriations by resource or appropriation within funds up to \$100,000.

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 Butner 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.

The governing body of the Town of Butner has determined that the Town should maintain an available fund balance of 30% of General Fund expenditures in case of unforeseen needs or opportunities, in addition to meeting the cash flow needs of the Town.

11. Defined Benefit Cost-Share Plans

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Local Governmental Employees' Retirement System (LGERS) and additions to/deductions from LGERS' fiduciary net position have been determined on the same basis as they are reported by LGERS. For this purpose, plan member contributions are recognized in the period in which the contributions are due. The Town of Butner's employer contributions are recognized when due and the Town of Butner 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.

II. DETAIL NOTES ON ALL FUNDS

A. Assets

1. Deposits

All the deposits of the Town are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the Town's agents in these units' names. Under the pooling method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town, these deposits are considered to be held by the Town's agents in 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 or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Town under the Pooling Method, the potential exists for

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under-collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method.

The State Treasurer enforces standards of minimum capitalization for all pooling method financial institutions. The Town relies on the State Treasurer to monitor those financial institutions. The Town analyzes the financial soundness of any other financial institute used by the Town. The Town complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2017, the Town’s deposits had a carrying amount of \$518,988 and a bank balance of \$599,622. Of the bank balance, \$500,000 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method. At June 30, 2017, the Town’s petty cash fund totaled \$300.

2. Investments

At June 30, 2017, the Town’s investment balances were as follows:

| <u>Investments by Type</u> | <u>Valuation Measurement Method</u> | <u>Book Value at 6/30/2017</u> | <u>Maturity</u> | <u>Rating</u> |
|------------------------------|---|------------------------------------|-----------------|---------------|
| NC Capital Management Trust: | | | | |
| Government Portfolio | Amortized Cost | \$ 5,953,548 | N/A | AAAm |
| Term Portfolio | Fair Value Level 1 | 3,014,685 | 0.09 years | Unrated |

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

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

Interest Rate Risk and Credit Risk

The Town of Butner’s Cash Management and Investment Policy specifies that the objectives of the Town’s investment plan are to provide safety and liquidity of money and at the same time optimize investment earnings on idle funds. This policy limits the Town’s investments to the provisions of G.S. 159-30 and specifies specific criteria, ranked in order of importance, for investing the Town’s funds:

1. Safety: Investments must be secure such that the principal amounts of the Town’s portfolio are preserved.
2. Liquidity: The liquidity of an investment shall be a conditional consideration of its appropriateness.
3. Yield: The yield shall be sufficient to provide a fair market rate of return on the investment.

The Town’s investment in the NC Capital Management Trust Government Portfolio carried a credit rating of AAAM by Standard & Poor’s as of June 30, 2017. The Town’s investment in the NC Capital Management Trust Term Portfolio is unrated. The Term Portfolio is authorized to invest in obligations of the U.S. government and agencies, and in high grade money market instruments as permitted under North Carolina General Statutes 159-30 as amended.

TOWN OF BUTNER, NORTH CAROLINA
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3. Receivables – Due from Other Governments

Due from other governments that is owned to the Town consists of the following:

| | |
|----------------------------------|-------------------|
| Governmental activities | |
| General Fund | |
| Tax collection remittances | \$ 21,292 |
| Local option sales tax | 282,630 |
| Utility tax distributions | 107,702 |
| Solid waste tax | 1,246 |
| Sales tax refund | 15,023 |
| DHHS Fire protection services | <u>47,502</u> |
| Total: General Fund | <u>475,395</u> |
| Non-major - CDBG Grant Fund | |
| Grants receivable | <u>35,595</u> |
| Total due from other governments | <u>\$ 510,990</u> |

4. Capital Assets

Capital asset activity for the Town of Butner for the year ended June 30, 2017 was as follows:

| | Beginning Balances | Increases | Decreases | Ending Balances |
|--|-----------------------|----------------|---------------|----------------------|
| <u>Governmental Activities</u> | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 14,516,596 | \$ - | \$ - | \$ 14,516,596 |
| Construction in progress | <u>339,060</u> | <u>714,450</u> | - | <u>1,053,510</u> |
| Total capital assets not being depreciated | 14,855,656 | 714,450 | - | 15,570,106 |
| Capital assets being depreciated: | | | | |
| Improvements | 4,808,678 | 24,518 | - | 4,833,196 |
| Buildings | 7,579,062 | - | - | 7,579,062 |
| Infrastructure | 583,604 | - | - | 583,604 |
| Equipment | 592,253 | 20,131 | - | 612,384 |
| Computer software | 214,396 | - | - | 214,396 |
| Vehicles | <u>1,407,512</u> | <u>129,407</u> | <u>16,747</u> | <u>1,520,172</u> |
| Total capital assets being depreciated | 15,185,505 | 174,057 | 16,747 | 15,342,814 |
| Less accumulated depreciation for: | | | | |
| Improvements | 666,747 | 261,530 | - | 928,277 |
| Buildings | 1,346,091 | 220,746 | - | 1,566,837 |
| Infrastructure | 13,270 | 28,191 | - | 41,461 |
| Equipment | 363,203 | 56,231 | - | 419,434 |
| Computer software | 195,373 | 5,853 | - | 201,226 |
| Vehicles | <u>809,078</u> | <u>246,835</u> | <u>9,769</u> | <u>1,046,144</u> |
| Total accumulated depreciation | 3,393,762 | 819,386 | 9,769 | 4,203,379 |
| Total capital assets being depreciated, net | <u>11,791,743</u> | | | <u>11,139,435</u> |
| Governmental activity capital assets, net | <u>\$ 26,647,399</u> | | | <u>\$ 26,709,541</u> |

TOWN OF BUTNER, NORTH CAROLINA
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Depreciation expense was charged to functions/programs of the primary government as follows:

| | |
|----------------------------|-------------------|
| General Government | \$ 136,466 |
| Public Safety | 272,089 |
| Cultural & Recreation | 315,305 |
| Transportation | <u>95,526</u> |
| Total depreciation expense | <u>\$ 819,386</u> |

Construction Commitments

The Town has active construction projects as of June 30, 2017. At year-end, the Town's commitments with contracts are as follows:

| | <u>Spent-to-date</u> | <u>Remaining Commitment</u> |
|----------------------------------|----------------------|---------------------------------|
| Governmental Activities: | | |
| General Fund – Transportation | | |
| Asphalt Experts: Wynngate Paving | \$ 88,727 | \$ 344,828 |
| CDBG Grant Fund | | |
| HagerSmith Design, P.A. | 489,543 | 123,000 |
| Stephen F. Austin, AICP | 23,095 | 186,905 |

B. Liabilities

1. Pension Plan Obligations

a. Local Governmental Employees' Retirement System

i. *Plan Description*

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

ii. *Benefits Provided*

LGERS provides retirement and survivor benefits. Retirement benefits are determined as 1.85% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. Plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. Plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service (age 55 for firefighters). Survivor benefits are available to eligible

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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.

iii. Contributions

Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. Town of Butner 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 Butner's contractually required contribution rate for the year ended June 30, 2017, was 8.00% of compensation for law enforcement officers and 7.43% 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 Butner were \$217,218 for the year ended June 30, 2017.

iv. 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.

v. 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 \$1,109,132 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 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 Town's proportion of the net pension asset 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 0.0523%, which was an increase of 0.0009% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the Town recognized pension expense of \$387,414.

TOWN OF BUTNER, NORTH CAROLINA
Notes to the Financial Statements
June 30, 2017

At June 30, 2017, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows Of Resources | Deferred Inflows of Resources |
|--|-----------------------------------|----------------------------------|
| Differences between expected and actual experience | \$ 20,839 | \$ 38,865 |
| Changes of assumptions | 75,966 | - |
| Net difference between projected and actual earnings on pension plan investments | 613,210 | - |
| Changes in proportion and differences between Town contributions and proportionate share of contributions | 197,494 | 14,064 |
| Town contributions subsequent to the measurement date | 217,218 | - |
| Total | \$ 1,124,727 | \$ 52,929 |

\$217,218 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as 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:

| Year ended June 30: | |
|---------------------|------------|
| 2018 | \$ 188,167 |
| 2019 | 187,576 |
| 2020 | 305,792 |
| 2021 | 173,046 |
| 2022 | - |
| Thereafter | - |
| | \$ 854,581 |

vi. *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

TOWN OF BUTNER, NORTH CAROLINA
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yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2016 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>100.0%</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.

vii. 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.

viii. 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:

| | <u>1% Decrease (6.25%)</u> | <u>Discount Rate (7.25%)</u> | <u>1% Increase (8.25%)</u> |
|---|------------------------------------|--------------------------------------|------------------------------------|
| Town's proportionate share of the net pension liability (asset) | \$ 2,632,488 | \$ 1,109,132 | \$ (163,288) |

ix. 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.

TOWN OF BUTNER, NORTH CAROLINA
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b. Law Enforcement Officers Special Separation Allowance

i. *Plan Description.*

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

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

| | |
|--|------------------|
| Retirees receiving benefits | 0 |
| Terminated plan members entitled to but not yet receiving benefits | 0 |
| Active plan members | <u>32</u> |
| Total | <u><u>32</u></u> |

A separate report was not issued for the plan.

ii. *Summary of Significant Accounting Policies*

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

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

iii. *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 | 3.00 percent |
| Salary increases | 3.50 to 7.35 percent, including inflation and productivity factor |
| Investment rate of return | 3.86 percent, net of pension plan investment expense, including inflation |

The discount rate used to measure the TPL is the weekly average of the Bond Buyer General Obligation 20-year Municipal Bond Rate Index determined at the end of each month. For the December 31, 2016 measurement date, this rate increased from 3.57 percent to 3.86 percent.

Mortality rates are based on the RP-2014 Health Annuitant base rates, projected to the valuation date using MP-2015.

TOWN OF BUTNER, NORTH CAROLINA
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iv. Contributions

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

v. 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 \$192,127. The total pension liability was measured as of December 31, 2016, based on a December 31, 2015 actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2016 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2017, the Town recognized pension expense of \$39,860.

| | Deferred Outflows Of Resources | Deferred Inflows of Resources |
|--|-----------------------------------|----------------------------------|
| Differences between expected and actual experience | \$ - | \$ - |
| Changes of assumptions | - | 5,516 |
| Net difference between projected and actual earnings on pension plan investments | - | - |
| Town benefit payments and plan administrative expense made subsequent to the measurement date | - | - |
| Total | \$ - | \$ 5,516 |

Amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| | |
|---------------------|----------|
| Year ended June 30: | |
| 2018 | \$ 896 |
| 2019 | 896 |
| 2020 | 896 |
| 2021 | 896 |
| 2022 | 896 |
| Thereafter | 1,036 |
| | \$ 5,516 |

vi. 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%) |
|-------------------------|---------------------------|-----------------------------|---------------------------|
| Total pension liability | \$ 215,143 | \$ 192,127 | \$ 171,586 |

TOWN OF BUTNER, NORTH CAROLINA
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vi. *Schedule of Changes in Total Pension Liability*

Law Enforcement Officers' Special Separation Allowance

| | 2017 |
|---|-------------|
| Beginning balance | \$ 158,195 |
| Service Cost | 34,696 |
| Interest on the total pension liability | 5,648 |
| Changes of benefit terms | - |
| Differences between expected and actual experience in the measurement of the total pension liability | - |
| Changes of assumptions or other inputs | (6,412) |
| Benefit payments | - |
| Other changes | - |
| Ending balance of the total pension liability | \$ 192,127 |

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 are based on the results of an experience study obtained by the North Carolina Local Governmental Employees' Retirement System for the period January 1, 2010 through December 31, 2014, and are in the aggregate reasonably related to the experience under the benefit program and to reasonable expectations of anticipated experience under the program.

c. Supplemental Retirement Income Plan

Plan Description. The Town contributes to the Supplemental Retirement Income Plan (Plan), a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The plan provides retirement benefits to all 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 is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes the pension trust fund financial statements for the Internal Revenue Code Section 401(k) plan that includes the Supplemental Retirement Income Plan. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Funding Policy. Article 12E of G.S Chapter 143 requires the Town to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. The Town additionally provides 401(k) benefits for its full and part-time general employees at a percentage of salary as designated by the Town Council. General and law enforcement employees may also make voluntary contributions to the plan. Contributions for the year ended June 30, 2017 were \$237,645 which consisted of \$138,603 from the Town and \$99,402 from general employees and law enforcement officers.

d. Other Postemployment Benefits: Healthcare Benefit

i. *Plan Description.*

By the terms of employment contracts as approved by the Town's governing body, the Town is obligated to provide postretirement health care benefits to three potential retirees of the Town, provided they participate in the North Carolina Local Governmental Employees' Retirement

TOWN OF BUTNER, NORTH CAROLINA
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System (System) and have at least five years of creditable service with the Town at the time of retirement. This benefit is not an element of the Town's current personnel policy, and is not available for current or new hires other than the three individuals noted above. The Town Council may amend the benefit provisions. A separate report was not issued for the plan.

The Town will contribute the complete cost of coverage for eligible retiree Medical and Prescription Drug coverage. Eligible retirees participate in the Town's health plan administered by Blue Cross Blue Shield until eligible for Medicare, at which point the Town will cover the cost of a BCBS Plan F Medicare supplement with Part D prescription drug coverage. Additionally, the Town offers a deductible reimbursement program for such retirees until eligible for Medicare. The retiree is responsible for the first \$1,000 of in-network expenses, at which point the town will reimburse up to the remaining \$4,000.

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

| | |
|---|----------|
| General Employees: | |
| Retirees receiving benefits | 1 |
| Terminated plan members entitled to but not yet receiving benefits | 0 |
| Active plan members | <u>2</u> |
| Total | <u>3</u> |

ii. Funding Policy.

The Town pays the full cost of coverage for the healthcare benefits paid to qualified retirees under a Town Resolution that can be amended by the Town Council. The Town has chosen to fund the healthcare benefits on a pay as you go basis.

The current annual required contribution (ARC) rate is 18.2% of annual covered payroll. For the current year, the Town contributed \$13,144, or 7.64% of annual covered payroll. The Town obtains healthcare coverage through private insurers. The Town's obligation to contribution the Plan is established and may be amended by the Town Council.

iii. Summary of Significant Accounting Policies.

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

iv. Annual OPEB Cost and Net OPEB Obligation.

The Town's OPEB cost (expense) is calculated based on the ARC, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

TOWN OF BUTNER, NORTH CAROLINA
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June 30, 2017

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

| | |
|--|-------------------|
| Annual Required Contribution | \$ 31,313 |
| Interest on net OPEB obligation | 10,365 |
| Adjustment to annual required contribution | <u>(18,334)</u> |
| Annual OPEB Cost (Expense) | 23,344 |
| Contributions made | <u>(8,773)</u> |
| Increase (decrease) in net OPEB obligation | 14,571 |
| Net OPEB obligation, beginning of year | <u>259,126</u> |
| Net OPEB obligation, end of year | <u>\$ 273,697</u> |

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

| For the Year Ended June 30 | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|-------------------------------|---------------------|---|------------------------|
| 2017 | \$23,668 | 37.6% | \$273,697 |
| 2016 | \$23,668 | 55.5% | \$259,126 |
| 2015 | \$20,089 | 0.00% | \$248,602 |

v. *Funded Status and Funding Process.*

As of December 31, 2015, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and, thus, the unfunded actuarial accrued liability (UAAL) was \$319,080. all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$172,148, and the ratio of the unfunded accrued liability to the covered payroll was 185 percent. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

vi. *Actuarial Methods and Assumptions.*

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

In the December 31, 2015 actuarial valuation, the Entry Age Normal, Level Percentage of Pay actuarial cost method was used. The actuarial assumptions included a 4.00 percent investment rate of return, which is the expected long-term investment returns on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual medical cost trend increase of 7.75 to 5.00 percent annually. The investment rate included a 3.00 percent inflation assumption, and reflects the fact that no assets are set aside within the Town that are legally held exclusively for retiree health benefits. The actuarial value of assets, if any, was

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determined using the Market Value of Assets valuation method. The UAAL is being amortized on the Level Dollar Amount, Closed amortization method. The remaining amortization period at December 31, 2015 was 20 years.

2. Pension Other Employment Benefits

The Town has also elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, State-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership service 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 month's salary in a row during the 24 months prior to the employee's death, but the benefit may not exceed \$50,000 or be less than \$25,000. All death benefit payments are made from the Death Benefit Plan. Because the benefit payments are made by 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.

3. Deferred Outflows and Inflows of Resources

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

| | <u>Statement of Net Position</u> |
|---|--------------------------------------|
| Government-wide: | |
| Deferred charges – issuance costs | \$ 3,824 |
| Contributions to LGERS pension plan in current fiscal year | 217,218 |
| Benefit payments made and admin. expenses for LEOSSA | - |
| Differences between expected and actual experience | 20,839 |
| Changes of assumptions | 75,966 |
| Net difference between projected and actual earnings | 613,210 |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | <u>197,494</u> |
| Total Deferred Outflows | <u>\$ 1,128,551</u> |

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

| | <u>Statement of Net Position</u> | <u>General Fund Balance Sheet</u> |
|---|--------------------------------------|---------------------------------------|
| Government-wide: | | |
| Prepaid revenues | \$ 1,573 | \$ 1,316 |
| Changes of assumptions | 5,516 | - |
| Differences between expected and actual experience | 38,865 | - |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 14,064 | - |
| General Fund: | | |
| Property taxes receivable | <u>-</u> | <u>76,580</u> |
| Total Deferred Inflows | <u>\$ 60,018</u> | <u>\$ 77,896</u> |

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4. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town participates in two self-funded risk-financing pools administered by the North Carolina League of Municipalities.

Through these pools, the Town obtains liability coverages as follows:

| | <u>Occurrence Limit</u> | <u>Aggregate Limit</u> |
|---|-------------------------|------------------------|
| Commercial general liability | \$ 3,000,000 | \$ N/A |
| Employee benefits liability | 1,000,000 | 1,000,000 |
| Public officials liability | 1,000,000 | 3,000,000 |
| Employment practices liability | 1,000,000 | 3,000,000 |
| Police professional liability | 1,000,000 | 3,000,000 |
| Auto liability | 3,000,000 | N/A |
| Inland marine coverage (varies by category) | 150,000 - 428,493 | N/A |
| Building and personal property (blanket) | 11,278,505 | N/A |

The pools 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. Specific information on the limits of the reinsurance and excess 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 City upon request.

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

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 Director is individually bonded for \$50,000. The remaining employees that have access to funds are bonded under a blanket bond agreement. The blanket bond agreement covers employee dishonesty up to \$50,000, forgery or alteration up to \$50,000, theft of money inside the premises up to \$10,000 and theft of money outside the premises up to \$10,000.

The Town has made the decision that the cost of carrying flood insurance outweighs the risk.

5. Claims, Judgments and Contingent Liabilities

During the year ended June 30, 2017, the Town consulted attorneys on various legal matters. In the opinion of the Town's management and the Town's Attorney, the ultimate effect of these legal matters will not have a material adverse effect on the Town's financial position.

6. Long-Term Obligations

a. Installment Purchase

In July 2010, the Town entered into a loan for \$2,000,000 under the Build America Bonds to finance the construction of a new Town Hall. The loan requires 10 annual principal payments commencing in July 2011 with an interest rate of 4.5 percent. The loan will conclude in 2021 with a final payment of all unpaid principal and interest. Under the terms of the Build America Bonds program, the Town is eligible for a credit of 35 percent of the annual interest payment. As a result

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of federal budget sequestration, the credit received by the Town during the fiscal year ended June 30, 2017 was reduced by 6.8 percent, for an effective interest rate paid of 3.032 percent.

In August 2011, the Town entered into a loan for \$1,000,000 for the construction of an athletic park. The loan requires principal payments beginning in fiscal year 2013 with an interest rate of 3.27 percent.

Annual debt service payments of the installment purchases as of June 30, 2017, including \$139,050 of interest, are as follows:

| Year Ending June 30 | Governmental Activities | |
|---------------------|-------------------------|------------|
| | Principal | Interest |
| 2018 | \$ 300,000 | \$ 52,350 |
| 2019 | 300,000 | 40,080 |
| 2020 | 300,000 | 27,810 |
| 2021 | 300,000 | 15,540 |
| 2022 | 100,000 | 3,270 |
| Total | \$ 1,300,000 | \$ 139,050 |

b. Changes in Long-Term Liabilities

| | (Restated) Beginning Balance | Increases | Decreases | Ending Balance | Current Portion |
|---|------------------------------------|-------------------|-------------------|---------------------|--------------------|
| Governmental Activities: | | | | | |
| Installment Purchases | \$ 1,600,000 | \$ - | \$ 300,000 | \$ 1,300,000 | \$ 300,000 |
| Compensated Absences | 234,988 | 48,916 | - | 272,672 | 272,672 |
| Other Postemployment Benefits | 259,126 | 14,571 | - | 273,697 | - |
| Net pension liability— LGERS | 224,260 | 860,196 | - | 1,084,456 | - |
| LEOSSA | 158,195 | 33,932 | - | 192,127 | - |
| Governmental Activity Long-term Liabilities | \$ 2,476,569 | \$ 966,388 | \$ 300,000 | \$ 3,122,952 | \$ 572,672 |
| Business-type Activities: | | | | | |
| Compensated Absences | \$ 3,624 | \$ 27 | \$ - | \$ 3,651 | \$ 3,651 |
| Net pension liability – LGERS | 6,016 | 18,660 | - | 24,676 | - |
| Business-type Activity Long-term Liabilities | \$ 9,640 | \$ 18,687 | \$ - | \$ 28,327 | \$ 3,651 |

TOWN OF BUTNER, NORTH CAROLINA
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C. Interfund Balances and Activity

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

| | |
|---------------------------------------|-------------------|
| Due from the General Fund: | |
| To Proprietary Fund – Stormwater | \$ 957,587 |
| Due to the General Fund: | |
| From CDBG Grant Special Revenue Fund: | <u>500</u> |
| Net amount due from the General Fund | <u>\$ 957,087</u> |

The interfund balances between the General Fund and CDBG Special Revenue Fund resulted primarily from timing lags between the dates that project expenditures are incurred and cost reimbursement funding is available. The interfund balances between the General Fund and the Stormwater Fund resulted from the Town’s utilization of its general operating cash account for all activities in the Stormwater Fund.

Transfers are used to move unrestricted revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts provided for as matching funds for various grant programs. There were no interfund transfers during the 2017 fiscal year.

D. Fund Balance

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

| | |
|---|---------------------|
| <u>Total Fund Balance–General Fund</u> | <u>\$ 8,799,779</u> |
| Less: | |
| Prepaid items | 12,629 |
| Stabilization by State Statute | 744,524 |
| Streets – Powell Bill | 527,917 |
| Capital Projects | 49,400 |
| Public Safety | 301,368 |
| General Government | 93,861 |
| Culture and Recreational | 77,474 |
| Appropriated fund balance in 2017-2018 budget | <u>1,106,250</u> |
| Remaining Fund Balance | <u>\$ 5,886,356</u> |

The Governing Body of the Town has determined that the Town should maintain an available fund balance of 30% of General Fund expenditures in case of unforeseen needs or opportunities, in addition to meeting the cash flow needs of the Town.

The outstanding encumbrances are amounts needed to pay any commitments related to purchase orders and contracts that remain unperformed at year-end. The encumbrances at year-end totaled \$268,253 for the General Fund.

III. SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES

Federal and State Assisted Programs

The Town has received proceeds from several state grants. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreement. Such audits could result in the refund of grant monies to the grantor agencies.

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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.

Leased Facilities

Pursuant to an agreement executed between the Town and the South Granville Water and Sewer Authority (SGWASA), effective May 2011, the Town leases office space within the Butner Town Hall to SGWASA under the terms of an operating lease expiring May 31, 2031. Under the terms of the agreement, annual minimum lease payments to be remitted to the Town were \$60,000. These revenues are accounted for in the General Fund. In addition, under the terms of the agreement, SGWASA will pay to the Town additional rent representing a percentage of the utilities, trash collection/disposal, and HVAC maintenance/repair incurred by the Town with regards to the Butner Town Hall. Under the above agreement, SGWASA paid \$67,580 to the Town of Butner for the fiscal year ended June 30, 2017.

Commitments and Contingencies

With Senate Bill 491, of the 2005-06 Legislative Session entitled "AN ACT TO TRANSFER THE ASSETS OF THE BUTNER WATER AND SEWER SYSTEM TO THE SOUTH GRANVILLE WATER AND SEWER AUTHORITY, AND TO PROVIDE THAT BUTNER PUBLIC SAFETY SHALL BE CONSIDERED THE EQUIVALENT OF A MUNICIPAL POLICE DEPARTMENT FOR PURPOSES OF THE LAWS PROVIDING FOR COOPERATION BETWEEN LAW ENFORCEMENT AGENCIES AND ASSISTANCE TO THE STATE LAW ENFORCEMENT AGENCIES", the General Assembly of North Carolina enacted that South Granville Water and Sewer Authority shall pay to the Department of Health and Human Services a monthly sum to be used by the Department to support the operations of the Butner Reservation. If the majority of the functions of the Butner Reservation are assumed by a municipal corporation (Town of Butner) organized pursuant to the laws of the State of North Carolina, SGWASA shall pay to such municipal corporation (Town of Butner) the sum of forty-one thousand six hundred sixty-six dollars and sixty-seven cents (\$41,666.67) per month for a period of 240 months from the date of said incorporation. The amount received by the Town of Butner for the year ended in June 30, 2017 was \$500,000.

IV. SIGNIFICANT EFFECTS OF SUBSEQUENT EVENTS

The Town has evaluated events and transactions that occurred between June 30, 2017, and November 15, 2017, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

Effective July 27, 2017, The Town entered a \$300,000 financing agreement with Branch Banking and Trust Company (BB&T) for the purchase of a fire truck.

V. CHANGE IN ACCOUNTING PRINCIPLES/RESTATEMENT

The Town implemented Governmental Accounting Standards Board (GASB) Statement No. 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 City to record beginning total pension liability and the effects on net position of benefit payments and administrative expenses paid by the City to the Law Enforcement Officers' Special Separation Allowance during the measurement period (fiscal year ended December 31, 2016). As a result, net position for the governmental activities decreased \$109,283.

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF BUTNER, NORTH CAROLINA
Other Postemployment Benefits
Required Supplementary Information

Schedule of Funding Progress

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Liability (AAL) – Projected Unit Credit (b) | Unfunded AAL (UAAL) (b - a) | Funded Ratio (a / b) | Covered Payroll (c) | UAAL as a % of Covered Payroll ((b - a) / c) |
|---|--|--|--|-------------------------------------|------------------------------------|---|
| 12/31/2015 | \$ - | \$ 319,080 | \$ 319,080 | 0.00% | \$ 172,148 | 185.35% |
| 6/30/2015 | - | 266,212 | 266,212 | 0.00% | 157,337 | 169.20% |
| 6/30/2014 | - | 292,875 | 292,875 | 0.00% | 184,976 | 158.33% |

Schedule of Employer Contributions

| Year Ended June 30, | Annual Required Contribution | Percentage Contributed | Contributions Made |
|--------------------------------|---|-----------------------------------|-------------------------------|
| 2017 | \$ 23,344 | 37.6% | \$ 8,773 |
| 2016 | 31,313 | 42.0% | 13,144 |
| 2015 | 20,089 | 0.0% | - |

Notes to the Required Schedules

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

| | |
|--------------------------------|---|
| Valuation date | 12/31/2015 |
| Actuarial cost method | Entry Age Normal, Level Percentage of Pay |
| Amortization method | Level Dollar Amount, Closed |
| Remaining amortization period: | 20 Years |
| Asset valuation method | Market value of assets |
| Actuarial assumptions: | |
| Investment rate of return* | 4.00% |
| Medical cost trend rate | 7.75 - 5.00% |
| *Includes inflation | 3.00% |

TOWN OF BUTNER, NORTH CAROLINA
Local Government Employees' Retirement System
Required Supplementary Information
Last Four Fiscal Years*

Schedule of the Proportionate Share of Net Pension Liability (Asset)

| | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|---|--------------|--------------|--------------|-------------|
| Butner's proportion of the net pension liability (asset) (%) | 0.05226% | 0.05131% | 0.03623% | 0.00980% |
| Butner's proportion of the net pension liability (asset) (\$) | \$ 1,109,132 | \$ 230,276 | \$ (213,665) | \$ 118,128 |
| Butner's covered-employee payroll | \$ 2,775,110 | \$ 2,522,162 | \$ 2,183,759 | \$ 574,263 |
| Butner's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll | 39.97% | 9.13% | -9.78% | 20.57% |
| 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.

Schedule of Contributions

| | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|--|----------------|----------------|----------------|----------------|
| Contractually required contribution | \$ 217,218 | \$ 195,410 | \$ 186,111 | \$ 156,854 |
| Contributions in relation to the contractually required contribution | <u>217,218</u> | <u>195,410</u> | <u>186,111</u> | <u>156,854</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Butner's covered-employee payroll | \$ 2,788,716 | \$ 2,775,110 | \$ 2,522,162 | \$ 2,183,759 |
| Contributions as a percentage of covered-employee payroll | 7.79% | 7.04% | 7.38% | 7.18% |

TOWN OF BUTNER, NORTH CAROLINA
Law Enforcement Officers' Special Separation Allowance
Required Supplementary Information

Schedule of Changes in Total Pension Liability

| | 2017 |
|--|-------------|
| Beginning Balance | \$ 158,195 |
| Service Cost | 34,696 |
| Interest on the total pension liability | 5,648 |
| Changes of benefit terms | - |
| Differences between expected and actual experience in the measurement of the total pension liability | - |
| Changes of assumptions or other inputs | (6,412) |
| Benefit payments | - |
| Other changes | - |
| Ending balance of the total pension liability | \$ 192,127 |

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

Schedule of Total Pension Liability as a Percentage of Covered Payroll

| | 2017 |
|--|-------------|
| Total pension liability | \$ 192,127 |
| Covered payroll | 1,845,648 |
| Total pension liability as a percentage of covered payroll | 10.41% |

Notes to the Schedules

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

December 31, 2016 Measurement Date: The Municipal Bond Index Rate increased from 3.57% to 3.86%.

COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES

TOWN OF BUTNER, NORTH CAROLINA
General Fund
Schedule of Revenues and Expenditures – Budget and Actual
For the Fiscal Year Ended June 30, 2017, with Comparative Totals for the Fiscal Year ended June 30, 2016

| | 2017 | | Variance Positive (Negative) | 2016 |
|-------------------------------------|------------------|------------------|------------------------------------|------------------|
| | Budget | Actual | | Actual |
| REVENUES | | | | |
| Ad valorem taxes | | | | |
| Current year | \$ 2,069,999 | \$ 2,172,036 | \$ 102,037 | \$ 2,010,041 |
| Prior years | - | 8,732 | 8,732 | 18,170 |
| Penalties and interest | 9,000 | 7,109 | (1,891) | 9,448 |
| Total | <u>2,078,999</u> | <u>2,187,877</u> | <u>108,878</u> | <u>2,037,659</u> |
| Unrestricted intergovernmental | | | | |
| ABC profit distribution | 38,000 | 19,386 | (18,614) | 39,459 |
| Local option sales tax | 1,444,456 | 1,681,889 | 237,433 | 1,452,434 |
| Utilities sales distributions | 499,346 | 466,955 | (32,391) | 495,961 |
| Fire Protection Funding | 154,557 | 155,487 | 930 | 154,557 |
| DHHS Public Safety Service Contract | 713,656 | 713,702 | 46 | 715,782 |
| Contract for SGWASA | 500,000 | 500,000 | - | 500,000 |
| Solid Waste tax | 5,189 | 5,227 | 38 | 5,032 |
| Beer and wine tax | 36,378 | 35,250 | (1,128) | 34,154 |
| Total | <u>3,391,582</u> | <u>3,577,896</u> | <u>186,314</u> | <u>3,397,379</u> |
| Restricted intergovernmental | | | | |
| Granville Co. Recreation Funding | 25,000 | 50,885 | 25,885 | 61,598 |
| State grant income | 378,557 | 183,572 | (194,985) | 183,005 |
| Asset forfeiture fees | - | 56 | 56 | 684 |
| Federal grants | - | 1,923 | 1,923 | - |
| Total | <u>403,557</u> | <u>236,436</u> | <u>(167,121)</u> | <u>245,287</u> |
| Permits and fees | | | | |
| Court facilities fees | 520 | 816 | 296 | 501 |
| Business license fees | - | 225 | 225 | - |
| Other fees | 60,722 | 51,803 | (8,919) | 44,520 |
| Total | <u>61,242</u> | <u>52,844</u> | <u>(8,398)</u> | <u>45,021</u> |
| Sales and services | | | | |
| Rental | 66,000 | 85,100 | 19,100 | 87,352 |
| Investment earnings | | | | |
| General Fund | 14,400 | 41,105 | 26,705 | 16,386 |
| Powell Bill interest | 200 | 2,334 | 2,134 | 861 |
| Total | <u>14,600</u> | <u>43,439</u> | <u>28,839</u> | <u>17,247</u> |
| Other revenues | | | | |
| Special assessments | 58,990 | - | (58,990) | - |
| Miscellaneous | 20,000 | 8,354 | (11,646) | 14,153 |
| Total | <u>78,990</u> | <u>8,354</u> | <u>(70,636)</u> | <u>14,153</u> |
| Total revenues | <u>6,094,970</u> | <u>6,191,946</u> | <u>96,976</u> | <u>5,844,098</u> |

TOWN OF BUTNER, NORTH CAROLINA
General Fund
Schedule of Revenues and Expenditures – Budget and Actual
For the Fiscal Year Ended June 30, 2017, with Comparative Totals for the Fiscal Year ended June 30, 2016

| | 2017 | | Variance Positive (Negative) | 2016 |
|--------------------------------|----------------|----------------|------------------------------------|----------------|
| | Budget | Actual | | Actual |
| EXPENDITURES | | | | |
| General Government | | | | |
| Governing Body | | | | |
| Salaries and employee benefits | \$ 41,007 | \$ 41,007 | \$ - | \$ 42,114 |
| Ad valorem collection fee | 36,470 | 36,450 | 20 | 31,582 |
| Other operating expenditures | <u>63,500</u> | <u>42,369</u> | <u>21,131</u> | <u>56,427</u> |
| Total Governing Body | <u>140,977</u> | <u>119,826</u> | <u>21,151</u> | <u>130,123</u> |
| Executive Department | | | | |
| Salaries and employee benefits | 327,088 | 321,358 | 5,730 | 297,139 |
| Other operating expenditures | <u>54,200</u> | <u>40,339</u> | <u>13,861</u> | <u>34,792</u> |
| Total Executive Department | <u>381,288</u> | <u>361,697</u> | <u>19,591</u> | <u>331,931</u> |
| Finance Department | | | | |
| Salaries and employee benefits | 156,047 | 157,719 | (1,672) | 151,352 |
| Other operating expenditures | <u>19,892</u> | <u>13,883</u> | <u>6,009</u> | <u>11,125</u> |
| Total Finance Department | <u>175,939</u> | <u>171,602</u> | <u>4,337</u> | <u>162,477</u> |
| Legal Department | | | | |
| Salaries and employee benefits | 11,640 | 11,640 | - | 11,646 |
| Other operating expenditures | <u>65,000</u> | <u>53,539</u> | <u>11,461</u> | <u>64,069</u> |
| Total Legal Department | <u>76,640</u> | <u>65,179</u> | <u>11,461</u> | <u>75,715</u> |
| Public Works Facility | | | | |
| Salaries and employee benefits | 288,317 | 256,225 | 32,092 | 255,116 |
| Other operating expenditures | 38,600 | 27,813 | 10,787 | 27,067 |
| Repairs and maintenance | 21,500 | 15,944 | 5,556 | 21,104 |
| Capital outlay | <u>32,000</u> | <u>30,342</u> | <u>1,658</u> | <u>-</u> |
| Total Public Works Facility | <u>380,417</u> | <u>330,324</u> | <u>50,093</u> | <u>303,287</u> |
| EMS Building | | | | |
| Other operating expenditures | 2,650 | 863 | 1,787 | 1,109 |
| Repairs and maintenance | <u>1,000</u> | <u>52</u> | <u>948</u> | <u>512</u> |
| Total EMS Building | <u>3,650</u> | <u>915</u> | <u>2,735</u> | <u>1,621</u> |
| Christmas Decorations | | | | |
| Other operating expenditures | <u>10,800</u> | <u>6,765</u> | <u>4,035</u> | <u>7,070</u> |

TOWN OF BUTNER, NORTH CAROLINA
General Fund
Schedule of Revenues and Expenditures – Budget and Actual
For the Fiscal Year Ended June 30, 2017, with Comparative Totals for the Fiscal Year ended June 30, 2016

| | <u>2017</u> | | Variance Positive (Negative) | <u>2016</u> |
|-----------------------------------|------------------|------------------|---|------------------|
| | <u>Budget</u> | <u>Actual</u> | | <u>Actual</u> |
| Non-departmental | | | | |
| Insurance | \$ 87,000 | \$ 86,400 | \$ 600 | \$ 91,139 |
| Landscape and beautification | 2,248 | - | 2,248 | 248 |
| Capital outlay | - | 3,294 | (3,294) | - |
| Other operating expenditures | 81,610 | 23,059 | 58,551 | 24,557 |
| Miscellaneous | 9,000 | 8,991 | 9 | 21,716 |
| Total Non-departmental | <u>179,858</u> | <u>121,744</u> | <u>58,114</u> | <u>137,660</u> |
| Town Hall | | | | |
| Repairs and maintenance | 23,400 | 19,833 | 3,567 | 14,716 |
| Other operating expenditures | 53,850 | 32,986 | 20,864 | 40,086 |
| Total Town Hall | <u>77,250</u> | <u>52,819</u> | <u>24,431</u> | <u>54,802</u> |
| Total General Government | <u>1,426,819</u> | <u>1,230,871</u> | <u>195,948</u> | <u>1,204,686</u> |
| Public safety | | | | |
| Salaries and employee benefits | 2,897,702 | 2,790,458 | 107,244 | 2,684,995 |
| Other operating expenditures | 371,400 | 294,834 | 76,566 | 344,253 |
| Repairs and maintenance | 78,000 | 54,293 | 23,707 | 63,484 |
| Capital outlay | 359,000 | 123,804 | 235,196 | 188,837 |
| Total Public safety | <u>3,706,102</u> | <u>3,263,389</u> | <u>442,713</u> | <u>3,281,569</u> |
| Environmental Protection | | | | |
| Operating expenditures | 26,550 | 24,620 | 1,930 | 19,751 |
| Capital outlay | 5,000 | - | 5,000 | - |
| Total Environmental Protection | <u>31,550</u> | <u>24,620</u> | <u>6,930</u> | <u>19,751</u> |
| Economic and Physical Development | | | | |
| Salaries and employee benefits | 125,751 | 123,059 | 2,692 | 117,559 |
| Other operating expenditures | 103,450 | 34,548 | 68,902 | 64,515 |
| Total Economic and Physical Dev. | <u>229,201</u> | <u>157,607</u> | <u>71,594</u> | <u>182,074</u> |
| Cultural and Recreation | | | | |
| Non-departmental | | | | |
| Salaries and employee benefits | 104,078 | 100,189 | 3,889 | 52,289 |
| Other operating expenditures | 10,200 | 5,179 | 5,021 | 1,544 |
| Capital outlay | 318,000 | - | 318,000 | - |
| Total Non-departmental | <u>432,278</u> | <u>105,368</u> | <u>326,910</u> | <u>53,833</u> |
| Gazebo Park | | | | |
| Other operating expenditures | 18,500 | 10,890 | 7,610 | 4,526 |
| Repairs and maintenance | 6,000 | 2,347 | 3,653 | 2,517 |
| Total Gazebo Park | <u>24,500</u> | <u>13,237</u> | <u>11,263</u> | <u>7,043</u> |

TOWN OF BUTNER, NORTH CAROLINA
General Fund
Schedule of Revenues and Expenditures – Budget and Actual
For the Fiscal Year Ended June 30, 2017, with Comparative Totals for the Fiscal Year ended June 30, 2016

| | <u>2017</u> | | Variance Positive (Negative) | <u>2016</u> |
|--|--------------------|------------------|---|------------------|
| | <u>Budget</u> | <u>Actual</u> | | <u>Actual</u> |
| Sports Arena | | | | |
| Operating expenditures | \$ 28,460 | \$ 24,458 | \$ 4,002 | \$ 20,796 |
| Repairs and maintenance | 10,000 | 8,336 | 1,664 | 24,011 |
| Total Sports Arena | <u>38,460</u> | <u>32,794</u> | <u>5,666</u> | <u>44,807</u> |
| Lake Holt | | | | |
| Other operating expenditures | 750 | 1,481 | (731) | 540 |
| Repairs and maintenance | 10,000 | 1,405 | 8,595 | 41,450 |
| Total Lake Holt | <u>10,750</u> | <u>2,886</u> | <u>7,864</u> | <u>41,990</u> |
| Butner Athletic Park | | | | |
| Salaries and employee benefits | 54,756 | 32,284 | 22,472 | 46,400 |
| Other operating expenditures | 96,900 | 82,787 | 14,113 | 84,540 |
| Repairs and maintenance | 48,000 | 35,928 | 12,072 | 29,369 |
| Capital outlay | - | 35,510 | (35,510) | 26,904 |
| Total Butner Athletic Park | <u>199,656</u> | <u>186,509</u> | <u>13,147</u> | <u>187,213</u> |
| D Street Ball Field | | | | |
| Other operating expenditures | 2,920 | 2,171 | 749 | 1,882 |
| Repairs and maintenance | 5,000 | 1,120 | 3,880 | 1,103 |
| Total D Street Ball Field | <u>7,920</u> | <u>3,291</u> | <u>4,629</u> | <u>2,985</u> |
| Community Events | | | | |
| Operating expenses | 28,468 | 18,327 | 10,141 | 10,345 |
| Total Culture and Recreation | <u>742,032</u> | <u>362,412</u> | <u>379,620</u> | <u>348,216</u> |
| Transportation | | | | |
| Other operating expenditures | 68,500 | 34,948 | 33,552 | 58,413 |
| Repairs and maintenance | 5,000 | - | 5,000 | - |
| Capital outlay | 1,255,000 | 106,439 | 1,148,561 | 475,788 |
| Total Transportation | <u>1,328,500</u> | <u>141,387</u> | <u>1,187,113</u> | <u>534,201</u> |
| Debt Service | | | | |
| Principal retirement | 300,000 | 300,000 | - | 300,000 |
| Interest and other charges | 64,620 | 49,941 | 14,679 | 59,370 |
| Total Debt Service | <u>364,620</u> | <u>349,941</u> | <u>14,679</u> | <u>359,370</u> |
| Total Expenditures | <u>7,828,824</u> | <u>5,530,227</u> | <u>2,298,597</u> | <u>5,929,867</u> |
| Excess of revenues over (under) expenditures | <u>(1,733,854)</u> | <u>661,719</u> | <u>2,395,573</u> | <u>(85,769)</u> |

TOWN OF BUTNER, NORTH CAROLINA
General Fund
Schedule of Revenues and Expenditures – Budget and Actual
For the Fiscal Year Ended June 30, 2017, with Comparative Totals for the Fiscal Year ended June 30, 2016

| | <u>2017</u> | | Variance Positive (Negative) | <u>2016</u> |
|--|--------------------|---------------------|---|---------------------|
| | Budget | Actual | | Actual |
| OTHER FINANCING SOURCES (USES) | | | | |
| Proceeds from sale of capital assets | \$ 16,444 | \$ 5,762 | \$ (10,682) | \$ 4,000 |
| Insurance proceeds | - | 7,688 | 7,688 | 15,284 |
| Transfers (to) from capital project funds | - | - | - | (85,682) |
| Total other financing sources | <u>16,444</u> | <u>13,450</u> | <u>(2,994)</u> | <u>(66,398)</u> |
| SPECIAL AND EXTRAORDINARY ITEMS | | | | |
| Proceeds from sale of timber | 24,556 | 24,556 | - | 114,430 |
| Public Safety reimbursement | - | - | - | 367,229 |
| Total special and extraordinary items | <u>24,556</u> | <u>24,556</u> | <u>-</u> | <u>481,659</u> |
| Excess of revenues, other financing sources, and special and extraordinary items over (under) expenditures | <u>(1,692,854)</u> | <u>699,725</u> | <u>2,392,579</u> | <u>329,492</u> |
| Fund balance appropriated | <u>1,692,854</u> | <u>-</u> | <u>(1,692,854)</u> | <u>-</u> |
| Net change in fund balance | <u>\$ -</u> | <u>699,725</u> | <u>\$ 699,725</u> | <u>329,492</u> |
| FUND BALANCE – Beginning | | <u>8,100,054</u> | | <u>7,770,562</u> |
| FUND BALANCE – Ending | | <u>\$ 8,799,779</u> | | <u>\$ 8,100,054</u> |

TOWN OF BUTNER, NORTH CAROLINA
Combining Balance Sheet — Nonmajor Governmental Funds
For the Fiscal Year Ended June 30, 2017

| | Special Revenue Fund | Capital Project Fund | | Total Non-Major Governmental Funds |
|--|---------------------------------|--|--|---|
| | CDBG Grant Fund | Central Sidewalk Phase II | Lyon Station Greenway Extension I | June 30, 2017 |
| ASSETS | | | | |
| Cash and equivalents | \$ 379 | \$ 33,199 | \$ 1 | \$ 33,579 |
| Due from other governments | 35,595 | - | - | 35,595 |
| Due from General Fund | - | - | - | - |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total assets | <u>\$ 35,974</u> | <u>\$ 33,199</u> | <u>\$ 1</u> | <u>\$ 69,174</u> |
| LIABILITIES | | | | |
| Accounts payable and accrued liabilities | \$ 35,247 | \$ - | \$ - | \$ 35,247 |
| Due to General Fund | 500 | - | - | 500 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total liabilities | <u>35,747</u> | <u>-</u> | <u>-</u> | <u>35,747</u> |
| FUND BALANCES | | | | |
| Committed: | | | | |
| Capital projects | - | 33,199 | 1 | 33,200 |
| Grant projects | 227 | - | - | 227 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total fund balance | <u>227</u> | <u>33,199</u> | <u>1</u> | <u>33,427</u> |
| Total liabilities and fund balances | <u>\$ 35,974</u> | <u>\$ 33,199</u> | <u>\$ 1</u> | <u>\$ 69,174</u> |

TOWN OF BUTNER, NORTH CAROLINA
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance —
Nonmajor Governmental Funds
For the Fiscal Year Ended June 30, 2017

| | <u>Special Revenue Fund</u> | <u>Capital Project Fund</u> | | <u>Total Non-Major Governmental Funds</u> |
|---------------------------------------|---------------------------------|--|--|---|
| | <u>CDBG Grant Fund</u> | <u>Central Sidewalk Phase II</u> | <u>Lyon Station Greenway Extension I</u> | <u>June 30, 2017</u> |
| REVENUES | | | | |
| Grant Revenue | \$ 589,339 | \$ - | \$ - | \$ 589,339 |
| Investments Earnings | - | 111 | - | 111 |
| | <u>589,339</u> | <u>111</u> | <u>-</u> | <u>589,450</u> |
| Total Revenues | | | | |
| EXPENDITURES | | | | |
| Capital Outlay | 589,116 | - | - | 589,116 |
| | <u>223</u> | <u>111</u> | <u>-</u> | <u>334</u> |
| REVENUES OVER EXPENDITURES | | | | |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers (to) from | | | | |
| General Fund | - | - | - | - |
| General Fund - Powell Bill | - | - | - | - |
| | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total Other Financing Sources (Uses) | | | | |
| NET CHANGE IN FUND BALANCE | <u>223</u> | <u>111</u> | <u>-</u> | <u>334</u> |
| FUND BALANCE | | | | |
| Beginning | 4 | 33,088 | 1 | 33,093 |
| Ending | <u>\$ 227</u> | <u>\$ 33,199</u> | <u>\$ 1</u> | <u>\$ 33,427</u> |

TOWN OF BUTNER, NORTH CAROLINA
Special Revenue Fund – Grant Project – CDBG Grant
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
From Inception and For the Fiscal Year Ended June 30, 2017

| | Project Author- ization | Actual | | | Variance Positive (Negative) |
|---|-------------------------------|-------------|-----------------|---------------|------------------------------------|
| | | Prior Years | Current Year | Total to Date | |
| REVENUES | | | | | |
| Restricted intergovernmental: | | | | | |
| CDBG Grant | \$ 4,200,000 | \$ 242,042 | \$ 589,339 | \$ 831,381 | \$ (3,368,619) |
| EXPENDITURES | | | | | |
| Capital Outlay | 4,200,000 | 242,038 | 589,116 | 831,154 | (3,368,846) |
| Excess of revenues over (under) expenditures | - | 4 | 223 | 227 | 227 |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Transfers from (to) General Fund | - | - | - | - | - |
| Excess of revenues and other financing sources over (under) expenditures | \$ - | \$ 4 | 223 | \$ 227 | \$ 227 |
| FUND BALANCE – Beginning | | | 4 | | |
| FUND BALANCE – Ending | | | \$ 227 | | |

TOWN OF BUTNER, NORTH CAROLINA
Capital Project Fund – Central Avenue Sidewalk Phase II
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
From Inception and For the Fiscal Year Ended June 30, 2017

| | Project Author- ization | Actual | | Variance Positive (Negative) | |
|---|-------------------------------|------------------|------------------|------------------------------------|------------------|
| | | Prior Years | Current Year | | Total to Date |
| REVENUES | | | | | |
| Investment earnings | \$ - | \$ 109 | \$ 111 | \$ 220 | \$ 220 |
| Total revenues | - | 109 | 111 | 220 | 220 |
| EXPENDITURES | | | | | |
| Capital Outlay | 130,000 | 97,021 | - | 97,021 | (32,979) |
| Excess of revenues over (under) expenditures | <u>(130,000)</u> | <u>(96,912)</u> | <u>111</u> | <u>(96,801)</u> | <u>33,199</u> |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Transfers from (to) General Fund | 130,000 | 130,000 | - | 130,000 | - |
| Excess of revenues and other financing sources over (under) expenditures | <u>\$ -</u> | <u>\$ 33,088</u> | <u>111</u> | <u>\$ 33,199</u> | <u>\$ 33,199</u> |
| FUND BALANCE – Beginning | | | <u>33,088</u> | | |
| FUND BALANCE – Ending | | | <u>\$ 33,199</u> | | |

TOWN OF BUTNER, NORTH CAROLINA
Capital Project Fund – Lyon Station Greenway Extension I
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
From Inception and For the Fiscal Year Ended June 30, 2017

| | Project Author- ization | Actual | | | Variance Positive (Negative) |
|---|-------------------------------|-------------|-----------------|---------------|------------------------------------|
| | | Prior Years | Current Year | Total to Date | |
| REVENUES | | | | | |
| Restricted intergovernmental | | | | | |
| CMAQ Grant | \$ 197,600 | \$ - | \$ - | \$ - | \$ (197,600) |
| Investment earnings | - | 1 | - | 1 | 1 |
| Total revenues | 197,600 | 1 | - | 1 | (197,599) |
| EXPENDITURES | | | | | |
| Capital Outlay | 247,000 | - | - | - | (247,000) |
| Excess of revenues over (under) expenditures | (49,400) | 1 | - | 1 | 49,401 |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Transfers from (to) General Fund | 49,400 | - | - | - | (49,400) |
| Excess of revenues and other financing sources over (under) expenditures | \$ - | \$ 1 | - | \$ 1 | \$ 1 |
| FUND BALANCE – Beginning | | | 1 | | |
| FUND BALANCE – Ending | | | \$ 1 | | |

TOWN OF BUTNER, NORTH CAROLINA
Stormwater Fund
Schedule of Revenues and Expenditures – Budget and Actual (Non-GAAP)
For the Fiscal Year Ended June 30, 2017, with Comparative Totals for the Fiscal Year ended June 30, 2016

| | <u>2017</u> | | Variance Positive (Negative) | 2016 Actual |
|--|----------------|-------------------|---|------------------------|
| | Budget | Actual | | |
| REVENUES | | | | |
| Operating revenues | | | | |
| Stormwater fees | \$ 331,600 | \$ 364,274 | \$ 32,674 | \$ 371,464 |
| Stormwater fee releases | - | - | - | (31,301) |
| Total revenues | <u>331,600</u> | <u>364,274</u> | <u>32,674</u> | <u>340,163</u> |
| EXPENDITURES | | | | |
| Administration: | | | | |
| Salaries and employee benefits | | 21,706 | | 19,962 |
| Professional services | | 46,815 | | 45,104 |
| Other operating expenditures | | 17,351 | | 15,865 |
| Total administration expenditures | <u>99,410</u> | <u>85,872</u> | <u>13,538</u> | <u>80,931</u> |
| Operating | | | | |
| Salaries and employee benefits | | 60,738 | | 76,514 |
| Repairs and maintenance | | 4,012 | | 2,246 |
| Other operating expenditures | | 23,677 | | 569 |
| Total operating expenditures | <u>345,600</u> | <u>88,427</u> | <u>257,173</u> | <u>79,329</u> |
| Total expenditures | <u>445,010</u> | <u>174,299</u> | <u>270,711</u> | <u>160,260</u> |
| Excess of revenues over (under) expenditures | (113,410) | 189,975 | 303,385 | 179,903 |
| Fund balance appropriated | <u>113,410</u> | - | <u>(113,410)</u> | - |
| Excess of revenues and fund balance appropriated over (under) expenditures | <u>\$ -</u> | <u>\$ 189,975</u> | <u>\$ 189,975</u> | <u>\$ 179,903</u> |
| Reconciliation from budgetary basis (modified accrual) to full accrual: | | | | |
| Excess of revenues and other financing sources over (under) expenditures | | \$ 189,975 | | \$ 179,903 |
| Reconciling items: | | | | |
| (Increase) decrease in accrued vacation pay | | (27) | | 1,036 |
| Deferred outflows of resources for contributions made to pension plan in current fiscal year | | 4,605 | | 4,936 |
| Pension expense | | <u>(9,704)</u> | | <u>(5,389)</u> |
| Total reconciling items | | <u>(5,126)</u> | | <u>583</u> |
| Change in net position | | <u>\$ 184,849</u> | | <u>\$ 180,486</u> |

OTHER SCHEDULES

TOWN OF BUTNER, NORTH CAROLINA
General Fund
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 | \$ - | \$ 2,207,707 | \$ 2,194,490 | \$ 13,217 |
| 2015-2016 | 9,351 | - | 4,293 | 5,058 |
| 2014-2015 | 8,962 | - | 2,121 | 6,841 |
| 2013-2014 | 5,605 | - | 882 | 4,723 |
| 2012-2013 | 4,134 | - | 553 | 3,581 |
| 2011-2012 | 3,247 | - | 461 | 2,786 |
| 2010-2011 | 2,271 | - | 149 | 2,122 |
| 2009-2010 | 2,545 | - | 154 | 2,391 |
| 2008-2009 | 2,076 | - | 81 | 1,995 |
| 2007-2008 | 33,945 | - | 79 | 33,866 |
| 2006-2007 | 52,404 | - | 52,404 | - |
| | <u>\$ 124,540</u> | <u>\$ 2,207,707</u> | <u>\$ 2,255,667</u> | <u>\$ 76,580</u> |

Reconciliation with revenues:

| | |
|---|---------------------|
| Ad valorem taxes - General Fund | \$ 2,187,877 |
| Reconciling items: | |
| Interest collected | (5,541) |
| Collections of previously written off taxes | (2) |
| Refunds | 1,762 |
| Discounts | 19,186 |
| Taxes written off | <u>52,385</u> |
| Total collections and credits | <u>\$ 2,255,667</u> |

TOWN OF BUTNER, NORTH CAROLINA
Analysis of Current Tax Levy
Town-Wide Levy
For the Fiscal Year Ended 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 year's rate | \$ 584,944,123 | 0.365 | \$ 2,135,034 | \$ 1,974,196 | \$ 160,838 |
| Motor vehicles taxed at prior year's rate | 9,899,660 | 0.350 | 34,649 | - | 34,649 |
| Penalties | - | | 1,742 | 1,742 | - |
| Total | 594,843,783 | | 2,171,425 | 1,975,938 | 195,487 |
| Discoveries: | | | | | |
| Current year taxes | 13,167,373 | 0.365 | 48,061 | 48,061 | - |
| Abatements | | | | | |
| Current year taxes | (3,227,115) | 0.365 | (11,779) | (11,779) | - |
| Total property valuation | \$ 604,784,041 | | | | |
| Net levy | | | 2,207,707 | 2,012,220 | 195,487 |
| Less Uncollected taxes at June 30, 2017 | | | 13,217 | 13,217 | - |
| Current year's taxes collected | | | \$ 2,194,490 | \$ 1,999,003 | \$ 195,487 |
| Current levy collection percentage | | | 99.40% | 99.34% | 100.00% |

COMPLIANCE SECTION



William L. Stark and Company
Certified Public Accountants

**Independent Auditor's 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***

To the Butner Town Council
Town of Butner, North Carolina

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Butner, 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 of Butner's basic financial statements, and have issued our report thereon dated November 15, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of Butner'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 opinion on the financial statements, but not for the purpose of expressing opinion on the effectiveness of the Town of Butner'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 function, to prevent or detect and correct misstatement on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for limited purposes 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe 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.

William L. Stark and Company

Certified Public Accountants
Henderson, North Carolina

November 15, 2017