

**Town of Midway  
Midway, North Carolina  
For the year ended  
June 30, 2016**

**Independent Auditors' Reports  
Basic Financial Statements  
And  
Information Accompanying the  
Basic Financial Statements**

## **Governance**

### **Town Council Members**

**John Byrum, Mayor**

**Mike D. McAlpine, Mayor Pro Tempore**

**Jackie Edwards**

**Robin S. Moon**

**Todd M. Nifong**

**Keith Leonard**

### **Administrative Staff**

**Gary Looper, Interim Town Manager**

**Kassie Watts, Town Planner**



# EDDIE CARRICK, CPA, PC

Certified Public Accountant

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## INDEPENDENT AUDITOR'S REPORT

To Honorable Mayor  
and Town Council  
Town of Midway, North Carolina

We have audited the accompanying financial statements of the governmental activities and each major fund of the Town of Midway, North Carolina, as of and for the year ended June 30, 2016, 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. Those standards require that we plan and perform the audit 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 presentation of the financial statements.

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

### **Opinions**

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Town of Midway, North Carolina, as of June 30, 2016, and the respective changes in financial position thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 10 and the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Asset (Liability) and Contributions, on pages 31 through 32, 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.

### *Other Information*

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

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

Eddie Carrick CPA, PC

A handwritten signature in black ink, appearing to read "Eddie Carrick CPA". The signature is written in a cursive, flowing style.

Lexington, North Carolina  
September 30, 2016

# Town of Midway

Gateway to Davidson County



## Management's Discussion and Analysis

As management of the Town of Midway, we offer readers of the Town of Midway's financial statements this narrative overview and analysis of the financial activities of the Town of Midway for the fiscal year ended June 30, 2016. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

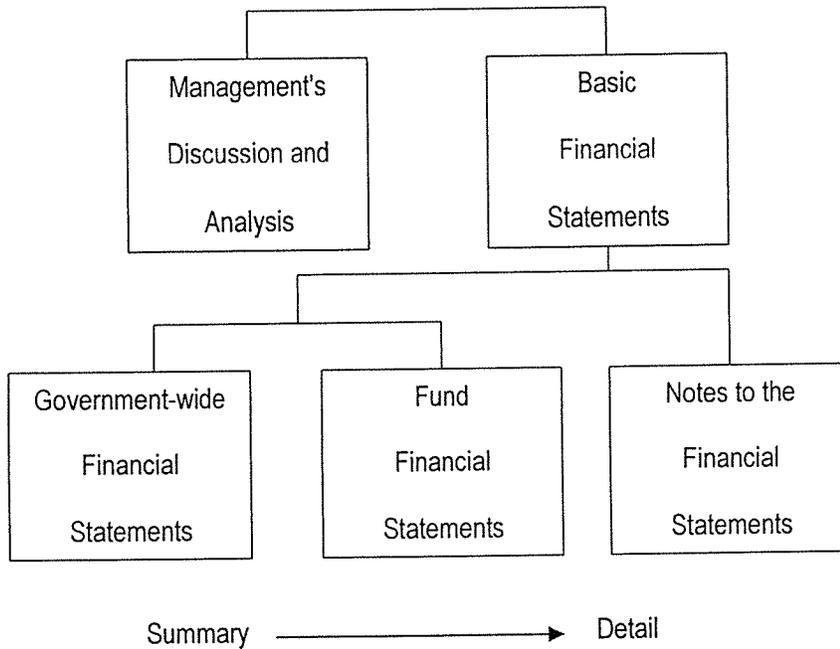
### Financial Highlights

- The assets and deferred outflows of resources of the Town of Midway exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$5,379,740 (*net position*).
- The government's total net position increased by \$353,715, due to increases in the governmental type activities net position.
- As of the close of the current fiscal year, the Town of Midway's governmental fund reported an ending fund balance of \$3,375,024 with a net decrease of \$442,331 in fund balance. Approximately 5 percent of this total amount, or \$160,870, is restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$3,214,155, or 184 percent of the total General Fund expenditures for the fiscal year.
- The debt for the Town decreased by \$244,502 due to principal debt payments of \$242,700, a decrease in accrued vacation of \$8,983, and an increase in net pension liability of \$7,181.

### Overview of the Financial Statements

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

Required Components of Annual Financial Report  
Figure 1



### Basic Financial Statements

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

The next statements (Exhibits 3 through 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 it has changed. Net position is the difference between the Town's total assets and deferred outflows of resources and total liabilities and deferred inflows of resources. Measuring net position is one way to gauge the Town's financial condition.

The government-wide statements are summarized into one category: governmental activities. The governmental activities include most of the Town's basic services such as general administration. Property and sales taxes 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 Midway, 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 Midway can be summarized into one category: governmental funds.

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

The Town of Midway 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.

Management Discussion and Analysis  
Town of Midway

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. To account for the difference between the budgetary basis of accounting and the modified accrual basis, a reconciliation showing the differences in the reported activities is shown at the end of the budgetary statement.

**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 17 of this report.

**Interdependence with Other Entities** – The Town depends on financial resources flowing from, or associated with, both the Federal Government and the State of North Carolina. Because of this dependency, the Town is subject to changes in specific flows of intergovernmental revenues based on modifications to Federal and State laws and Federal and State appropriations. It is also subject to changes in investment earnings and asset values associated with U.S. Treasury Securities because of actions by foreign government and other holders of publicly held U.S. Treasury Securities.

**Government-Wide Financial Analysis**

Town of Midway's Net position  
Figure 2

	<i>Governmental</i>		<i>Total</i>	
	2016	2015	2016	2015
Current and other assets	\$ 3,397,374	\$ 3,859,073	\$ 3,397,374	\$ 3,859,073
Capital assets	2,174,216	1,636,258	2,174,216	1,636,258
Deferred outflows of resources	19,759	-	19,759	-
Total assets	<u>5,591,349</u>	<u>5,495,331</u>	<u>5,591,349</u>	<u>5,495,331</u>
Long-term liabilities	190,800	442,483	190,800	442,483
Other liabilities	17,077	26,823	17,077	26,823
Deferred inflows of resources	3,732	-	3,732	-
Total liabilities	<u>211,609</u>	<u>469,306</u>	<u>211,609</u>	<u>469,306</u>
Net assets				
Invested in capital assets net of related debt	1,983,416	1,202,758	1,983,416	1,202,758
Restricted for:				
Stabilization by State Statute	160,870	154,251	160,870	154,251
Unrestricted	3,235,454	3,669,016	3,235,454	3,669,016
	<u>\$ 5,379,740</u>	<u>\$ 5,026,026</u>	<u>\$ 5,379,740</u>	<u>\$ 5,026,026</u>

Management Discussion and Analysis  
Town of Midway

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets and deferred outflows of resources of the Town of Midway exceeded liabilities and deferred inflows of resources by \$5,379,740 as of June 30, 2016. The Town's net position increased by \$353,715 for the fiscal year ended June 30, 2016. However, a large portion, 37% reflects the Town's net investment in capital assets (land, buildings, equipment and infrastructure). The Town uses the capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's net investment in capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Town's net position, \$160,870, represents resources that are subject to external restrictions on how they may be used. The balance of \$3,235,454 is unrestricted.

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

- Conservative spending approach by management

**Town of Midway's Changes in Net position**  
**Figure 3**

	Governmental		Total	
	2016	2015	2016	2015
<b>Revenues:</b>				
<b>Program revenues:</b>				
Charges for services	\$ -	\$ -	\$ -	\$ -
Operating grants and contributions	3,005	2,344	3,005	2,344
Capital grants and contributions	-	-	-	-
<b>General revenues:</b>				
Property taxes	181,783	179,284	181,783	179,284
Other taxes	1,090,147	1,052,614	1,090,147	1,052,614
Other	29,804	17,380	29,804	17,380
<b>Total revenues</b>	<b>1,304,739</b>	<b>1,251,622</b>	<b>1,304,739</b>	<b>1,251,622</b>
<b>Expenses:</b>				
General government	388,820	359,083	388,820	359,083
Public safety	74,499	74,499	74,499	74,499
Public works	438,511	334,601	438,511	334,601
Planning and zoning	33,640	41,017	33,640	41,017
Debt service	5,554	22,182	5,554	22,182
Cultural, recreational and economic development	10,000	-	10,000	-
<b>Total expenses</b>	<b>951,024</b>	<b>831,382</b>	<b>951,024</b>	<b>831,382</b>
Increase in net position	353,715	420,239	353,715	420,239
Net position July 1	5,026,026	4,605,787	5,026,026	4,605,787
<b>Net position June 30</b>	<b>\$ 5,379,740</b>	<b>\$ 5,026,026</b>	<b>\$ 5,379,740</b>	<b>\$ 5,026,024</b>

Management Discussion and Analysis  
Town of Midway

**Governmental Activities.** Governmental activities increased the Town's net position by \$353,715, thereby accounting for 100% of the total increase in the net position of the Town of Midway. Though a recession affected the Town, the increase in net position was the result of a concerted effort to control costs and manage expenditures to minimize the impact of the recession on its citizens. Town management reduced non-essential programs to a minimum and implemented cost saving strategies across Town departments. Certain nonrecurring expenses were either postponed or renegotiated in an attempt to maintain a healthy net position. Management believes healthy investment in the Town will result in additional revenues. Increased efforts to maximize tax collections also contributed to the favorable net position. Though many of the Town's residents were hit hard by the recession, tax revenue did not appreciably decline in the current year. Town management acknowledges that 2016 was a successful year and plans on improving upon these approaches as a long-term strategy to realize continued fiscal health.

Key elements of this increase are as follows:

- Conservative spending approach by management
- Completion of Town Hall renovations

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

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

**Governmental Funds.** The focus of the Town of Midway'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 Midway's financing requirements. Specifically, unreserved 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 Town of Midway. At the end of the current fiscal year, the Town of Midway's fund balance available in the General Fund was \$3,214,155, while total fund balance reached \$3,375,024. The Town currently has an available fund balance of 184% of general fund expenditures, while total fund balance represents 193% of the same amount.

At June 30, 2016, the governmental funds of Town of Midway reported a combined fund balance of \$3,375,024 with a net decrease in fund balance of \$442,331. Included in this change in fund balance is a decrease in fund balance in the General Fund.

**General Fund Budgetary Highlights:** During the fiscal year, the Town revised the budget. 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.

Although expenditures were held in check overall to comply with its budgetary requirements, the Town did amend the budget in the General Fund in General Government, Public Works, and Debt Service to account for the renovation of the Town Hall and extra debt principal payments.

Management Discussion and Analysis  
Town of Midway

**Capital Asset and Debt Administration**

**Capital Assets.** The Town of Midway's investment in capital assets for its governmental activities as of June 30, 2016, totaled \$2,174,216 (net of accumulated depreciation). These assets include renovation of Town Hall, land, other equipment, and sewer construction.

Major capital asset transactions during the year included the following additions:

Renovation of Town Hall	\$ 155,824
Parking and site preparation	359,693
Equipment	91,630

**Town of Midway's Capital Assets (net of depreciation) (Figure 4)**

	<i>Governmental Activities</i>		<i>Total</i>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
	Land	\$ 513,133	\$ 513,133	\$ 513,133
CIP -Town Hall	-	180,781	-	180,781
Buildings	673,088		673,088	-
Equipment	91,622	12,146	91,622	12,146
Sewer construction	896,373	930,199	896,373	930,199
<b>Total</b>	<b><u>\$ 2,174,216</u></b>	<b><u>\$ 1,636,258</u></b>	<b><u>\$ 2,174,216</u></b>	<b><u>\$ 1,636,259</u></b>

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

**Town of Midway's Outstanding Debt**

**General Obligation Bonds, Installment Purchases and Capital Lease  
Figure 5**

	<u>Activities</u>		<u>Total</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Installment purchase	<u>\$ 190,800</u>	<u>\$ 433,500</u>	<u>\$ 190,800</u>	<u>\$ 433,500</u>

The Town of Midway's total debt decreased by a net of \$242,700 during the past fiscal year.

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for Town of Midway is \$29,122,880. The Town has no authorized but un-issued bonds at June 30, 2016.

Management Discussion and Analysis  
Town of Midway

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

The Town of Midway is mostly residential with no significant business activity; therefore, economic factors do not have a critical impact on the growth and prosperity of the Town.

**Budget Highlights for the Fiscal Year Ending June 30, 2017**

**Governmental Activities:** The Town's General Fund budget for fiscal year ending June 30, 2017 is hereby presented and proposed for the amount of \$1,586,100, a decrease of 35.3% from the FY 2016 Budget. This budget represents very conservative measures to provide quality services that the Town of Midway expects without undue tax burden on the residents. These goals represent a balance between residential quality of life and economic opportunity for the business community by continuing the same level of public services as last year.

The tax rate remains at five (5) cents per \$100 valuation. This budget includes an additional principal-only payment on the sewer debt service as we anticipate an early payoff of the original loan amount of \$933,500 by January, 2018. Additionally, funding is provided for a nominal extension of sewer service, and further study of road improvements. We also budgeted to develop three to six acres of passive recreational improvements of open space located adjacent to the new Town Hall and continue study for future active recreational opportunities on the remainder of the 38-acre site.

The council of the Town of Midway is dedicated to continued evaluation of future goals that enhance the community's quality of life and economic opportunity.

The Town has chosen not to appropriate fund balance in the fiscal year 2017 budget. Management believes that increased revenues and continued restrictions on spending will maintain the Town's financial position. As the Town considers future revenue sources, it has determined that a \$0.01 increase in the property tax rate will result in additional revenues of approximately \$35,668 at current values and collection rate. Though management believes current growth will generate enough revenue to support Town operations, a careful analysis of property tax revenue will be considered in future years' budgets.

**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 Town Manager, Town of Midway at 426 Gum Tree Road, Winston-Salem, NC 27107.

**Town of Midway, North Carolina**  
**Statement of Net Position**  
**June 30, 2016**

	<b>Governmental Activities</b>	<b>Total</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 3,224,051	\$ 3,224,051
Taxes receivable (net)	12,454	12,454
Sale tax receivable	1,771	1,771
Due from other governments	159,098	159,098
Total current assets	3,397,374	3,397,374
Non-current assets:		
Capital assets:		
Land	513,133	513,133
Construction in progress	-	-
Capital assets, net of depreciation	1,661,083	1,661,083
Total capital assets	2,174,216	2,174,216
Total assets	5,571,590	5,571,590
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Pension deferrals	19,759	19,759
Total deferred outflows of resources	19,759	19,759
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	9,896	9,896
Current maturities on long-term debt	100,000	100,000
Long-term liabilities:		
Net pension liability	7,181	7,181
Due in more than one year	90,800	90,800
Accrued vacation	-	-
Total liabilities	207,877	207,877
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Pension deferrals	3,732	3,732
Total deferred inflows of resources	3,732	3,732
<b>NET POSITION</b>		
Net investment in capital assets	1,983,416	1,983,416
Restricted:		
Stabilization by State Statute	160,870	160,870
Unrestricted	3,235,454	3,235,454
Total net position	\$ 5,379,740	\$ 5,379,740

**Town of Midway, North Carolina**  
**Statement of Activities**  
**June 30, 2016**

Function / Program	Program Revenues				Net (Expense) Revenue and Changes in Net Position	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		Governmental Activities
<b>Governmental activities:</b>						
General government	\$ 388,820	\$ -	\$ -	\$ -	\$ (388,820)	\$ (388,820)
Public safety	74,499	-	-	-	(74,499)	(74,499)
Public works	438,511	-	3,005	-	(435,506)	(435,506)
Planning and zoning	33,640	-	-	-	(33,640)	(33,640)
Cultural, recreational and economic development	10,000	-	-	-	(10,000)	(10,000)
Debt service	5,554	-	-	-	(5,554)	(5,554)
<b>Total governmental activities</b>	<b>951,024</b>	<b>-</b>	<b>3,005</b>	<b>-</b>	<b>(948,019)</b>	<b>(948,019)</b>
General revenues:						
Taxes:						
Property taxes levied for general purposes					181,783	181,783
Other taxes					1,090,147	1,090,147
Permits and fees					1,265	1,265
Other income					25,202	25,202
Investment earnings					3,337	3,337
<b>Total general government revenues</b>					<b>1,301,734</b>	<b>1,301,734</b>
Change in net position					353,715	353,715
Net position, beginning					5,026,026	5,026,026
Net position, ending					\$ 5,379,740	\$ 5,379,740

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

**Town of Midway, North Carolina**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2016**

	<b>Major Funds</b>	<b>Total</b>
	<b>General Fund</b>	<b>Governmental Funds</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 3,224,051	\$ 3,224,051
Receivables, net:		
Taxes	12,454	12,454
Sales tax	1,771	1,771
Due from other governments	159,098	159,098
<b>Total assets</b>	<b>\$ 3,397,374</b>	<b>\$ 3,397,374</b>
<b>LIABILITIES AND FUND BALANCES</b>		
Liabilities:		
Accounts payable and accrued liabilities	\$ 9,896	\$ 9,896
<b>Total liabilities</b>	<b>9,896</b>	<b>9,896</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Property taxes receivable	12,454	12,454
<b>Total deferred inflows of resources</b>	<b>12,454</b>	<b>12,454</b>
Fund balances:		
Restricted for:		
Stabilization by State Statute	160,870	160,870
Assigned for:		
Subsequent years expenditures	-	-
Unassigned	3,214,155	3,214,155
<b>Total fund balances</b>	<b>3,375,024</b>	<b>3,375,024</b>
<b>Total liabilities and fund balances</b>	<b>\$ 3,397,374</b>	<b>\$ 3,397,374</b>

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	2,174,216
Deferred outflows of resources related to pensions are not reported in the funds	19,759
Long term liabilities not recognized on modified basis:	
Accrued vacation	-
Long-term debt	(190,800)
Net pension liability	(7,181)
Liabilities for earned revenues considered deferred inflows of resources in fund statements.	12,454
Deferred inflows of resources related to pensions are not reported in the funds	(3,732)
<b>Net position of governmental activities</b>	<b>\$ 5,379,740</b>

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

**Town of Midway, North Carolina**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Governmental Funds**  
**For the Year Ended June 30, 2016**

	<b>Major Funds</b>	<b>Total Governmental Funds</b>
	<b>General Fund</b>	
<b>Revenues</b>		
Ad valorem taxes	\$ 184,225	\$ 184,225
Restricted intergovernmental	3,005	3,005
Unrestricted intergovernmental	1,090,147	1,090,147
Investment earnings	3,337	3,337
Permits and fees	1,265	1,265
Miscellaneous	25,202	25,202
Total revenues	1,307,181	1,307,181
 <b>Expenditures</b>		
General government	963,670	963,670
Public safety	74,499	74,499
Public works	419,449	419,449
Planning and zoning	33,640	33,640
Cultural, recreational and economic development	10,000	10,000
Debt service	248,254	248,254
Total expenditures	1,749,512	1,749,512
Excess (deficiency of revenues over expenditures)	(442,331)	(442,331)
 <b>OTHER FINANCING SOURCES (USES)</b>		
Transfers from other funds	-	-
Proceeds from long-term debt	-	-
Total other financing sources (uses)	-	-
Net change in fund balance	(442,331)	(442,331)
Fund balance, beginning	3,817,355	3,817,355
Fund balance, ending	\$ 3,375,024	\$ 3,375,024

**Town of Midway, North Carolina**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Governmental Funds**  
**For the Year Ended June 30, 2016**

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

Net changes in fund balances - total governmental funds	\$	(442,331)
<p>Governmental funds report capital outlay 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 for the current period.</p>		
Capital outlay	\$ 607,147	
Depreciation	<u>(69,189)</u>	537,958
<p>Revenues in statement of activities that do not provide current financial resources are not reported as revenues in the funds</p>		
Change in unavailable revenue for tax revenues		(2,442)
<p>Change in pension expense</p>		
Changes in net pension assets	-	
Changes in deferred outflows	19,759	
Changes in net pension liability	(7,181)	
Changes in deferred inflows	<u>(3,732)</u>	8,846
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.</p>		
Proceeds from long-term debt	-	
Payments on long-term debt	<u>242,700</u>	242,700
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>		
Changes in accrued vacation		<u>8,984</u>
Total changes in net position of governmental activities	\$	<u><u>353,715</u></u>

**Town of Midway, North Carolina**  
**General Fund**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual**  
**For the Year Ended June 30, 2016**

	General Fund			Variance with Final Budget- Positive (Negative)
	Original	Final	Actual Amounts	
Revenues:				
Ad valorem taxes	\$ 168,000	\$ 168,000	\$ 184,225	\$ 16,225
Restricted intergovernmental	2,000	2,000	3,005	1,005
Unrestricted intergovernmental	950,000	950,000	1,090,147	140,147
Investment earnings	8,000	8,000	3,337	(4,663)
Permits and fees	500	500	1,265	765
Miscellaneous	1,500	1,500	25,202	23,702
Total revenues	<u>1,130,000</u>	<u>1,130,000</u>	<u>1,307,181</u>	<u>177,181</u>
Expenditures:				
General government	723,950	716,817	537,289	179,528
Public safety	74,500	74,500	74,499	1
Public works	817,150	1,129,283	845,830	283,453
Planning and zoning	44,300	48,300	33,640	14,660
Cultural, recreational and economic development	10,000	10,000	10,000	-
Debt service	177,000	427,000	248,254	178,746
Total expenditures	<u>1,846,900</u>	<u>2,405,900</u>	<u>1,749,512</u>	<u>656,388</u>
Revenues over (under) expenditures	<u>(716,900)</u>	<u>(1,275,900)</u>	<u>(442,331)</u>	<u>833,569</u>
Other financing sources (uses):				
Fund balance appropriated	716,900	1,275,900	-	1,275,900
Transfers to other funds	-	-	-	-
Total other financing sources (uses)	<u>716,900</u>	<u>1,275,900</u>	<u>-</u>	<u>1,275,900</u>
Net Change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>(442,331)</u>	<u>\$ (442,331)</u>
Fund balance, beginning			<u>3,817,355</u>	
Fund balance, ending			<u>\$ 3,375,024</u>	

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

**Town of Midway, North Carolina**

**Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2016**

***I. Summary of Significant Accounting Policies***

The accounting policies of the Town of Midway conform to generally accepted accounting principles applicable to governments. The following is a summary of the more significant accounting policies.

***A. Reporting Entity***

The Town of Midway is a municipal corporation that is governed by an elected mayor and a five-member council. As required by generally accepted accounting principles, these financial statements present the Town, a single entity with no other legally separate entities for which the Town is financially accountable.

***B. Basis of Presentation***

*Government-wide Statements:* The statement of net position and the statement of activities display the information about the primary government. These statements include the 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. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees and charges paid by the recipients of goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational and 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 fund. A separate statement for each fund category – governmental – is presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as non-major funds. The Town of Midway, North Carolina, only has one fund, the general fund, and is presented as a major fund.

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 and various other taxes and licenses. The primary expenditures are for general government administration, public safety, garbage collection, planning and zoning and economic development.

## ***Notes to the Financial Statements (continued)***

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

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

*Government-wide Financial Statements:* The government-wide is reported using the economic resources measurement focus. The government-wide financial statement is reported using the accrual basis of accounting. Revenues are recorded when earned and expenses recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the Town gives (or receives) value without directly receiving (or giving) equal value in exchange, includes 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 financial sources.

The Town considers all revenues available if they are collected within 90 days after year-end except for property taxes. Ad valorem taxes receivable are not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable for property other than motor vehicles are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of September 1, 2013, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, the State of North Carolina is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts. Property taxes are due when vehicles are registered. The billed taxes are applicable to the fiscal year in which they are received. Uncollected taxes that were billed in periods prior to September 1, 2013 and for limited registration plates are shown as a receivable in these financial statements and are offset by deferred inflows of resources.

Sales taxes and certain intergovernmental revenues, such as the utilities franchise tax, collected and held by the State at year-end on behalf of the Town are recognized as revenue. Sales taxes are considered a shared revenue for the Town of Midway because the tax is levied by Davidson County and then remitted to and distributed by the State. Intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. Grant revenues which are unearned at year-end are recorded as unearned revenues.

## ***Notes to the Financial Statements (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, Property and Building Fund, Capital Fund and Reserve Fund. All annual appropriations lapse at the fiscal-year end. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the object level for the multi-year funds. Amendments are required for any revisions that alter total expenditures of any fund or that change functional appropriations. All amendments must be approved by the governing board. During the year, several amendments to the original budget were necessary, the effects of which were not material. 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, 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).

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

The Town pools money 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. 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 and other motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, interest does not accrue until the following January 6. These taxes are based on the assessed values as of January 1, 2015. As allowed by State law, the Town has established a schedule of discounts that apply to taxes which are paid prior to the due date. In the Town's General Fund, Ad Valorem tax revenues are reported net of such discounts.

#### ***4. Allowances for Doubtful Accounts***

All receivables that historically experience uncollectible accounts are shown net of an allowance for doubtful accounts. This amount is estimated by analyzing the percentage of receivables that were written off in prior years.

## Notes to the Financial Statements (continued)

### 5. 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, buildings and improvements, infrastructure, furniture and equipment, and vehicles, \$2,000. Purchases of 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 the 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>Life</u>
Infrastructure	50
Buildings	30
Improvements	25
Vehicles	5
Furniture and equipment	5-7
Computer equipment	3

### 6. 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 item that meets 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 only one item that meets the criterion for this category - property taxes receivable.

### 7. Long-Term Obligations

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

### 8. Compensated Absences

The vacation policy of the Town provides for the accumulation of up to thirty (30) days earned vacation leave. For the Town's government-wide fund, an expense and a liability for compensated absences and the salary-related payments is recorded. Sick leave does not vest but any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since the Town has no obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

**Notes to the Financial Statements (continued)**

**9. Net position/Fund Balance**

Net position

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

Fund Balance

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)].

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

Assigned fund balance – portion of fund balance that the Town of Midway intends to use for specific purposes. This amount is primarily for completion of the renovation on Town Hall and surrounding property.

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 Midway has not adopted a revenue spending or minimum fund balance policy. The board will do so during the current year.

*Notes to the Financial Statements (continued)*

***II. Stewardship, Compliance, and Accountability***

**A. Significant Violations of Finance-Related Legal and Contractual Provisions:**

1. Noncompliance with North Carolina General Statutes: None

2. Contractual Violations: None

**B. Excess of Expenditures over Appropriations:** None

***III. Detail Notes on All Funds***

***A. Assets:***

***1. Deposits***

All the deposits of the Town are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the Town's agents in these 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 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 policy regarding custodial credit for deposits.

At June 30, 2016, the Town's deposits had a carrying amount of \$3,224,051 and a bank balance of \$3,233,639. Of the bank balance, \$500,000 was covered by federal depository insurance and \$2,733,639 was covered by collateral held under the pooling method.

***2. Investments***

The Town held no investments at June 30, 2016.

***3. Prepaid Expenses***

There were no prepaid amounts at June 30, 2016.

**Notes to the Financial Statements (continued)**

**4. Capital Assets**

Capital assets activity for the Town for the year ended June 30, 2016:

	Beginning Balances	Increases	Decreases	Ending Balances
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Governmental activities:</b>				
<b>Capital assets not being depreciated:</b>				
Land	\$ 513,133	\$ -	\$ -	\$ 513,133
Construction in progress Town Hall	180,781	-	180,781	-
Total assets not being depreciated	<u>693,914</u>	<u>-</u>	<u>180,781</u>	<u>513,133</u>
<b>Capital assets being depreciated:</b>				
Buildings	-	696,298	-	696,298
Equipment	28,001	91,630	-	119,631
Infrastructure	1,014,762	-	-	1,014,762
Total capital assets being depreciated	<u>1,042,763</u>	<u>787,928</u>	<u>-</u>	<u>1,830,691</u>
<b>Less, accumulated depreciation for:</b>				
Buildings	-	23,210	-	23,210
Equipment	15,855	12,154	-	28,009
Infrastructure	84,563	33,825	-	118,388
Total accumulated depreciation	<u>100,418</u>	<u>69,189</u>	<u>-</u>	<u>169,607</u>
Depreciable capital assets, net	<u>942,345</u>			<u>1,661,084</u>
<b>Governmental activity capital assets, net</b>	<u><u>\$ 1,636,258</u></u>			<u><u>\$ 2,174,216</u></u>

Depreciation expense was charged to functions of the Town as follows:

General government	\$69,189
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**B. Liabilities**

**1. Pension Plan and Postemployment Obligations**

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

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

## ***Notes to the Financial Statements (continued)***

### ***a. Local Governmental Employees' Retirement System (continued)***

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

*Benefits Provided.* LGERS provides retirement and survivor benefits. Retirement benefits are determined as 1.85% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. Plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. Plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service (age 55 for firefighters). Survivor benefits are available to eligible beneficiaries of members who die while in active service or within 180 days of their last day of service and who have either completed 20 years of creditable service regardless of age (15 years of creditable service for firefighters and rescue squad members who are killed in the line of duty) or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

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

*Contributions.* Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. Town employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Town's contractually required contribution rate for the year ended June 30, 2016, was 7.41% of compensation for law enforcement officers and 7.07% for general employees and firefighters, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Town were \$7,198 for the year ended June 30, 2016.

*Refunds of Contributions* – Town employees who have terminated service as a contributing member of LGERS, may file an application for a refund of their contributions. By state law, refunds to members with at least five years of service include 4% interest. State law requires a 60 day waiting period after service termination before the refund may be paid. The acceptance of a refund payment cancels the individual's right to employer contributions or any other benefit provided by LGERS.

**Notes to the Financial Statements (continued)**

**a. Local Governmental Employees' Retirement System (continued)**

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

At June 30, 2016, the Town reported a liability of \$7,181 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014. The total pension liability was then rolled forward to the measurement date of June 30, 2015 utilizing update procedures incorporating the actuarial assumptions. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2015, the Town's proportion was 0.0016%, which was an increase of 0.0016% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the Town recognized pension expense of \$(1,648). At June 30, 2016, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 1,688
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	2,044
Changes in proportion and differences between Town contributions and proportionate share of contributions	12,561	-
Town contributions subsequent to the measurement date	7,198	-
Total	\$ 19,759	\$ 3,732

\$19,759 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2017	\$ 963
2018	963
2019	963
2020	5,939
2021	-
Thereafter	-
	\$ 8,829

**Notes to the Financial Statements (continued)**

**a. Local Governmental Employees' Retirement System (continued)**

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

*Actuarial Assumptions.* The total pension liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	4.25 to 8.55 percent, including inflation and productivity factor
Investment rate of return	7.25 percent, net of pension plan investment expense, including inflation

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

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

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

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

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

**Notes to the Financial Statements (continued)**

**a. Local Governmental Employees' Retirement System (continued)**

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

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

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

*Sensitivity of the Town's proportionate share of the net pension asset to changes in the discount rate.* The following presents the Town's proportionate share of the net pension asset calculated using the discount rate of 7.25 percent, as well as what the Town's proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.25 percent) or one percentage point higher (8.25 percent) than the current rate:

	1% Decrease (6.25%)	Discount Rate (7.25%)	1% Increase (8.25%)
Town's proportionate share of the net pension liability (asset)	\$ 50,074	\$ 7,181	\$ (28,955)

*Pension plan fiduciary net position.* Detailed information about the pension plan's fiduciary net position is available in the separately issued Comprehensive Annual Financial Report (CAFR) for the State of North Carolina.

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

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

Source	Amount
Contributions to pension plan in current fiscal year	\$ 7,198
Changes in proportion and differences between employer contributions and proportionate share of contributions	12,561
Total	\$ 19,759

**Notes to the Financial Statements (continued)**

**2. Deferred Outflows and Inflows of Resources (continued)**

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

Differences between expected and actual experience	\$	1,688
Net difference between projected and actual investment earnings on plan investments		2,044
Changes in proportion and differences between employer contributions and proportional share of contributions		-
	<u>\$</u>	<u>3,732</u>

**3. Risk Management**

The Town is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town participates in three self-funded risk financing pools administered by the North Carolina League of Municipalities. Through these pools, the Town obtains general liability coverage of \$1 million per occurrence, public officials and employment practices liability up to \$1 million per occurrence, workers' compensation coverage up to the statutory limits, and employee health coverage up to a \$1 million lifetime limit. The pools are reinsured through commercial companies for single occurrence claims against general liability and auto liability in excess of \$500,000, up to \$500,000 for property, and \$250,000 up to \$5 million 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 of \$1,000,000 for the aggregate losses in a single year. After the property pool has paid out \$3,000,000, then the pool will be liable for a \$10,000 per claim maintenance deductible on future property losses for that year. The remainder of each claim will be borne by the re-insurer.

The finance officer is bonded for \$50,000. All other employees are covered under employee dishonesty blanket coverage of \$10,000 per occurrence.

The Town has limited flood coverage for property located in flood zones B, C or X. Maximum covered limit is \$5 million per occurrence, \$ 5 million annual aggregate with a \$50,000 deductible.

**4. Other**

The Town is currently contracting with Davidson County and Benchmark for planning and zoning, inspections, tax collections and public safety.

The Town has constructed sewer lines which, once the debt is paid off in 2018, will be transferred to another entity for operation of the system.

**5. Other Post Retirement Benefits**

The Town does not currently provide for any post-retirement benefits.

**Notes to the Financial Statements (continued)**

**6. Long-Term Obligations:**

**a. Non-General Obligation Indebtedness**

In January 2011, the Town entered into a \$933,500 installment purchase agreement with Hometrust Bank for construction of sewer lines to be operated by Davidson Water. The Town implemented a capital recovery fee and a tap fee which may be used for debt payments. The loan is secured by the sewer lines and once the loan is repaid the sewer lines will be dedicated to Davidson Water.

Debts payable at June 30, 2016 are comprised of the following individual issues:

**General Fund debt**

Serviced by the General Fund:

Sewer Construction – financed by Hometrust Bank	
\$933,500 original amount, interest at 3.39%	\$ 190,800

At June 30, 2016, the Town had bonds authorized but unissued of \$-0- and a legal debt margin of \$29,122,880.

Annual debt service requirements to maturity for the debt, including interest of \$48,053, are as follows:

Year Ending	Principal	Interest	Total
June 30	June 30	June 30	June 30
2017	100,000	4,232	104,232
2018	90,800	2,298	93,098
	<u>\$190,800</u>	<u>\$ 6,530</u>	<u>\$197,330</u>

**Town of Midway's Changes in Outstanding Debt**

	Balance			Balance	
	June 30, 2015	Increases	Decreases	June 30, 2016	Current Portion of Balance
Governmental activities:					
Installment debt	\$ 433,500	\$ -	\$ 242,700	\$ 190,800	\$ 100,000
Net pension liability	-	7,181	-	7,181	-
Accrued Vacation	8,983	-	8,983	-	-
	<u>\$ 442,483</u>	<u>\$ 7,181</u>	<u>\$ 251,683</u>	<u>\$ 197,981</u>	<u>\$ 100,000</u>

**Notes to the Financial Statements (continued)**

**C. Net Investment in Capital Assets**

	<b>Governmental</b>
Capital Assets	\$ 2,174,216
less: long-term debt	190,800
add: unexpended debt proceeds	-
Net investment in capital assets	<u>\$ 1,983,416</u>

**D. Fund Balance**

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

<b><u>Total fund balance - General Fund</u></b>	<b><u>\$ 3,375,024</u></b>
Less:	
Stabilization by State Statute	160,870
Streets - Powell Bill	-
Appropriated Fund Balance in 2017 budget	-
Remaining Fund Balance	<u>\$ 3,214,155</u>

**IV. Significant Effects of Subsequent Events**

Subsequent events occurring after the statement of financial position date have been evaluated through September 30, 2016, which is the date the financial statements were available to be issued. There were no subsequent events that came to our attention after the audit that would have a significant effect on the Town.

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

**Local Government Employees' Retirement System**

	<b>2016</b>	<b>2015</b>
Midway's proportion of the net pension liability (asset) (%)	0.00160%	0.00000%
Midway's proportion of the net pension liability (asset) (\$)	\$ 7,181	\$ -
Midway's covered-employee payroll	\$ 98,792	\$ 98,604
Midway's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	7.27%	0.00%
Plan fiduciary net position as a percentage of the total pension liability**	98.09%	102.64%

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

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

**Town of Midway, North Carolina**  
**Town of Midway's Contributions**  
**Required Supplementary Information**  
**Last Two Fiscal Years**

**Local Government Employees' Retirement System**

	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 7,198	\$ 9,933
Contributions in relation to the contractually required contribution	7,198	9,933
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Midway's covered-employee payroll	\$ 98,792	\$ 98,604
Contributions as a percentage of covered-employee payroll	7.29%	10.07%

**Town of Midway, North Carolina**

**General Fund**

**Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual**

**For the Year Ended June 30, 2016**

**(With Comparative Actual Amounts for the Year Ended June 30, 2015)**

	<b>Budget</b>	<b>Actual</b>	<b>Variance Positive (Negative)</b>	<b>2015 Actual</b>
<b>Revenues</b>				
Ad valorem taxes:				
Taxes		\$ 184,225		\$ 179,302
Total	\$ 168,000	184,225	\$ 16,225	179,302
Restricted intergovernmental:				
Solid waste tax	2,000	3,005	1,005	2,344
Unrestricted intergovernmental:				
Local option sales taxes		905,274		865,551
Utility franchise tax		184,873		187,063
Total	950,000	1,090,147	140,147	1,052,614
Miscellaneous:				
Capital recovery fee		-		-
Interest earned		3,337		5,926
Permits and fees		1,265		461
Other		25,202		10,993
Total	10,000	29,804	19,804	17,380
Total revenues	1,130,000	1,307,181	177,181	1,251,639
<b>Expenditures:</b>				
General Government:				
Governing board:				
Salaries and benefits		33,528		35,586
	41,100	33,528	7,572	35,586
Administration:				
Salaries and benefits		165,333		127,752
Tax collection fees		-		14,859
Legal and professional		27,144		23,005
Office expense		43,020		37,357
Insurance		6,141		6,207
Utilities and telephone		21,402		12,985
Maintenance		-		36,670
Rent		6,655		4,800
Contracted services		36,401		9,093
Contributions		11,209		10,225
Other expenses		5,689		5,201
Capital outlay - building		155,824		164,155
Capital outlay - equipment		24,942		-
	675,717	503,761	171,956	452,309
Total general government	716,817	537,289	179,528	487,894

**Town of Midway, North Carolina**

**General Fund (Continued)**

**Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual**

**For the Year Ended June 30, 2016**

**(With Comparative Actual Amounts for the Year Ended June 30, 2015)**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>	<u>2015 Actual</u>
<b>Expenditures (continued):</b>				
Public safety	\$ 74,500	\$ 74,499	\$ 1	\$ 74,499
Public works:				
Utilities		24,853		26,714
Solid waste - Contracted services		317,499		284,329
Other expenses		3,500		10,458
Beautification project		42,550		-
Park development		31,047		1,310
Capital outlay - equipment		66,688		-
Capital outlay - parking / site prep		359,693		-
Total public works	1,129,283	845,830	283,453	334,601
Planning and zoning	48,300	33,640	14,660	41,017
Cultural, recreational and economic development	10,000	10,000	-	-
Debt service	427,000	248,254	178,746	147,182
Contingency	-	-	-	-
Total expenditures	2,405,900	1,749,512	656,388	1,085,193
Revenues over (under) expenditures	(1,275,900)	(442,331)	833,569	166,446
Other financing sources (uses):				
Fund balance appropriated	1,275,900	-	(1,275,900)	-
Transfers to other funds	-	-	-	-
Net Change in fund balance	\$ -	(442,331)	\$ (442,331)	166,446
Fund balances, beginning		3,817,355		3,650,909
Fund balances, ending		\$ 3,375,024		\$ 3,817,355

**Town of Midway, North Carolina**  
**Schedule of Changes in Ad Valorem Taxes Receivable**  
**June 30, 2016**

Fiscal Year	Uncollected Balance June 30, 2015	Additions	Collections And Credits	Uncollected Balance June 30, 2016
2015-2016		\$ 182,018	\$ 178,339	\$ 3,679
2014-2015	\$ 4,165	-	2,286	1,879
2013-2014	3,080	-	1,488	1,592
2012-2013	2,272	-	701	1,571
2011-2012	1,979	-	662	1,317
2010-2011	1,026	-	323	703
2009-2010	1,006	-	320	686
2008-2009	607	-	177	430
2007-2008	333	-	23	310
2006-2007	428	-	141	287
	<u>\$ 14,896</u>	<u>\$ 182,018</u>	<u>\$ 184,460</u>	<u>\$ 12,454</u>

Less: allowance for uncollectible accounts:

General Fund -

Ad valorem taxes receivable - net \$ 12,454

Reconcilement with revenues:

Ad valorem taxes - General Fund \$ 184,225

Reconciling items:

Discoveries 235

Total collections and credits \$ 184,460

**Town of Midway, North Carolina**  
**Analysis of Current Tax Levy**  
**Town-Wide Levy**  
**For the Year Ended June 30, 2016**

	Town - Wide			Total Levy	
	Property Valuation	Rate	Total Levy	Property excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Property taxed at current years rate	\$ 363,566,000	0.05	\$ 181,783	\$ 161,104	\$ 20,679
Total	363,566,000		181,783	161,104	20,679
Discoveries:					
Current year taxes	470,000	0.05	235	235	-
Total	470,000		235	235	-
Abatements	-	0.05	-	-	-
Total property valuation	\$ 364,036,000		-	-	-
Net Levy			182,018	161,339	20,679
Uncollected taxes at June 30, 2016			(3,679)	(3,679)	-
Current year's taxes collected			\$ 178,339	\$ 157,660	\$ 20,679
Current levy collection percentage			97.98%	97.72%	100.00%