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TOWN OF ROLESVILLE

Financial Statements

June 30, 2013

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TOWN OF ROLESVILLE
ROLESVILLE, NORTH CAROLINA

FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013

Mayor

Frank Eagles

Mayor Pro-Tem

Ronnie Currin

Commissioners

Betty Whitaker
Frank Hodge
Shannon Whitley
Gil Hartis

Town Manager

Bryan Hicks

Town Clerk

Leslie Rudd

Attorney

Beth Trahos

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

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Town of Rolesville, North Carolina, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from 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 opinion.

Opinion

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of the Town of Rolesville, North Carolina, as of June 30, 2013, and the respective changes in financial position and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matters***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Other Postemployment Benefits' Schedules of Funding Progress and Schedules of Employer Contributions, on pages 3 through 9 and 34 through 36, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

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

The individual fund statements, budgetary schedules, and other schedules are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us. In our opinion, based on our audit, the procedures performed as described above, the 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 October 18, 2013, on our consideration of the Town of Rolesville's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements, and other matters. The purpose of the 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 Rolesville's internal control over financial reporting and compliance.

Koonce, Wooten & Haywood, LLP

Raleigh, North Carolina
October 18, 2013

TOWN OF ROLESVILLE
Management’s Discussion and Analysis
June 30, 2013

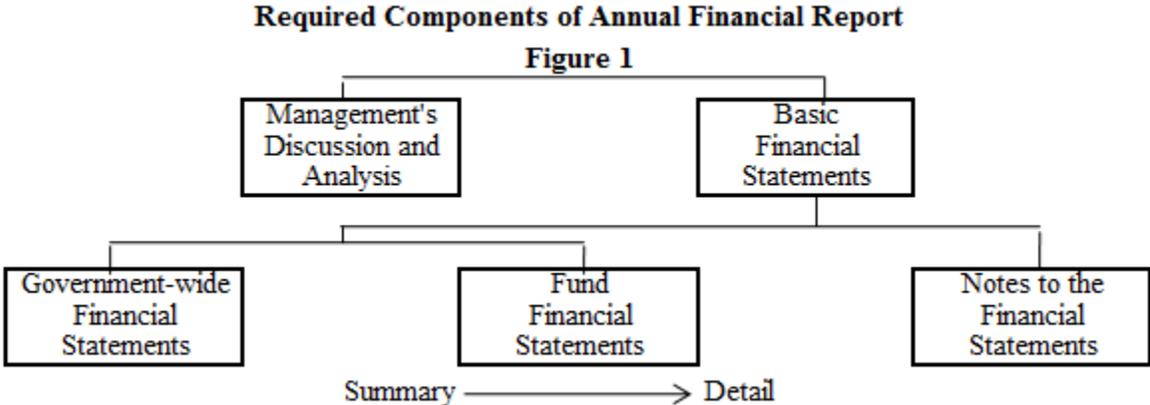
As management of the Town of Rolesville, we offer readers of the Town of Rolesville’s financial statements this narrative overview and analysis of the financial activities of the Town of Rolesville for the fiscal year ended June 30, 2013. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town’s financial statements, which follow this narrative.

Financial Highlights

- The assets of the Town of Rolesville exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$21,881,135 (net position).
- The government’s total net position increased by \$5,429,212, primarily due to an increase in contributed infrastructure, ad valorem taxes collected, and sales tax distributions received.
- As of the close of the current fiscal year, the Town of Rolesville’s governmental funds reported combined ending fund balances of \$3,466,836, an increase of \$977,927 in comparison with the prior year. Approximately 44% of this total amount, or \$1,527,089, is available for spending at the government’s discretion (unassigned fund balance).
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$1,527,089 or 39% of total general fund expenditures for the fiscal year. This is an increase of \$398,155 in unassigned fund balance.
- There was a noticeable increase in permits for the entire year. There were a total of 89 issued during 2011-2012 and a total of 258 during 2012-2013. This 189% increase is caused by the rebound in the housing market. The Raleigh metropolitan statistical area stability has a positive effect on Rolesville.
- Growth in tax base is expected to remain stable but stable with modest growth of less than 5 percent annually expected over the next several years.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Town of Rolesville’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 Rolesville.



TOWN OF ROLESVILLE
Management's Discussion and Analysis
June 30, 2013

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 6) 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 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 Town's individual funds. Budgetary information required by the General Statutes also can be found in this part of the statements.

Government-Wide Financial Statements

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

The two government-wide statements report the Town's net position and how they have changed. Net position is the difference between the Town's total assets and deferred outflows of resources 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 contain the governmental activities. The governmental activities include the Town's basic services such as public safety, parks and recreation, and general administration. Property taxes and state and federal grant funds finance most of these activities.

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

Fund Financial Statements

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

Governmental Funds - Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. All 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.

TOWN OF ROLESVILLE
Management's Discussion and Analysis
June 30, 2013

The Town of Rolesville 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.

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 16 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's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 34 of this report.

Government-Wide Financial Analysis

The following summaries are provided for comparative analysis:

***Net Position
Figure 2***

	<u>Governmental Activities</u>	
	<u>2013</u>	<u>2012</u>
Current and other assets	\$ 3,738,472	\$ 2,665,535
Capital assets	19,287,928	14,875,972
Total assets	<u>23,026,400</u>	<u>17,541,507</u>
Long-term liabilities outstanding	881,122	879,615
Other liabilities	264,143	209,969
Total liabilities	<u>1,145,265</u>	<u>1,089,584</u>
Net position:		
Invested in capital assets, net of related debt	19,083,928	14,588,708
Restricted	678,571	660,157
Unrestricted	<u>2,118,636</u>	<u>1,203,058</u>
Total net position	<u>\$ 21,881,135</u>	<u>\$ 16,451,923</u>

TOWN OF ROLESVILLE
Management's Discussion and Analysis
June 30, 2013

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 Rolesville exceeded liabilities and deferred inflows by \$21,881,135 as of June 30, 2013. The Town's net position increased by \$5,429,212 for the fiscal year ended June 30, 2013. However, the largest portion (87.2%) reflects the Town's net investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt still outstanding that was issued to acquire those items. The Town of Rolesville uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Rolesville's net investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Town of Rolesville's net position represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$2,089,493 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 97.9%.
- Increased sales tax revenues, ad valorem taxes, building permits, and environmental protection fees due to economic growth in the Town.

Changes in Net Position
Figure 3

	Governmental Activities	
	2013	2012
Revenues:		
Program revenues:		
Charges for services	\$ 1,316,034	\$ 799,870
Operating grants and contributions	85,236	15,321
Capital grants and contributions	5,100,851	104,845
General revenues:		
Property taxes	2,282,539	2,197,664
Other taxes	989,908	898,713
Other	52,655	101,364
Total revenues	<u>9,827,223</u>	<u>4,117,777</u>
Expenses:		
General government	2,077,167	1,649,051
Public safety	1,199,900	1,053,632
Transportation	204,332	229,254
Environmental protection	299,546	277,293
Cultural and recreation	586,048	767,357
Interest on long-term debt	31,018	29,328
Total expenses	<u>4,398,011</u>	<u>4,005,915</u>
Increase in net position	<u>5,429,212</u>	<u>111,862</u>
Net position, July 1	<u>16,451,923</u>	<u>16,340,061</u>
Net position, June 30	<u>\$ 21,881,135</u>	<u>\$ 16,451,923</u>

TOWN OF ROLESVILLE
Management's Discussion and Analysis
June 30, 2013

Governmental activities - Governmental activities increased the Town's net position by \$5,429,212, which represents the entire growth in the net position of the Town of Rolesville. Key elements of this increase are as follows:

- Ad valorem tax revenues increased \$154,000 over prior year.
- Infrastructure contributions from developers totaled \$5,037,000.

Financial Analysis of the Town's Funds

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

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

The general fund is the chief operating fund of the Town. At the end of the current fiscal year, the Town's fund balance available in the General Fund was \$2,359,659, while total fund balance reached \$2,599,338. The Town currently has an available fund balance of 61.3% of general fund expenditures, while total fund balance represents 67.5% of the same amount.

At June 30, 2013, the governmental funds of the Town of Rolesville reported a combined fund balance of \$3,466,836 with a net increase in fund balance of \$977,927.

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

Expenditures were under budget due to planned reductions.

Capital Asset and Debt Administration

Capital assets - The Town of Rolesville's investment in capital assets for its governmental activities as of June 30, 2013, totals \$19,287,928 (net of accumulated depreciation). These assets include buildings, roads, land, machinery and equipment, park facilities, and vehicles.

TOWN OF ROLESVILLE
Management's Discussion and Analysis
June 30, 2013

Capital Assets (net of depreciation)
Figure 4

	Governmental Activities	
	2013	2012
Land	\$ 4,744,903	\$ 3,591,660
Buildings and system	55,327	57,337
Improvements other than buildings	1,749,547	1,840,929
Equipment		1,636
Vehicles and motorized equipment	104,313	75,334
Infrastructure	12,633,838	9,309,076
	<u>\$ 19,287,928</u>	<u>\$ 14,875,972</u>

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

Long-Term Debt - As of June 30, 2013, the Town of Rolesville had total bonded debt outstanding of \$431,500, which is debt backed by the full faith and credit of the Town.

The Town of Rolesville's total debt decreased by \$29,758 (3.0%) during the past fiscal year due to principal payments on existing debt.

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to eight percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for the Town of Rolesville is \$40,299,852.

Additional information regarding the Town of Rolesville's long-term debt can be found in Note III.5.B beginning on page 29 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:

- There was a large increase in building permits as the housing market continues to recover. The Greater Raleigh area is truly a less volatile region than other parts of the country. Rolesville is blessed because of that and Management sees that continuing for at least a couple more years as the available lots are improved.
- Tax base growth in both commercial and residential sectors is expected to continue to be stable. Town staff continues to receive inquiries but only a few development proposals have been submitted.
- The Town of Rolesville remains the fastest growing town in the state between 2000-2013. We are primed and ready for future growth. Revenues continue to come in from people visiting the community and the increased growth.
- There continues to be interest in the future of Rolesville by the development community with the recent completion of the Rolesville Middle School and High School and the slated 2014 opening of the Rolesville bypass.
- Rolesville is also in a good position with the water and sewer capacity availability which is attractive to developers.

TOWN OF ROLESVILLE
Management's Discussion and Analysis
June 30, 2013

Budget Highlights for the Fiscal Year Ending June 30, 2014

Governmental Activities: Revenues from development fees, building permits, etc. were conservatively budgeted for again in this 2013-2014 fiscal year. By early fall 2013, the goal of 100 permits has already been reached. This is a positive move to help pay the debt down associated with the water and wastewater utility system merger.

The economy looks to continue to improve in our area, home costs remained stable, and development continues to rise in comparison to previous years. Management is concerned that the economic downturn may return if the banking industry does not allow developers to start future phases of approved developments once the existing lot inventory is improved.

Development impact fees have been the primary vehicle used to finance major capital projects. However, if the lack of legitimate grant moneys continue to decline, capital improvements may continue to be delayed future years like seen in FY 2012-2013.

It is important that the Town continues to prioritize its capital projects for future budget cycles via a Capital Improvement Plan (CIP). Due to the economic conditions versus the wide range of needs, the town will need to continue to corral spending in all departments.

Requests for Information

This report is designed to provide an overview of the Town's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Town Clerk/Finance Officer, Town of Rolesville, 502 Southtown Circle, Rolesville, North Carolina 27571.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

TOWN OF ROLESVILLE
Statement of Net Position
June 30, 2013

	<u>Governmental Activities</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 2,983,914
Taxes receivable	75,986
Accounts receivable	38,449
Due from other governments	201,230
Restricted cash and cash equivalents	438,893
Total current assets	<u>3,738,472</u>
Capital assets (Note 1):	
Land, non-depreciable improvements	4,744,903
Other capital assets, net of depreciation	14,543,025
Total capital assets	<u>19,287,928</u>
Total assets	<u>23,026,400</u>
LIABILITIES	
Current liabilities:	
Accounts and taxes payable	195,650
Bond interest accrued	2,493
Current portion of long term liabilities	66,000
Total current liabilities	<u>264,143</u>
Long-term liabilities:	
Due in more than one year	881,122
Total liabilities	<u>1,145,265</u>
NET POSITION	
Invested in capital assets, net of related debt	19,083,928
Restricted for:	
Stabilization by State Statute	239,679
Streets--Powell Bill	386,329
Debt service--USDA	40,353
Drug Forfeiture Funds	12,210
Unrestricted	<u>2,118,636</u>
Total net position	<u>\$ 21,881,135</u>

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

TOWN OF ROLESVILLE
Statement of Activities
For the Year Ended June 30, 2013

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants	Capital Grants/ Contributions	Primary Governmental
Primary government:					
Governmental Activities:					
General government	\$ 2,077,167	\$ 336,461	\$ 85,236	\$	\$ (1,655,470)
Public safety	1,199,900				(1,199,900)
Transportation	204,332			5,100,851	4,896,519
Environmental protection	299,546	404,380			104,834
Cultural and recreation	586,048	575,193			(10,855)
Interest on long-term debt	31,018				(31,018)
Total governmental activities (See Note 1)	\$ 4,398,011	\$ 1,316,034	\$ 85,236	\$ 5,100,851	2,104,110
General revenues:					
Taxes:					
Property taxes, levied for general purpose					2,282,539
Other taxes					989,908
Unrestricted investment earnings					1,363
Miscellaneous					51,292
Total general revenues					3,325,102
Change in net position					5,429,212
Net position--beginning					16,451,923
Net position--ending					\$ 21,881,135

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

FUND FINANCIAL STATEMENTS

TOWN OF ROLESVILLE
Balance Sheet
Governmental Funds
June 30, 2013

	Major Funds		Total Governmental Funds
	General	Parks and Recreation	
ASSETS			
Cash and cash equivalents	\$ 2,116,416	\$ 867,498	\$ 2,983,914
Receivables			
Taxes	75,986		75,986
Accounts	38,449		38,449
Due from other governments	201,230		201,230
Restricted cash and cash equivalents	438,893		438,893
Total assets	<u>\$ 2,870,974</u>	<u>\$ 867,498</u>	<u>\$ 3,738,472</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and taxes payable	\$ 195,650	\$ _____	\$ 195,650
Total liabilities	<u>195,650</u>	<u>_____</u>	<u>195,650</u>
DEFERRED INFLOWS OF RESOURCES			
Property taxes receivable	75,986		75,986
Total deferred inflows of resources	<u>75,986</u>	<u>_____</u>	<u>75,986</u>
Fund balances:			
Restricted			
Stabilization by State Statute	239,679		239,679
Streets--Powell Bill	386,329		386,329
Debt service--USDA	40,353		40,353
Drug Forfeiture Funds	12,210		12,210
Committed			
Streets--Thoroughfare fees	393,678		393,678
Parks		867,498	867,498
Unassigned			
Total fund balances	<u>2,599,338</u>	<u>867,498</u>	<u>3,466,836</u>
Total liabilities, deferred inflows of resources and fund balances			
	<u>\$ 2,870,974</u>	<u>\$ 867,498</u>	

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

Capital assets used in government activities are not financial resources and therefore are not reported in the funds	19,287,928
Liabilities for earned revenues considered deferred inflows of resources in fund statements	75,986
Some liabilities, including bond payable and accrued interest, are not due and payable in the current period and therefore are not reported in the funds	<u>(949,615)</u>

Net position of governmental activities \$ 21,881,135

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

TOWN OF ROLESVILLE
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2013

	Major Funds		Total Governmental Funds
	General	Parks and Recreation	
REVENUES			
Ad valorem taxes	\$ 2,272,967	\$	\$ 2,272,967
Other taxes	714,262		714,262
Unrestricted intergovernmental	275,646		275,646
Restricted intergovernmental	195,688		195,688
Permits and fees	63,485	420,000	483,485
Sales and services	559,573		559,573
Investment earnings	1,305	58	1,363
Miscellaneous	324,268		324,268
Total revenues	4,407,194	420,058	4,827,252
EXPENDITURES			
Current:			
General government	1,526,826		1,526,826
Public safety	1,196,748		1,196,748
Recreation	493,590		493,590
Transportation	204,332		204,332
Environmental protection	299,546		299,546
Debt service:			
Principal	97,265		97,265
Interest and other charges	31,018		31,018
Total expenditures	3,849,325		3,849,325
Excess of revenues over expenditures	557,869	420,058	977,927
Other Financing Sources:			
Loan proceeds			
Net change in fund balance	557,869	420,058	977,927
Fund balances--beginning	2,041,469	447,440	2,488,909
Fund balances--ending	\$ 2,599,338	\$ 867,498	\$ 3,466,836

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

TOWN OF ROLESVILLE
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balance of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2013

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

Net changes in fund balances - total governmental funds	\$	977,927
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.</p>		
		4,411,956
<p>Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the fund.</p>		
Change in deferred revenues for tax revenues		9,571
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.</p>		
		97,265
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.</p>		
Compensated absences	\$ (3,244)	
Other postemployment benefits	<u>(64,263)</u>	<u>(67,507)</u>
Total changes in net position of governmental activities	\$	<u><u>5,429,212</u></u>

TOWN OF ROLESVILLE
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the Year Ended June 30, 2013

	General Fund			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
REVENUES:				
Ad valorem taxes	\$ 2,143,000	\$ 2,238,320	\$ 2,272,967	\$ 34,647
Other taxes	588,500	641,700	714,262	72,562
Unrestricted intergovernmental	234,385	259,385	275,646	16,261
Restricted intergovernmental	271,000	271,000	195,688	(75,312)
Permits and fees	22,000	39,000	63,485	24,485
Sales and services	420,400	427,400	559,573	132,173
Investment earnings	1,320	1,320	1,305	(15)
Miscellaneous	59,500	96,450	324,268	227,818
Total revenues	3,740,105	3,974,575	4,407,194	432,619
EXPENDITURES:				
Current:				
General government	1,366,450	1,497,922	1,526,826	(28,904)
Public safety	1,177,192	1,268,323	1,196,748	71,575
Recreation	636,725	631,627	493,590	138,037
Transportation	249,000	249,782	204,332	45,450
Environmental protection	290,000	297,308	299,546	(2,238)
Debt service:				
Principal retirement	84,453	88,453	97,265	(8,812)
Interest and other charges	1,285	6,160	31,018	(24,858)
Total expenditures	3,805,105	4,039,575	3,849,325	190,250
Revenues over (under) expenditures	(65,000)	(65,000)	557,869	622,869
Appropriated fund balance	65,000	65,000		(65,000)
Net change in fund balance	\$ 0	\$ 0	557,869	\$ 557,869
Fund balances--beginning			2,041,469	
Fund balances--ending			\$ 2,599,338	

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

TOWN OF ROLESVILLE
Notes to Financial Statements
June 30, 2013

I. **SUMMARY OF SIGNIFICANT POLICIES**

1. **Summary of Significant Accounting Policies**

The accounting policies of the Town of Rolesville 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 Rolesville is a municipal corporation which is governed by an elected mayor and a five-member council.

B. Basis of Presentation:

Government-wide Statements: The Statement of Net Position and the Statement of Activities display information about the primary government. 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 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. 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 governmental fund are presented. The emphasis of fund financial statements is on major governmental funds.

The Town reports the following major governmental funds:

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

Parks and Recreation Capital Projects Fund - This fund is used for the acquisition or construction of major park or recreational facilities.

C. Measurement Focus and Basis of Accounting:

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

TOWN OF ROLESVILLE
Notes to Financial Statements
June 30, 2013

1. Summary of Significant Accounting Policies (Continued)

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. Nonexchange 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.

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

The Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable 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, Wake 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 Town of Rolesville. 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 Town's vehicle taxes for vehicles registered in Wake County from March 2012 through February 2013, apply to the fiscal year ended June 30, 2013. Uncollected taxes which were billed during this period are shown as a receivable in these financial statements and are offset by deferred inflows of resources.

Sales taxes and certain intergovernmental revenues, such as the utilities franchise tax, collected and held by the State at year-end on behalf of the Town, are recognized as revenue. 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 a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net position available to finance the program. It is the Town's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

TOWN OF ROLESVILLE
Notes to Financial Statements
June 30, 2013

1. Summary of Significant Accounting Policies (Continued)

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 Capital Projects Fund – Parks and Recreation. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the project level for the multi-year funds. The Budget Officer is authorized to transfer appropriations within a fund up to \$5,000; however, any revisions that alter the total expenditures of any fund or exceed \$5,000 must be approved by the governing board. During the year, several amendments to the original budget were necessary.

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources 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 principal office is located in North Carolina. Also, the Town may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts, and certificates of deposit.

State law [G.S. 159-30(c)] authorizes the Town to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances; and the North Carolina Capital Management Trust (NCCMT). The securities of the NCCMT Cash Portfolio, a SEC-registered (2a-7) money market fund, are valued at fair value, which is the NCCMT's share price.

(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 Cash

The Town has established a restricted cash account to cover one year of debt service on its Waste Water Bond as required by the United States Department of Agriculture Rural Development. The Town also records Powell Bill funds and Drug Forfeiture funds as restricted cash.

(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 1st, the beginning of the fiscal year. The taxes are due on September 1st (lien date); however, interest does not accrue until the following January 6th. These taxes are based on the assessed values as of January 1, 2011.

(5) Allowance for Doubtful Account

All receivables that historically experience uncollectible accounts are shown net of an allowance for doubtful accounts. This amount is estimated by analyzing all overdue account balances at the end of the fiscal year.

TOWN OF ROLESVILLE
Notes to Financial Statements
June 30, 2013

1. Summary of Significant Accounting Policies (Continued)

(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 as follows: land, \$5,000; buildings, improvements, substations, lines, and other plant and distribution systems, \$5,000; infrastructure, \$20,000; furniture and equipment, \$5,000; and vehicles, \$3,000. 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. General infrastructure assets acquired prior to July 1, 2003, consist of the road network that was acquired or that received substantial improvements subsequent to July 1, 1980, and are reported at estimated historical cost using deflated replacement cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives is 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</u>
Infrastructure	30
Buildings	25
Improvements	25
Vehicles	5
Furniture and 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 no items that meet this criterion. 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 no items that meet the criterion for this category.

(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 Position. 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.

TOWN OF ROLESVILLE
Notes to Financial Statements
June 30, 2013

1. Summary of Significant Accounting Policies (Continued)

(9) Compensated Absences

The vacation policy of 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 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 time of retirement may be used in the determination of length of service for retirement benefit purposes. Since the Town has no 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 financial statements are classified as net investment in capital assets; restricted; and unrestricted. Restricted net position 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.

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.
- Restricted for Debt Service - USDA – portion of fund balance restricted by the United States Department of Agriculture Rural Development to cover one year of debt service on the Town's Waste Water Bond.
- Restricted for Drug Forfeiture Funds – portion of fund balance that is restricted by revenue source for allowable law enforcement purposes.

TOWN OF ROLESVILLE
Notes to Financial Statements
June 30, 2013

1. Summary of Significant Accounting Policies (Concluded)

Committed Fund Balance - portion of fund balance that can only be used for specific purposes imposed by majority vote by quorum of the Town's governing body (highest level of decision-making authority). Any changes or removal of specific purpose requires majority action by the governing body.

- Committed for Streets – Thoroughfare fees – portion of fund balance assigned by the Board for street construction and maintenance. Thoroughfare fees are collected at the time a developer permits a lot. This amount represents the balance of the total unexpended Thoroughfare fees.
- Committed for Parks – portion of fund balance that the Town has committed to park projects.

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

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 Rolesville 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-city funds, city 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.

TOWN OF ROLESVILLE
Notes to Financial Statements
June 30, 2013

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Excess of Expenditures over Appropriations:

For the fiscal year ended June 30, 2013, the expenditures for the Town's debt service exceeded the authorized appropriations by \$33,670. This is due to the payment for the waste water bond of \$38,503 which was not budgeted for. The Town actually acts as a pass-through for the City of Raleigh which reimburses the Town for the payment. Neither the receipt of funds from Raleigh nor the payment of the bond was budgeted for. The net effect is zero and the Town did exceed the appropriation on a cash basis.

TOWN OF ROLESVILLE
Notes to Financial Statements
June 30, 2013

III. Detail Notes on All Funds

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 under-collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Town has no formal policy regarding custodial credit risk for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The Town complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2013, the Town's deposits had a carrying amount of \$593,185 and a bank balance of \$1,179,356. \$290,353 was covered by federal depository insurance, the remaining \$889,003 was collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. At June 30, 2013, the Town's petty cash fund totaled \$300.

2. Investments

At June 30, 2013, the Town had \$2,829,322 invested with the North Carolina Capital Management Trust's Cash Portfolio, which carried a credit rating of AAAM by Standard and Poor's. The Town has no policy regarding credit risk.

Interest Rate Risk. The Town has no formal investment policy regarding interest rate risk.

Credit Rate Risk. The Town has no formal policy regarding credit risk, but has internal management procedures that limits the Town's investments to the provisions of G.S. 159-30 and restricts the purchase of securities to the highest possible ratings whenever particular types of securities are rated. The Town's investment in the NC Capital Management Trust Cash Portfolio carried a credit rating of AAAM by Standard & Poor's as of June 30, 2013.

TOWN OF ROLESVILLE
Notes to Financial Statements
June 30, 2013

3. Receivables

Accounts receivable consists of amounts due for garbage collection.

An allowance for doubtful accounts with a balance of \$25,000 has been established for the garbage collection receivable. The allowance is based on management's estimate of the uncollectible portion.

4. Capital Assets

Primary Government

Capital asset activity for the Primary Government for the year ended June 30, 2013, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 3,591,660	\$ 1,153,243	\$	\$ 4,744,903
Capital assets being depreciated:				
Buildings	94,842			94,842
Other improvements	2,284,589			2,284,589
Equipment	107,652			107,652
Vehicles and motorized equipment	371,411	67,263	35,683	402,991
Infrastructure	12,904,711	3,884,399		16,789,110
Total capital assets being depreciated	<u>15,763,205</u>	<u>3,951,662</u>		<u>19,679,184</u>
Less accumulated depreciation for:				
Buildings	37,505	2,010		39,515
Other improvements	443,659	91,383		535,042
Equipment	106,016	1,636		107,652
Vehicles and motorized equipment	296,078	38,283	35,683	298,678
Infrastructure	3,595,635	559,637		4,155,272
Total accumulated depreciation	<u>4,478,893</u>	<u>\$ 692,949</u>	<u>\$ 35,683</u>	<u>5,136,159</u>
Total capital assets being depreciated, net	<u>11,284,312</u>			<u>14,543,025</u>
Governmental activity capital assets, net	<u>\$ 14,875,972</u>			<u>\$ 19,287,928</u>

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

General government	\$ 562,208
Public safety	38,283
Cultural and recreational	92,458
Total depreciation expense	<u>\$ 692,949</u>

TOWN OF ROLESVILLE
Notes to Financial Statements
June 30, 2013

LIABILITIES

1. Pension Plan Obligations

A. Local Governmental Employees' Retirement System:

Plan Description--The Town of Rolesville 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, or by calling (919) 981-5454.

Funding Policy--Plan members are required to contribute 6% of their annual covered salary. The Town is required to contribute at an actuarially determined rate. For the Town, the current rate for employees not engaged in law enforcement and for law enforcement officers is 6.74% and 6.77%, of annual covered payroll. The contribution requirements of members and of the Town of Rolesville are established and may be amended by the North Carolina General Assembly. The Town's contributions to LGERS for the years ended June 30, 2013, 2012, and 2011 were \$61,567, \$54,093, and \$53,763, respectively. The contributions made by the Town equaled the required contributions for the year.

B. Law Enforcement Officer's Special Separation Allowance:

Plan Description--The Town of Rolesville 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 June 30, 2013, the Separation Allowance's membership consisted of:

	Law Enforcement Officers
Retirees receiving benefits	1
Active plan members	10
	11

A separate report was not issued for the plan.

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.

TOWN OF ROLESVILLE
Notes to Financial Statements
June 30, 2013

1. Pension Plan Obligations (Continued)

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

Contributions:

The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the benefit payments on a pay-as-you-go basis through appropriations made in the General Fund operating budget. For the current year, the Town paid benefits of \$12,627. There were no contributions made to the plan by employees.

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

Funding Policy--Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2013, were \$36,801, which consisted of \$27,091 from the Town and \$9,710 from the law enforcement officers. The Town also contributes 5% of the salary of employees not engaged in law enforcement to this plan.

2. Other Post-employment Benefit

Plan Description—Under the terms of a Town resolution, the Town provides post-employment health care benefits to retirees of the Town (the HCB Plan). The Town pays 50% of premiums for employees retiring at age 55 or later, who have at least ten years of service. The Town pays 100% of premiums for employees retiring at age 55 or later, who have at least fifteen years of service. At age 65, the Town subsidizes a Medicare supplement. The Town obtains health care coverage through private insurers.

Membership of the HCB Plan consisted of the following at December 31, 2012, the date of the latest actuarial valuation:

	General Employees	Law Enforcement Officers
Retirees and dependents receiving benefits	0	1
Active plan members	8	10
	8	11

TOWN OF ROLESVILLE
Notes to Financial Statements
June 30, 2013

2. Other Post-employment Benefit (Continued)

Funding Policy--The Town has chosen to fund the healthcare benefits on a pay-as-you go basis.

The current ARC rate is 8.69% of annual covered payroll. For the current year, the Town contributed \$15,207 or 1.7% of annual covered payroll. The Town obtains healthcare coverage through private insurers. There were no contributions made by employees. The Town's obligation to contribute to HCB Plan is established and may be amended by the Town's Commissioners.

Summary of Significant Accounting Policies:

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

Annual OPEB Cost and Net OPEB Obligation:

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

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

Annual required contribution	\$ 79,171
Interest on net OPEB obligation	6,699
Adjustment to annual required contribution	<u>(6,400)</u>
Annual OPEB cost (expense)	79,470
Contributions made	<u>(15,207)</u>
Increase in net OPEB obligation	64,263
Net OPEB obligation, beginning of year	<u>167,487</u>
 Net OPEB obligation, end of year	 <u><u>\$ 231,750</u></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, 2013 were as follows:

<u>Year Ended June 30</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2013	\$ 79,470	19.14%	\$ 231,750
2012	67,127	14.24%	167,487
2011	62,584	12.33%	109,918

TOWN OF ROLESVILLE
Notes to Financial Statements
June 30, 2013

2. Other Post-employment Benefit (Continued)

Funded Status and Funding Progress:

As of December 31, 2012, 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 \$651,321. The covered payroll (annual payroll of active employees covered by the plan) was \$787,720, and the ratio of the UAAL to the covered payroll was 82.7 percent. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions:

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

In the December 31, 2012 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.00 percent investment rate of return (net of administrative expenses), which is the expected long-term investment 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 8.50 to 5.00 percent annually. The investment rate included a 3.00 percent inflation assumption. The actuarial value of assets, if any, was determined using techniques that spread the effects of short-term volatility in the market value of investments over a 5-year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2012, was 30 years.

3. Deferred Outflows and Inflows of Resources

The balance in deferred inflows of resources at year-end is composed of the following element:

Taxes receivable (General Fund)	\$ <u>75,986</u>
---------------------------------	------------------

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 is insured by the Interlocal Risk Financing Fund. Through this pool the Town has general liability and auto liability coverage of \$2 million per occurrence, property coverage up to \$1,922,857, worker's compensation coverage of up to statutory limits, and employee health coverage up to \$1 million lifetime limit.

The Town carries commercial insurance 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.

TOWN OF ROLESVILLE
Notes to Financial Statements
June 30, 2013

4. Risk Management (Continued)

The Town does not carry flood insurance due to the low risk of flooding in its geographical area.

In accordance with G.S. 159-29, the Town's employees that have access to \$100 or more at any given time of the Town's funds are performance bonded through a commercial surety bond. The finance officer and tax collector are each bonded for \$50,000 and \$10,000, respectively. The remaining employees that have access to funds are covered under an employee dishonesty declaration for \$10,000 per occurrence.

5. Long-Term Obligations

A. Lease Commitments:

The Town leases the copier, the Town Hall, and police department office space under operating leases. For the year ended June 30, 2013, total lease payments were \$203,856. The following is a schedule of future minimum lease payments required under these leases:

June 30	
2014	\$ 105,186
2015	7,236
2016	7,236
	\$ 119,658

B. Notes Payable:

In March 2012, the Town entered into a loan agreement with BB&T Bank to finance the purchase of a lot to be used for a future town hall. The note payable to BB&T has a balance at June 30, 2013 of \$204,000 due in annual fixed principal payments of \$51,000 and interest on remaining principal balance of 1.91% from March 2013 through March 2017.

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

Years Ending June 30	Governmental Activities	
	Principal	Interest
2014	\$ 51,000	\$ 3,896
2015	51,000	2,922
2016	51,000	1,948
2017	51,000	974
	\$ 204,000	\$ 9,740

TOWN OF ROLESVILLE
Notes to Financial Statements
June 30, 2013

5. Long-Term Obligations (Continued)

C. General Obligation Indebtedness:

The Town's general obligation bonds issued to finance the construction of facilities utilized in the operations of the sewer system and which are being retired by its resources, are reported in the Statement of Net Position. All general obligation bonds are collateralized by the full faith, credit, and taxing power of the Town. Principal and interest requirements are appropriated when due. In agreement with the Transfer Agreement of the Water and Sewer operations between the City of Raleigh and the Town of Rolesville, this debt is paid by the City of Raleigh.

Bonds payable at June 30, 2013, are comprised of the following individual issue:

\$600,000 1994 Sewer bonds due in annual installments
through June 1, 2034; interest at 5.5% \$ 431,500

At June 30, 2013, the Town had no bonds authorized but unissued and a legal debt margin of \$40,299,852.

Annual debt source requirements to maturity for general obligation bonds including interest are as follows:

Years Ending June 30	Principal	Interest	Total
2014	\$ 15,000	\$ 23,732	\$ 38,732
2015	15,500	22,907	38,407
2016	16,500	22,054	38,554
2017	17,500	21,147	38,647
2018	18,500	20,185	38,685
2019-2023	108,500	84,536	193,036
2024-2028	120,000	52,800	172,800
2029-2033	120,000	19,800	139,800
Total	<u>\$ 431,500</u>	<u>\$ 267,161</u>	<u>\$ 698,661</u>

D. Changes in Long-Term Liabilities:

	Balance			Balance June 30, 2013	Current Portion of Balance
	July 1, 2012	Increases	Decreases		
Governmental activities:					
Notes payable	\$ 287,265	\$	\$ 83,265	\$ 204,000	\$ 51,000
General obligation bonds	445,500		14,000	431,500	15,000
Compensated absences	# 76,628	3,244		79,872	
Other postemployment benefits	# 167,487	64,263		231,750	
Governmental activity long-term liabilities	<u>\$ 976,880</u>	<u>\$ 67,507</u>	<u>\$ 97,265</u>	<u>\$ 947,122</u>	<u>\$ 66,000</u>

TOWN OF ROLESVILLE
Notes to Financial Statements
June 30, 2013

5. Long-Term Obligations (Continued)

E. Fund Balance:

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

Total fund balance--General Fund	\$ 2,599,338
Less: Stabilization by State Statute	239,679
Streets--Powell Bill	386,329
Debt Covenant - USDA	40,353
Streets--thoroughfare fees	393,678
Drug Forfeiture Funds	<u>12,210</u>
Remaining fund balance	<u>\$ 1,527,089</u>

TOWN OF ROLESVILLE
Notes to Financial Statements
June 30, 2013

IV. SUMMARY DISCLOSURE OF SIGNIFICANT ACTIVITIES

1. Federal and State Assisted Programs

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

TOWN OF ROLESVILLE
Notes to Financial Statements
June 30, 2013

V. SUBSEQUENT EVENTS

Management of the Town of Rolesville evaluated subsequent events through October 18, 2013, which is the date the financial statements were available to be issued. They discovered no subsequent events that should be disclosed.

REQUIRED SUPPLEMENTAL FINANCIAL DATA

TOWN OF ROLESVILLE
 Other Post-Employment Benefits
 Schedule of Funding Progress
 June 30, 2013

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued 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)
12/31/2009	\$ 0	\$ 432,605	\$ 432,605	0.0%	\$ 858,276	50.4%
12/31/2012	\$ 0	\$ 651,321	\$ 651,321	0.0%	\$ 787,720	82.7%

TOWN OF ROLESVILLE
Other Post-Employment Benefits
Schedule of Employer Contributions
June 30, 2013

<u>Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2013	\$ 79,470	19.14%
2012	\$ 66,523	14.24%
2011	\$ 62,282	12.33%
2010	\$ 55,050	13.7%

TOWN OF ROLESVILLE
Other Post-Employment Benefits
Notes to the Required Schedules
June 30, 2013

The information presented in the required supplementary schedules was as part actuarial valuation follows:

Valuation date	12/31/2012
Actuarial cost method	Projected unit credit
Amortization method	Level percent open
Remaining amortization period	30 Years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	4.00%
Medical cost trend	8.50% - 5%
Includes inflation at	3.00%

INDIVIDUAL FUND SCHEDULES

TOWN OF ROLESVILLE
General Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2013

	Budget	Actual	Variance Positive (Negative)
REVENUES:			
Ad valorem taxes:			
Current and prior years	\$ 2,238,320	\$ 2,272,967	\$ 34,647
Other taxes and licenses:			
Wake County sales tax		679,561	
Privilege licenses		34,701	
Total	<u>641,700</u>	<u>714,262</u>	<u>72,562</u>
Unrestricted intergovernmental:			
Franchise tax		245,669	
Beer and wine		16,053	
Tax refunds--sales and gasoline		9,173	
Court fees		1,990	
Other Intergovernmental		2,761	
Total	<u>259,385</u>	<u>275,646</u>	<u>16,261</u>
Restricted intergovernmental:			
Powell Bill allocation		110,452	
Grants		85,236	
Total	<u>271,000</u>	<u>195,688</u>	<u>(75,312)</u>
Permits and fees:			
Building permits	<u>39,000</u>	<u>63,485</u>	<u>24,485</u>
Sales and services:			
Recreation fees and concessions		155,193	
Environmental protection fees		404,380	
Total	<u>427,400</u>	<u>559,573</u>	<u>132,173</u>
Investment earnings	<u>1,320</u>	<u>1,305</u>	<u>(15)</u>
Miscellaneous:			
Miscellaneous		36,385	
Thoroughfare fees		148,950	
Utility fees		55,366	
Zoning and subdivision fees		68,660	
Cablevision fees			
Wake County ABC revenue		14,907	
Total	<u>96,450</u>	<u>324,268</u>	<u>227,818</u>
Total revenues	<u>3,974,575</u>	<u>4,407,194</u>	<u>432,619</u>

(Continued)

TOWN OF ROLESVILLE
General Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2013

	Budget	Actual	Variance Positive (Negative)
EXPENDITURES:			
General government:			
Governing body:			
Salaries	\$ 56,165	\$ 55,987	\$ 178
Administration:			
Salaries and employee benefits		324,619	
Operating expenses		1,146,220	
Capital outlay			
Total	<u>1,441,757</u>	<u>1,470,839</u>	<u>(29,082)</u>
Total general government	<u>1,497,922</u>	<u>1,526,826</u>	<u>(28,904)</u>
Public safety:			
Salaries and employee benefits		876,638	
Operating expenses		194,141	
Capital outlay		125,969	
Total	<u>1,268,323</u>	<u>1,196,748</u>	<u>71,575</u>
Recreation:			
Salaries and employee benefits		148,247	
Operating expenses		296,412	
Capital outlay		48,931	
Total	<u>631,627</u>	<u>493,590</u>	<u>138,037</u>
Transportation:			
Operating expenses		127,308	
Capital outlay		77,024	
Total	<u>249,782</u>	<u>204,332</u>	<u>45,450</u>
Environmental protection:			
Contracted services	<u>297,308</u>	<u>299,546</u>	<u>(2,238)</u>
Debt service:			
Principal retirement		97,265	
Interest and other charges		31,018	
Total	<u>94,613</u>	<u>128,283</u>	<u>(33,670)</u>
Total expenditures	<u>4,039,575</u>	<u>3,849,325</u>	<u>190,250</u>

(Continued)

TOWN OF ROLESVILLE
 General Fund
 Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
 For the Year Ended June 30, 2013

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues over (under) expenditures	\$ <u>(65,000)</u>	\$ <u>557,869</u>	\$ <u>622,869</u>
Other Financing Sources			
Loan proceeds	<u> </u>	<u> </u>	<u> </u>
Appropriated fund balance	<u>65,000</u>	<u> </u>	<u>(65,000)</u>
Net change in fund balance	<u>\$ 0</u>	557,869	<u>\$ 557,869</u>
Fund balances--beginning		<u>2,041,469</u>	
Fund balances--ending		<u>\$ 2,599,338</u>	

TOWN OF ROLESVILLE
 Capital Projects Fund – Parks and Recreation
 Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
 From Inception and for the Year Ended June 30, 2013

	Project Authorization	Actual		Total to Date	Variance Positive (Negative)
		Prior Years	Current Year		
REVENUES:					
NC Parks and Recreation					
Trust Fund	\$ 231,369	\$ 231,369	\$	\$ 231,369	\$
Impact fees	2,046,529	1,539,110	420,000	1,959,110	(87,419)
Park development donations	8,100	26,924		26,924	18,824
Grants	1,005,000	264,550		264,550	(740,450)
Investment earnings	10,010	11,656	58	11,714	1,704
Miscellaneous	7,445	8,050		8,050	605
Total revenues	<u>3,308,453</u>	<u>2,081,659</u>	<u>420,058</u>	<u>2,501,717</u>	<u>(806,736)</u>
EXPENDITURES:					
Park acquisition	443,641	443,642		443,642	(1)
Loan closing cost	5,282	5,282		5,282	
Fundraisers	2,000	113		113	1,887
Design	224,821	149,056		149,056	75,765
Land preparation	14,395	4,395		4,395	10,000
Construction	3,201,545	1,104,947		1,104,947	2,096,598
Loan payment and interest	705,619	638,534		638,534	67,085
Total expenditures	<u>4,597,303</u>	<u>2,345,969</u>		<u>2,345,969</u>	<u>2,251,334</u>
Revenues over (under) expenditures	<u>(1,288,850)</u>	<u>(264,310)</u>	<u>420,058</u>	<u>155,748</u>	<u>1,444,598</u>
Other financing sources (uses) :					
Loan proceeds	950,000	750,000		750,000	(200,000)
Operating transfers--in	458,500	52,492		52,492	(406,008)
Transfers to other funds	(119,650)				119,650
Total other financing sources (uses)	<u>1,288,850</u>	<u>802,492</u>		<u>802,492</u>	<u>(486,358)</u>
Revenues and other sources over (under) expenditures	<u>\$ 0</u>	<u>\$ 538,182</u>	<u>420,058</u>	<u>\$ 958,240</u>	<u>\$ 958,240</u>
Fund balance--beginning			<u>447,440</u>		
Fund balance--ending			<u>\$ 867,498</u>		

OTHER SCHEDULES

TOWN OF ROLESVILLE
General Fund
Schedule of Ad Valorem Taxes Receivable
June 30, 2013

Fiscal Year	Uncollected Balance June 30, 2012	Additions	Collections and Credits	Uncollected Balance June 30, 2013
2012-2013	\$	\$ 2,280,967	\$ 2,233,989	\$ 46,978
2011-2012	39,732		35,324	4,408
2010-2011	3,970		430	3,540
2009-2010	2,875		407	2,468
2008-2009	3,350		656	2,694
2007-2008	3,474		292	3,182
2006-2007	2,043		124	1,919
2005-2006	930			930
2004-2005	1,458			1,458
2004 & Prior	8,583		174	8,409
	<u>\$ 66,415</u>	<u>\$ 2,280,967</u>	<u>\$ 2,271,396</u>	<u>\$ 75,986</u>

Reconciliation with revenues:

Ad valorem taxes--General Fund	\$ 2,272,967
Reconciling items:	
Taxes written off	<u>(1,571)</u>
Total collections and credits	<u>\$ 2,271,396</u>

TOWN OF ROLESVILLE
 Analysis of Current Tax Levy
 Town-Wide Levy
 For the Year Ended June 30, 2013

	City - Wide			Total Levy	
	Property Valuation	Rate	Total Levy	Property excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Property taxed at current	\$ 497,974,861	.420	\$ 2,220,450	\$ 2,077,339	\$ 143,111
Registered motor vehicles taxed taxed at prior year's rate	13,717,045	.422	60,517		60,517
Total	\$ 511,691,906		2,280,967	2,077,339	203,628
Uncollected taxes at June 30, 2013			(46,978)	(8,268)	(38,710)
Current year's taxes collected			\$ 2,233,989	\$ 2,069,071	\$ 164,918
Current levy collection percentage			97.94%	99.60%	80.99%

COMPLIANCE SECTION



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the Town of Rolesville, North Carolina, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town of Rolesville's basic financial statements, and have issued our report thereon dated October 18, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Town of Rolesville, North Carolina's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Town of Rolesville, North Carolina's internal control. Accordingly, we do not express an opinion on the effectiveness of Town of Rolesville, North Carolina's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or 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. We consider the deficiency described in the accompanying schedule of findings and responses 2013-1 to be a material weakness.

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.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town'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*.

Town of Rolesville, North Carolina's Response to Findings

The Town's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Town's responses and, accordingly, we express no opinion on them.

Purpose of This Report

This report is intended solely for the information and use of the management, members of the Board of Commissioners, others within the organization, and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Koonce, Wooten & Haywood, LLP

Raleigh, North Carolina
October 18, 2013

TOWN OF ROLESVILLE
 Schedule of Findings and Responses
 For the Year Ended June 30, 2013

FINANCIAL STATEMENT FINDINGS

Material Weakness

2013-1 Financial Statement Preparation

- Criteria:* The American Institute of Certified Public Accountants identified situations where the auditor is involved in drafting an entity's financial statements as an area of concern. According to the AICPA, "It is a strong indication of a material weakness in internal control if the entity has ineffective controls over the preparation of their financial statements such that controls are absent or not effective in preventing or detecting material misstatements in the preparation of financial statements, including the related footnotes." The auditor of the financial statements cannot be part of the system of internal controls.
- Condition:* Due to cost and training considerations, management requested us to prepare the financial statements, including the related notes, for the year ended June 30, 2012. The Board has not reviewed our workpapers used in the preparation of the financial statements and Board personnel do not have the technical expertise to prepare the financial statements and footnotes. Therefore, the Board does not have effective oversight of the financial statement preparation process, to the degree dictated by audit standards.
- Effect:* Potential exists for a financial statement misstatement to occur and not be detected.
- Cause:* Lack of financial expertise to prepare their own financial statements including footnotes.
- Recommendation:* The Town should obtain the financial expertise necessary to oversee the preparation of the financial statement.
- Management Response:* The Town does not currently have the funds available to hire personnel with the applicable skills to oversee this process.