

**VILLAGE OF FLAT ROCK, NORTH CAROLINA**

**Financial Statements**

**June 30, 2011**

**Village of Flat Rock, North Carolina**  
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**June 30, 2011**

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## **Independent Auditor's Report**

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

I have audited the accompanying financial statements of the governmental activities and the major fund of the Village of Flat Rock, North Carolina, as of and for the year ended June 30, 2011, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Flat Rock, North Carolina's management. My responsibility is to express opinions on these basic financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and the major fund of the Village of Flat Rock, North Carolina as of June 30, 2011, and the respective changes in financial position and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit this information and express no opinion on it.

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements of the Village of Flat Rock, North Carolina. The accompanying schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

October 31, 2011

Carl E. Shaw, CPA, PLLC

## **Management's Discussion and Analysis**

As management of the Village of Flat Rock, we offer readers of the Village of Flat Rock's financial statements this narrative overview and analysis of the financial activities of the Village of Flat Rock for the fiscal year ended June 30, 2011 that we have furnished in the Village's financial statements, which follow this narrative.

### **Financial Highlights**

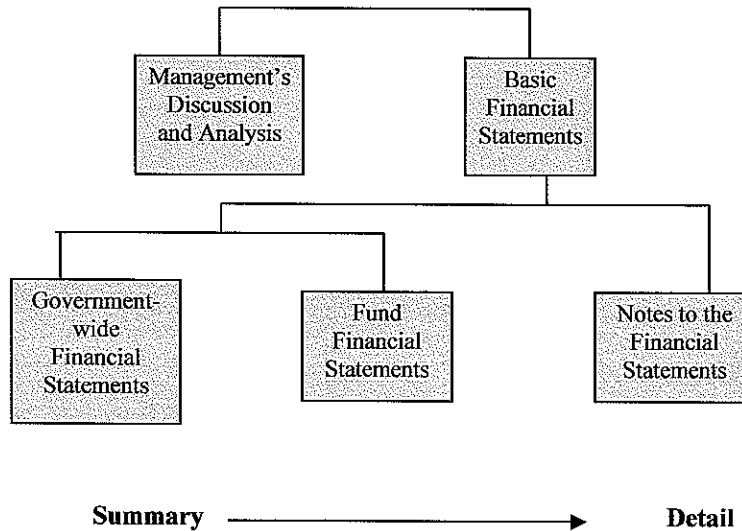
- The assets of the Village of Flat Rock *exceeded* its liabilities at the close of the fiscal year by \$5,780,614.
- The government's total net assets *increased* by \$138,885 primarily due to revenues exceeding budgeted projections.
- As of the close of the current fiscal year, the Village of Flat Rock's governmental fund reported an ending fund balance of \$4,745,685, an *increase* of \$148,262 in comparison with the prior year. Approximately ninety-eight percent of this total amount, or \$4,633,874, is available for spending at the government's discretion.

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

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

*Figure 1*

**Required Components of Annual Financial Report**



**Basic Financial Statements**

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

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

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

**Government-wide Financial Statements**

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

The two government-wide statements report the Village's net assets and how they have changed. Net assets are the difference between the Village's total assets and total liabilities. Measuring net assets is one way to gauge the Village's financial condition.

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

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

### **Fund Financial Statements**

The fund financial statements (see Figure 1) provide a more detailed look at the Village's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Village of Flat Rock, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the Village budget ordinance. The Village has one governmental fund.

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

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

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

**Government-wide Financial Analysis**

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

	2011	2010
Current and Other Assets	\$ 4,759,179	\$ 4,609,390
Capital Assets	1,030,731	1,042,727
 Total Assets	 5,789,910	 5,652,117
 Liabilities	 9,296	 10,388
 Net Assets		
Invested in Capital Assets	1,030,731	1,042,727
Restricted	111,811	107,299
Unrestricted	4,638,072	4,491,703
 Total Net Assets	 \$ 5,780,614	 \$ 5,641,729

As noted earlier, net assets may serve over time as one useful indicator of a government’s financial condition. The assets of the Village of Flat Rock exceeded liabilities by \$5,780,614 as of June 30, 2011. The Village net assets *increased* by \$138,885 for the fiscal year ended June 30, 2011. However, approximately eighteen percent of net assets reflect the Village investment in capital assets (e.g. land, building, furniture and equipment). The Village of Flat Rock uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. The remaining balance is unrestricted.

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

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



**Figure 3**  
**Village of Flat Rock, North Carolina**  
**Changes in Net Assets**  
**Year Ended June 30**

	<u>2011</u>	<u>2010</u>
<b>Revenues:</b>		
Program Revenues		
Charges for Services	\$ 4,700	\$ 4,700
Capital Grants	-	55,000
General Revenues		
Ad Valorem Taxes	712,579	708,540
Other Taxes	464,797	446,065
Investment Earnings	64,210	85,942
Miscellaneous	310	800
Total Revenues	<u>1,246,596</u>	<u>1,301,047</u>
<b>Expenses:</b>		
General Government	300,684	246,187
Public Safety	722,960	717,244
Cultural and Recreation	35,375	31,689
Environmental Protection	3,300	4,589
Economic and Physical Development	45,392	45,497
Total Expenses	<u>1,107,711</u>	<u>1,045,206</u>
Change in Net Assets	138,885	255,841
Net Assets, July 1	<u>5,641,729</u>	<u>5,385,888</u>
Net Assets, June 30	<u><u>\$5,780,614</u></u>	<u><u>\$5,641,729</u></u>

**Governmental Activities** – Governmental activities increased the Net Assets of the Village by \$138,885. Key elements of this increase are as follows:

- Actual sales tax revenues received exceeded the amounts budgeted.
- Actual general government expenses were less than the amount budgeted.

## **Financial Analysis of the Village's Fund**

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

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

The General Fund is the chief operating fund of the Village of Flat Rock. At the end of the current fiscal year, fund balance available in the General Fund was \$4,633,874, while total fund balance reached \$4,745,685. As a measure of the General Fund's liquidity, it may be useful to compare available fund balance to total fund expenditures. Available fund balance represents approximately 4.2 times annual General Fund expenditures.

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

## **Capital Asset and Debt Administration**

**Capital Assets** – The Village of Flat Rock's investment in capital assets for its governmental activities as of June 30, 2011 totals \$1,030,731, (net of accumulated depreciation). See Figure 4 for the Village's capital assets.

During the year ended June 30, 2011, the Village purchased a quarter acre parcel of land across from the Village Hall at a cost of \$32,091. This purchase represents the only addition to Village capital assets during the year ended June 30, 2011. There were no dispositions of capital assets this year.

Additional information on the capital assets of the Village can be found in Note 3 of the Basic Financial Statements.

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

	<u>2011</u>	<u>2010</u>
Capital Assets		
Land	\$ 157,091	\$ 125,000
Land Improvements	76,460	76,460
Building	794,914	794,914
Equipment and Furniture	66,517	66,517
Computer Equipment and Software	28,818	28,818
Greenways	<u>232,520</u>	<u>232,520</u>
Total	<u>1,356,320</u>	<u>1,324,229</u>
Less: Accumulated Depreciation	<u>325,589</u>	<u>281,502</u>
Capital Assets, Net of Depreciation	<u><u>\$1,030,731</u></u>	<u><u>\$1,042,727</u></u>

**Long-term Debt**

As of June 30, 2011, the Village had no long-term debt.

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

The following key economic indicators were used in the budget preparation for the fiscal year ended June 30, 2011.

- Interest rates will continue at lower than historical levels, thus lowering effective income earnings.
- No change in paid staffing levels is anticipated.
- There are no new programs of significance that are of a material cost in the new year.
- The cost of providing services within the Village will increase at a rate roughly equal to inflation.

## **Budget Highlights for the Fiscal Year Ending June 30, 2012**

### **Governmental Activities**

- The revenue-neutral 2011-2012 budget includes the assessment of property taxes at the rate of 8.4 cents per hundred dollar valuation. The Village has attained a property tax collection rate that approximates 100%.
- Exclusive of funds budgeted for capital expenditures, the 2011-2012 budget is approximately the same as the previous year's budget.
- The budget includes payment for fire protection services for which the Village contracts with three fire departments.

### **Requests for Information**

This report is designed to provide an overview of the Village finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to Nick Weedman, Finance Officer, P. O. Box 1288, Flat Rock, North Carolina, 28731, or (828) 697-8100.

**Exhibit 1****Village of Flat Rock, North Carolina  
Statement of Net Assets  
June 30, 2011**

	<b>Governmental Activities</b>
<b>Assets</b>	
Current Assets:	
Cash and Investments	\$ 4,643,170
Accrued Interest Receivable	16,984
Taxes Receivable	4,198
Due from Other Governments	94,827
	<hr/>
Total Current Assets	4,759,179
	<hr/>
Capital Assets:	
Land	157,091
Other Capital Assets, Net of Depreciation	873,640
	<hr/>
Total Capital Assets, Net	1,030,731
	<hr/>
Total Assets	5,789,910
	<hr/>
<b>Liabilities</b>	
Current Liabilities:	
Accounts Payable and Accrued Expenses	3,827
Accrued Vacation Pay	3,754
Unearned Revenues	1,715
	<hr/>
Total Liabilities	9,296
	<hr/>
<b>Net Assets</b>	
Invested in Capital Assets	1,030,731
Restricted for:	
Stabilization by State Statute	111,811
Unrestricted	4,638,072
	<hr/>
Total Net Assets	\$ 5,780,614
	<hr/> <hr/>

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

Exhibit 2

Village of Flat Rock, North Carolina  
Statement of Activities  
For the Year Ended June 30, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
					Governmental Activities
Governmental Activities:					
General Government	\$ 300,684	\$ 4,700	\$ -	\$ -	\$ (295,984)
Public Safety	722,960	-	-	-	(722,960)
Environmental Protection	3,300	-	-	-	(3,300)
Cultural and Recreation	35,375	-	-	-	(35,375)
Economic and Physical Development	45,392	-	-	-	(45,392)
<b>Total Governmental Activities</b>	<b>\$ 1,107,711</b>	<b>\$ 4,700</b>	<b>\$ -</b>	<b>\$ -</b>	<b>(1,103,011)</b>
General revenues:					
Taxes:					
Ad Valorem Taxes					712,579
Unrestricted Intergovernmental					464,797
Unrestricted Investment Earnings					64,210
Miscellaneous					310
Total General Revenues					1,241,896
Change in Net Assets					138,885
Net Assets - Beginning of Year					5,641,729
Net Assets - End of Year					\$ 5,780,614

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

## **Fund Financial Statements**

**Village of Flat Rock, North Carolina**  
**Balance Sheet**  
**Governmental Fund**  
**June 30, 2011**

	<b>General</b>
<b>Assets</b>	
Cash	\$ 4,643,170
Accrued Interest Receivable	16,984
Taxes Receivable	4,198
Due from Other Governments	94,827
Total Assets	\$ 4,759,179
 <b>Liabilities and Fund Balances</b>	
<b>Liabilities:</b>	
Accounts Payable and Accrued Expenses	\$ 3,827
Accrued Vacation Pay	3,754
Deferred Revenue	5,913
Total Liabilities	13,494
 <b>Fund Balance:</b>	
Restricted	
Stabilization by State Statute	111,811
Assigned	
Subsequent Year's Expenditures	285,000
Unassigned	4,348,874
Total Fund Balance	4,745,685
 Amounts reported for Governmental Activities in the Statement of Net Assets (Exhibit 1) are different because:	
Liabilities for earned but deferred revenues in fund statements	4,198
Capital assets used in governmental activities are not financial resources and therefore are not reported in the general fund.	1,030,731
Net assets of governmental activities	\$ 5,780,614

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



**Village of Flat Rock, North Carolina**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Fund**  
**For the Year Ended June 30, 2011**

	<b>General Fund</b>
<b>Revenues</b>	
Ad Valorem Taxes	\$ 709,959
Unrestricted Intergovernmental	464,797
Permits and Fees	4,700
Investment Earnings	64,210
Miscellaneous	310
Total Revenues	1,243,976
<b>Expenditures</b>	
Current:	
General Government	276,780
Public Safety	722,960
Environmental Protection	3,300
Economic and Physical Development	45,392
Capital Outlay	47,282
Total Expenditures	1,095,714
Net Change in Fund Balance	148,262
<b>Fund Balances</b>	
Beginning of Year	4,597,423
End of Year	\$ 4,745,685

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

Village of Flat Rock, North Carolina  
Reconciliation of the Statement of Revenues, Expenditures and  
Changes in Fund Balances of Governmental Funds to the Statement of Activities  
For the Year Ended June 30, 2011

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

Net changes in fund balances - total governmental fund	\$ 148,262
Change in deferred revenue for tax revenue	2,619
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Capital Outlay	32,091
Depreciation Expense	<u>(44,087)</u>
Total changes in net assets of governmental activities	<u>\$ 138,885</u>

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

**Village of Flat Rock, North Carolina**  
**General Fund**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance -**  
**Annual Budget and Actual**  
**For the Year Ended June 30, 2011**

	Budget		Actual Amounts	Variance with Final Budget
	Original	Final		Positive (Negative)
<b>Revenues</b>				
Ad Valorem Taxes	\$ 733,920	\$ 733,920	\$ 709,959	\$ (23,961)
Unrestricted Intergovernmental	384,000	384,000	464,797	80,797
Permits and Fees	6,000	6,000	4,700	(1,300)
Investment Earnings	66,000	66,000	64,210	(1,790)
Miscellaneous	550	550	310	(240)
Total Revenues	1,190,470	1,190,470	1,243,976	53,506
<b>Expenditures</b>				
Current:				
General Government	310,766	324,782	276,780	48,002
Public Safety	723,066	723,066	722,960	106
Environmental Protection	5,000	5,000	3,370	1,630
Economic and Physical Development	54,400	79,400	45,322	34,078
Contingency	59,238	222	-	222
Capital Outlay	38,000	58,000	47,282	10,718
Total Expenditures	1,190,470	1,190,470	1,095,714	94,756
<b>Net Changes in Fund Balance</b>	<u>\$ -</u>	<u>\$ -</u>	148,262	<u>\$ 148,262</u>
<b>Fund Balance</b>				
Beginning of Year			<u>4,597,423</u>	
End of Year			<u>\$ 4,745,685</u>	

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

**Village of Flat Rock, North Carolina**  
**Notes to the Financial Statements**  
**Year Ended June 30, 2011**

**Note 1 – Summary of Significant Accounting Policies:**

The Village of Flat Rock, North Carolina (the Village) was incorporated on June 29, 1995. The accounting policies of the Village conform to accounting principles generally accepted in the United States of America as applicable to governments. The following is a summary of the more significant accounting policies:

**A. Reporting Entity**

The Village is a municipal corporation, which is governed by an elected mayor and a six-member council. The mayor presides at all council meetings, but only votes when there is a tie.

**B. Basis of Presentation**

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

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

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

The Village reports the following major governmental fund:

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

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

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

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

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

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

The Village considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as a revenue because the amount is not susceptible to accrual. At June 30, taxes receivable are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of January 1, 1993, 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, Henderson County is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts in the County, including the Village of Flat Rock. For motor vehicles registered under the staggered system, property taxes are due the first day of the fourth month after the vehicles are registered. The billed taxes are applicable to the fiscal year in which they become due. Therefore, the Village's vehicle taxes for vehicles registered in Henderson County from March 2010 through February 2011 apply to the fiscal year ended June 30, 2011. Uncollected taxes that were billed during this period are shown as a receivable in these financial statements and are offset by deferred revenues.

Sales taxes and certain intergovernmental revenues, such as the utilities franchise tax, collected and held by the State at year-end on behalf of the Village, are recognized as revenue. Intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. Grant revenues that are unearned at year-end are recorded as unearned revenues. Under the terms of grant agreements, the Village could fund certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there would be both restricted and unrestricted net assets available to finance the program. It is the Village's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

As permitted by accounting principles generally accepted in the United States of America, the Village has elected to apply only applicable FASB Statements and Interpretations issued on or before November 30, 1989 that do not contradict GASB pronouncements in its accounting and reporting practices for its government-wide operations.

#### **D. Budgetary Data**

The Village's budget is adopted as required by North Carolina General Statutes. An annual budget ordinance is adopted for the General Fund. All annual appropriations lapse at fiscal year-end. The budget is prepared using the modified accrual basis of accounting.

Expenditures may not legally exceed appropriations at the departmental level for all annually budgeted funds. The budget officer may transfer amounts up to \$1,000 between departments, including contingency appropriations, providing that an official report of such transfers be made at the next regular meeting of the Council. The governing board must approve any revisions that alter total expenditures of any fund. During the year, several amendments to the original budget were necessary. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

#### **E. Assets, Liabilities and Net Assets/Fund Balance**

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

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

The Village's investments with a maturity of more than one year at acquisition and non-money market investments are reported at fair value as determined by quoted market prices. The securities of the NCCMT Cash Portfolio, a SEC-registered (2a-7) money market mutual fund, are valued at fair value, which is the NCCMT's share price.

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

**Ad Valorem Taxes Receivable** – In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the Village levies ad valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, interest does not accrue until the following January 6. These taxes are based on the assessed values as of January 1, 2010.

**Allowances for Doubtful Accounts** – All receivables that historically experience uncollectible accounts are subject to be shown net of an allowance for doubtful accounts. This amount will be estimated by analyzing the percentage of receivables that were written off in prior years. The Village has not established an allowance due to the immaterial amounts of receivables subject to being uncollectible.

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

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

<u>Asset Class</u>	<u>Estimated Useful Lives (in years)</u>
Buildings	40
Leasehold Improvements	10
Equipment and Furniture	3-10

**Compensated Absences** – The vacation policy of the Village provides for the accumulation of up to thirty days earned vacation leave with such leave being fully vested when earned. An expense and liability for compensated absences and the salary-related payments are recorded as the leave is earned. The portion of that time that is estimated to be used in the next fiscal year has been designated as a current liability in the government-wide financial statements.

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

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

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

The governmental fund types classify fund balances as follows:

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

Prepaid Items – portion of fund balance that is not an available resource because it represents the year-end balance of prepaid expenses, which are not spendable resources.

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

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

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

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

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

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

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



## **Note 2 – Deposits and Investments:**

### ***Deposits:***

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

At June 30, 2011, the Village's deposits had a carrying amount of \$4,476,831 and a bank balance of \$4,486,503. \$748,266 of the bank balance was covered by federal depository insurance and \$3,738,237 in interest-bearing deposits was covered by collateral held under the Pooling Method. At June 30, 2011, the Village's petty cash fund totaled \$200.

### ***Investments:***

At June 30, 2011, the Village had \$166,139 invested with the North Carolina Capital Management Trust's Cash Portfolio, which carried a credit rating of AAAM by Standard and Poor's. The Village's cash and investment policy identifies the specific investment types allowed for the Village, thus addressing its credit risk policy.

**Note 3 – Capital Assets:**

Capital asset activity for the Village for the year ended June 30, 2011 was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
<b>Governmental Activities:</b>				
Capital Assets Not Being Depreciated:				
Land	\$ 125,000	\$ 32,091	\$ -	\$ 157,091
Total Capital Assets Not Being Depreciated	<u>125,000</u>	<u>32,091</u>	<u>-</u>	<u>157,091</u>
Capital Assets Being Depreciated:				
Land Improvements	76,460		-	76,460
Equipment and Furniture	66,517	-	-	66,517
Computer Equipment and Software	28,818	-	-	28,818
Village Centre Trail	232,520	-	-	232,520
Building	794,914	-	-	794,914
Total Capital Assets Being Depreciated	<u>1,199,229</u>	<u>-</u>	<u>-</u>	<u>1,199,229</u>
<b>Less: Accumulated Depreciation For:</b>				
Land Improvements	19,732	4,504	-	24,236
Equipment and Furniture	54,869	2,576	-	57,445
Computer Equipment and Software	23,937	1,633	-	25,570
Village Centre Trail	73,663	15,501	-	89,164
Building	109,301	19,873	-	129,174
Total Accumulated Depreciation	<u>281,502</u>	<u>44,087</u>	<u>-</u>	<u>325,589</u>
Total Capital Assets Being Depreciated - Net	<u>917,727</u>	<u>(44,087)</u>	<u>-</u>	<u>873,640</u>
Governmental Activity Capital Assets - Net	<u>\$ 1,042,727</u>	<u>\$ (11,996)</u>	<u>\$ -</u>	<u>\$ 1,030,731</u>

Depreciation expense of \$44,087 was charged \$8,713 to the Village's general government function and \$35,374 to the Village's cultural and recreation function.

**Note 4 – Pension Plan Obligations:**

**Local Governmental Employees' Retirement System**

*Plan Description.* The Village contributes to the statewide Local Governmental Employees' Retirement System (LGERS), a cost-sharing, multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS provides retirement and disability benefits to plan members and beneficiaries. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Local Governmental Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

*Funding Policy.* Plan members are required to contribute 6% of their annual covered salary. The Village is required to contribute at an actuarially-determined rate. For the Village, the current rate for employees is 6.98% of annual covered payroll. The contribution requirements for members and the Village are established and may be amended by the North Carolina General Assembly. The Village's contributions to LGERS for the years ended June 30, 2011, 2010, and 2009 were \$7,950, \$5,569, and \$4,134, respectively. The contributions made by the Village equaled the required contributions for each year.

**Note 5 – Other Employment Benefits:**

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

**Note 6 – Deferred/Unearned Revenues:**

The balance in deferred/unearned revenues at year end is composed of the following:

	<u>Deferred Revenue</u>	<u>Unearned Revenue</u>
Prepaid Taxes (General Fund)	\$ 1,715	\$ 1,715
Taxes Receivable (General Fund)	<u>4,198</u>	<u>-</u>
	<u>\$ 5,913</u>	<u>\$ 1,715</u>

**Note 7 – Risk Management:**

The Village is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Village participates in three self-funded risk-financing pools administered by the North Carolina League of Municipalities. Through these pools, the Village obtains general liability of \$5,000,000 and auto liability coverage of \$3,000,000 per occurrence, property coverage up to the total insurance values of the property policy, workers' compensation coverage up to statutory limits, and employee health coverage up to a \$2,000,000 lifetime limit. The pools are reinsured through commercial companies for single occurrence claims against general liability, auto liability, and property in excess of \$500,000 and \$300,000 up to statutory limits for workers' compensation. The pools are reinsured for annual employee health claims in excess of \$150,000. The property liability pool has an aggregate limit for the total property losses in a single year, with the reinsurance limit based upon a percentage of the total insurance values.

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

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

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

**Note 8 – Jointly Governed Organization:**

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

**Note 9 – Summary Disclosures of Significant Contingencies:**

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

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

## **Other Schedules**

**Village of Flat Rock, North Carolina**  
**General Fund**  
**Schedule of Ad Valorem Taxes Receivable**  
**June 30, 2011**

<u>Fiscal Year</u>	<u>June 30, 2010</u>	<u>Additions</u>	<u>Collections And Credits</u>	<u>June 30, 2011</u>
2010-2011	\$ -	\$ 710,572	\$ 707,289	\$ 3,283
2009-2010	761	157	804	114
2008-2009	130	157	169	118
2007-2008	222	157	162	217
2006-2007	326	-	-	326
2005-2006	140	-	-	140

Note: The Village of Flat Rock assessed property taxes for the first time in the year 2005-2006.

<u>\$ 1,579</u>	<u>\$ 711,043</u>	<u>\$ 708,424</u>	<u>4,198</u>
Less: Allowance for Uncollectible Accounts			<u>-</u>
Ad Valorem Taxes Receivable - Net			<u>\$ 4,198</u>

**Reconciliation with Revenues:**

Ad Valorem Taxes Collected	
Current and Prior Years	\$ 708,424
Penalties and Interest	1,578
Adjustments	<u>(43)</u>
	<u>\$ 709,959</u>

**Village of Flat Rock, North Carolina  
Analysis of Current Tax Levy  
For the Year Ended June 30, 2011**

	<u>Village-wide</u>			<u>Total Levy</u>	
	<u>Total Property Valuation</u>	<u>Tax Rate</u>	<u>Levy Amount</u>	<u>Property Excluding Registered Vehicles</u>	<u>Registered Motor Vehicles</u>
Original Levy					
Taxed at Current Rate	\$ 935,814,667	\$ 0.075	\$ 701,861	\$ 672,042	\$ 29,819
Discoveries	12,169,333		9,127	9,127	-
Releases	<u>(554,667)</u>		<u>(416)</u>	<u>(416)</u>	<u>-</u>
Adjusted Levy	<u>\$ 947,429,333</u>				
Net Levy			710,572	680,753	29,819
Less: Uncollected Taxes at June 30, 2011			<u>3,283</u>	<u>2,543</u>	<u>740</u>
Current Year's Taxes Collected			<u>\$ 707,289</u>	<u>\$ 678,210</u>	<u>\$ 29,079</u>
Percent Collected			<u>99.54%</u>	<u>99.63%</u>	<u>97.52%</u>