

The Town of Cary, North Carolina (the "Town") is located in the central part of the State and at June 30, 2015, has an estimated population of 153,868. The Town is governed by an elected mayor and six-member council. The Town's major operations include police and fire protection, sanitation services, recycling services, parks and recreation, transit, water and sewer systems, planning and general administration services.

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Town have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Town's significant accounting policies are described below.

The Town has implemented all applicable GASB pronouncements as required and as applicable in previous years. Included herein is a summary of implementations from the last few years. In fiscal year 2013, two GASB pronouncements required implementation: GASB 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, re-named certain balance sheet items that were previously titled deferred revenues and changed the term Net Assets to Net Position and GASB 65, *Items Previously Reported as Assets and Liabilities*, was early implemented and required a prior period adjustment to write-off the balance of deferred issuance cost for both governmental and business-type activities. In fiscal year 2014 GASB 67, *Financial Reporting for Pension Plans*, became effective. Although it did not require implementation by the Town, it did affect the local government retirement system and directly relates to the Town's implementation of GASB 68, *Accounting and Financial Reporting for Pensions* and GASB 71, *Governmental Accounting Standards Board Pension Transition for Contributions Made Subsequent to the Measurement Date*, in the current fiscal year, which resulted in a net pension asset and deferred inflows and outflows within the entity-wide statements for all activities.

A. REPORTING ENTITY

The Town of Cary is a municipal corporation that is governed by an elected mayor and a six-member council. The Town's basic financial statements include all funds over which the Town has accountability. The Cary Economic Development Corporation is the only component unit for the Town and it has no assets, liabilities or other activity to be recorded. It was created in 2002 as a mechanism for the Town to issue certificates of participation (COP's) and Limited Obligation Bonds (LOB's). It will remain in existence until all related debt is fully paid and can be used for future COP or LOB issuances.

B. ENTITY-WIDE AND FUND FINANCIAL STATEMENTS

The entity-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information for all of the nonfiduciary activities of the Town. Eliminations have been made to minimize the double counting of internal activities. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely, to a significant extent, on customer demand based fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *Program Revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not included among program revenues are reported instead as *general revenues*.

The accounts of the Town are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts comprised of assets, liabilities, fund equity, revenues, and expenditures or expenses, as applicable. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements. Funds are defined as major or non-major in the basic financial statements according to GASB reporting standards, which categorize funds based on relative size and materiality.

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

B. ENTITY-WIDE AND FUND FINANCIAL STATEMENTS *(Continued)*

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

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the entity-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. The Town has several non-major governmental funds; however, they are all reported as major funds in separate columns in the fund financial statements. There are no non-major business-type funds.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

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

The entity-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Non-exchange transactions, in which the Town gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants and donations. Property taxes are recorded on an accrual basis and are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers revenues to be available if they are collected within 90 days of the end of the current fiscal period, except for property taxes. Expenditures are generally recorded when a liability is incurred, which is the same as accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds from general long-term debt and acquisitions under capital leases are reported as other financing sources.

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.

Sales taxes and certain intergovernmental revenues that are collected and held by the State at year-end on behalf of the Town are recognized as revenue. Sales taxes are considered a shared revenue for the Town because the tax is levied by Wake and Chatham Counties and then remitted to and distributed by the State. Intergovernmental revenues and sales and services are not subject to full accrual because they are generally not measurable until received in cash. Grant revenues, which are unearned at year-end, are recorded as unearned revenues. Under the terms of the grant agreements, the Town funds certain programs in 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. Excluding debt funding, 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. In the event that debt proceeds are included, the Town will spend debt proceeds first unless there is an agreement tying specific expenditures to grant proceeds. When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources, as they are needed.

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION *(Continued)*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

The Town reports the following major governmental funds:

General Fund - The General Fund is the general operating fund of the Town. It is used to account for all financial resources except those required to be accounted for in another fund. The primary revenue sources are ad valorem taxes, various other taxes and licenses and state-shared revenues. The primary expenditures are for public safety, streets and highways, infrastructure planning, sanitation, recycling, parks and recreation, development activities, general government services, and debt service for the payment of general long-term principal, interest and related costs.

Capital Project Fund - The Capital Project Fund is used to account for financial resources to be used for the acquisition and/or construction of major capital facilities (other than those financed by proprietary funds) and infrastructure. The Town has six sub-funds within the Capital Project Fund: Street Projects, Parks and Recreation Projects, Fire Projects, General Governmental Projects, Downtown Projects, and General Capital Reserve.

Special Revenue Funds - The Town operated four special revenue funds during fiscal year 2015. The Transit Special Revenue Fund is used to account for the operations of C-Tran, the Town's bus service, which is partially funded by federal and state grants. The Emergency Telephone System Special Revenue Fund is used to account for all allowable 911 expenditures covered by the related fees that are funneled through the State. The Community Development Block Grant (CDBG) Special Revenue Fund is used to account for activity related to the CDBG Federal entitlement grant received from the Department of Housing and Urban Development. The Economic Development Special Revenue Fund is used to account for special economic related activities in town, and may be partially funded by grant activity. All funds are annually budgeted, except the CDBG Special Revenue Fund, which has a multi-year budget. To provide better transparency, the Town has voluntarily chosen to report all of these funds as major in the basic financial statements.

The Town reports the following major enterprise fund:

Utility System - An enterprise fund is used to account for operations and maintenance of the utility system which includes two wastewater treatment facilities, the jointly owned Cary/Apex Water Treatment Plant and related infrastructure and the newly opened jointly owned Western Wake Regional Water Reclamation Facility and related infrastructure. This fund also covers acquisition and/or construction of other major utility capital facilities and infrastructure, as well as the debt service for the payment of utility long-term debt principal, interest and related costs. The fund is comprised of four sub-funds: Utility System Operations, Water Projects, Sewer Projects and Utility Capital Reserve. This is the Town's only enterprise fund.

Additionally, the Town reports the following fund types:

Internal Service Funds - The Town has two Internal Service Funds. The Fleet Management Fund is used to account for the financing of fleet services provided by the Public Works Department and charged to other departments of the Town on a cost-reimbursement basis. The Health Insurance Fund is used to account for employee and retiree health and dental claims expense incurred by the Town related to the decision to self-insure for these benefits. This fund also collects premiums from Town employees and retirees to cover claims expense for elected spouse and/or family coverage. The primary activity for both of these funds is governmental and all balances are allocated accordingly for the entity-wide financial statements.

Pension Trust Fund - A pension trust fund is used to account for activities related to the Law Enforcement Officers (LEO) Separation allowance, which accumulates resources for pension benefit payments to qualified police retirees. Resources in this fund have been set aside to pay for future obligations of the LEO Separation Allowance but are not held in a trust that meets the criteria outlined in GASB Statement 68 (paragraph 4).

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION *(Continued)*

As a general rule, the effect of interfund activity has been eliminated from the entity-wide financial statements. Exceptions to this general rule are reimbursements to the General Fund and other charges between the Town's utility system function and various other functions of the Town. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

D. BUDGETARY

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund, the General Capital Reserve Fund (a sub-fund of the Capital Project Fund), the Transit Special Revenue Fund, the Emergency Telephone System Special Revenue Fund, the Economic Development Special Revenue Fund, the Health Insurance Internal Service Fund, the Fleet Management Internal Service Fund, the Pension Trust Fund for Law Enforcement Separation Allowance and the Utility System Operations Fund and Utility Capital Reserve Fund (both of which are sub-funds of the Utility System Enterprise Fund). All annual appropriations lapse at the fiscal year-end. However, based on Town ordinance, funds for unpaid purchase orders or delayed projects may be rolled over to the subsequent year. Multi-year project ordinances are adopted for the Parks, Street, Fire, General Governmental and Downtown Project Funds (all sub-funds of the Capital Project Fund), for the Water and Sewer Project Funds (both sub-funds of the Utility Systems Enterprise Fund) and for the Community Development Block Grant Special Revenue Fund.

All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at a functional level for all annually budgeted funds and a project-type level for the multi-year project funds. Amendments are required for any revisions that alter the total functional or project-type budget and must be approved by Town Council. The Town internally manages expenditures on a line item and departmental basis and, although not legally required, budget amendments may occur between line items and between departments of the same function. All internal budget amendments must be approved by the Finance and Budget departments and some of these amendments are also forwarded to the Town Manager for additional approval. During the year numerous budget amendments to the original budget were necessary. The original budget ordinance was adopted by July 1 of the fiscal year in accordance with State law.

E. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES AND FUND EQUITY (NET POSITION)

1. Deposits and investments

The deposits of the Town are secured as required by North Carolina General Statute ("G.S.") 159-31. The Town may establish official depositories with any bank or savings and loan association whose principal office is located in North Carolina.

G.S. 159-30(c) authorizes the Town to invest in obligations of the U.S. Treasury; obligations of any agency of the United States of America, provided the payment of interest and principal of such obligations is fully guaranteed 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), an SEC registered mutual fund dedicated to serving North Carolina public units.

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

E. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES AND FUND EQUITY (NET POSITION) (Continued)

The Town's investments with a maturity of more than one year at acquisition and non-money market investments are reported at fair value as determined by quoted market prices and in accordance with GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*. The securities of the NCCMT Cash Portfolio, a SEC-registered (2a-7) money market mutual fund, are valued at fair value, which is the NCCMT's share price. For the majority of investments, the Town both intends and has the ability to hold all securities to maturity. However, due to economic conditions and when it is beneficial to the Town, the Town may elect to sell investments prior to maturity on the secondary market. In accordance with State law, the Town has invested in securities which are callable and which provide for periodic interest rate increases in specific increments until maturity. These investments are reported at fair value as determined by quoted market prices.

The Town pools most moneys from all funds, except the Pension Trust Fund to facilitate disbursement and investment and maximize investment income. Exceptions of non-pooled funds may include, but are not limited to, unspent bond proceeds and escrowed or endowed funds restricted for specific purposes. For purposes of the Statement of Cash Flows, the Town's proprietary funds consider equity in pooled cash and investments to be cash equivalents as they are essentially demand deposit accounts and short term investments. Investment income is allocated based on each fund's monthly balance in relation to the total pooled cash balance.

2. Receivables and payables

According to the North Carolina General Statutes, ad valorem taxes levied on July 1, the beginning of the fiscal year, are due September 1, but interest and penalties do not accrue until the following January 6, the lien date. Property taxes on certain registered motor vehicles are assessed and collected throughout the year. The taxes levied for fiscal year 2015 are based on the assessed values as of January 1, 2014.

Within the fund financials ad valorem taxes receivable are not accrued as revenue because the amount is not considered "available." At June 30, taxes receivable are significantly past due and are not considered to be an available resource to finance the operations of the subsequent year. Accounting principles generally accepted in the United States of America state that property tax revenues which are measurable but not available should be recorded as deferred inflow of resources. The receivable amount is reduced by an allowance for doubtful accounts and an amount equal to the net receivable is included in the governmental Balance Sheet and the Statement of Net Position. Any property taxes collected in advance of the fiscal year to which they apply are recorded as deferred inflow of resources.

An allowance for doubtful accounts is maintained on the ad valorem taxes receivable as described above. The Town also maintains an allowance for doubtful accounts for the sanitation receivable, utility service accounts receivable, and other miscellaneous receivables.

The General Fund loaned funds to the CDBG Special Revenue Fund (see Note 6) in fiscal year 2015. This loan is for cash flow purposes until grant funds are received and is expected to be paid in early fiscal year 2016. There were no other lending/borrowing arrangements between funds during fiscal year 2015. However, for the entity-wide financial statements, residual balances outstanding between the governmental activities and business-type activities are reported as due to or due from other activities.

3. Inventories and prepaid items

Inventory is determined by physical count and valued at cost using the first-in, first-out method. Inventory in the governmental fund types consists of expendable supplies held for consumption and retail items held for resale.

For consumable items, the cost thereof has been recorded in inventory at the time items were purchased. Expenditure occurs when items are issued from inventory. These inventories are accounted for in the central warehouse, which is managed by the Purchasing Division in the Finance Department. Total inventory is reported in the General Fund and Fleet Management Internal Service Fund, which is considered a governmental activity in the entity-wide Statement of Net Position. The Town also holds several inventories intended for retail resale. However, these are considered immaterial and inventory items are expensed as purchases are made and revenues are recorded when items are sold.

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

E. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES AND FUND EQUITY (NET POSITION) *(Continued)*

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

4. Restricted assets

Certain cash balances, which are managed as a part of pooled cash, are restricted by purpose and source. Cash balances in the Utility Systems Fund and General Fund related to customer deposits are not available for appropriations or expenditures and are segregated on the Statement of Net Position and classified as restricted cash. Other cash balances in the major funds (Utility System Enterprise Fund and Capital Project Fund) are restricted for unspent debt proceeds and unspent grant funding, and are only available for designated projects as described in the individual official statements, grant agreements and as approved by Council.

5. Capital assets

Capital assets, which include land, buildings, equipment, vehicles and infrastructure assets (e.g., water & sewer lines, water tanks, roads, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the entity-wide financial statements.

Capital assets are generally defined by the Town as assets with an initial, individual cost greater than \$5,000 and an estimated useful life in excess of two years. Exceptions include general infrastructure assets, which are defined by the Town as assets with an initial cost greater than \$50,000, and certain other intangible assets (including software) with a cost/value greater than \$25,000. Assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation and certain intangible assets are recorded at their estimated historical value.

Governmental infrastructure assets (roads, sidewalks, bridges, etc) acquired prior to July 1, 2001, consist of assets acquired or that received substantial improvements subsequent to July 1, 1980, and are reported at estimated historical cost based on deflated estimated replacement costs. The cost of normal maintenance and repairs that do not add to the value to the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The total interest expense paid by the Town during the current fiscal year was almost \$10.4 million (net of partner reimbursements) in the Utility Systems Fund. Of this amount, \$4.3 million was capitalized and added to utility construction-in-progress.

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

E. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES AND FUND EQUITY (NET POSITION) (Continued)

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

<u>Capital asset</u>	<u>Life</u>
Automobiles and Light Trucks	3-5 years
Heavy Trucks	6-10 years
Office Furniture and Equipment	5-10 years
Maintenance and Construction Equipment	3-10 years
Utility System	50 years
Buildings	50 years
Streets, Sidewalks and Bridges	50 years
Other Infrastructure	25-50 years
Software and Other Intangible Assets	Based on individual useful life of the asset

6. Deferred outflows/inflows of resources

In addition to assets, the Statement of Net Position includes a separate section for deferred outflows of resources. This separate element 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 two items that meet this criterion, contributions made to a pension plan (starting in fiscal year 2015) and deferred charge on debt financings (unamortized loss on a bond defeasance). Prior to fiscal year 2013, this deferred charge on debt financings was netted against the related long-term debt. In addition to liabilities, the Statement of Net Position includes a separate section for deferred inflows of resources. This separate element represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. Deferred inflows include prepaid taxes related to property tax receivable and deferrals of pension expense. The deferred inflow related to prepaid taxes is also included in the General Fund's Statement Revenues, Expenditures and Changes in Fund Balance. The pension related deferred outflow and deferred inflow are a direct result of the Town's implementation of GASB Statement 68 and 71 referred to earlier in the notes.

7. 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. Also, unlimited compensatory time for non-exempt employees, if not taken, is paid to the employee upon termination of employment. All vacation leave is accrued when incurred in the entity-wide and proprietary fund financial statements. Vacation leave accrued over the 30 day limit is converted to sick leave annually.

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

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

E. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES AND FUND EQUITY (NET POSITION) (Continued)

8. Long-term obligations

In the entity-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bond refunding losses are amortized to expense over the life of the bonds. Bonds payable are reported net of the applicable bond premium and discount with the refunding loss being reported as a deferred outflow of resources (starting fiscal year 2013). Bond issuance costs are expensed in the period incurred (beginning in fiscal year 2013).

In the 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 related expenditures.

In April 2015 Town Council adopted a Debt Management Policy, which restricts the use of long-term debt to financing capital projects and certain equipment that provide value to current and future citizens. Per the policy, debt will not be used for operational needs. Terms for debt instruments will typically be 20 year or less for non-utility debt and 30 years or less for utility related debt. In addition to state statute regulations, the policy outlines that tax supported debt service as a percentage of the approved General Fund operating budget will be 15% or less (limited flexibility is given to go up to 20%). Coverage ratios for the utility system debt will be maintained at 1.4 time for parity debt service and 1.1 times for all debt service. This is above the levels required in the current debt covenants, which is included in Note 8(D). For the fiscal year ending June 30, 2015, debt amounts (including debt service) and ratios are in accordance with the policy.

9. Fund equity – Net Position

Net position in entity-wide and proprietary fund financial statements are classified as net investment in capital assets; restricted; or 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.

10. Fund equity – 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. For information on fund balance policy for the General Fund, see Note 14.

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.

Inventories – portion of fund balance that is not an available resource because it represents the year-end balance of ending inventories, which are not spendable resources.

Prepaid assets – portion of fund balance that is not an available resource because it represents resources that have already been spent for expenditures that will be incurred within future periods, and is therefore not spendable.

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

E. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES AND FUND EQUITY (NET POSITION) (Continued)

Steven's Estate Endowment – portion of fund balance that is not an available resource due to estate requirements. The principal amount is nonspendable; however, interest earned on these funds is considered spendable and restricted, and therefore handled differently.

Restricted Fund Balance

This classification includes amounts that are restricted to specific purposes externally imposed by donors, grantors, creditors or by state statute.

Restricted for Stabilization by State Statute – portion of fund balance that is restricted by G.S. 159-13(b)(16) and basically represents the amount of fund balance (in addition to the non-spendable portion) that is not liquid. This restriction is only applied to annually budgeted governmental funds.

Restricted for Street Projects – portion of fund balance that represents unspent Powell Bill funding, which is considered a restricted revenue source for street construction and maintenance expenditures. Unspent balance is split between the street project fund (appropriated to specific projects) and capital reserve fund (available for use). Both of these funds are sub-funds of the Capital Project fund.

Restricted for Parks, Recreation and Culture – portion of fund balance restricted by donors or endowment for parks, recreation & cultural resource related programs and activities.

Restricted for Fire Projects & Activities – portion of fund balance restricted by donors for fire department related activities.

Restricted for Police Operations & Activities – portion of fund balance that represents unspent drug forfeiture funds and other donations targeted to police that are restricted for specific police operations and activities.

Restricted for Community Development Block Grant (CDBG) Projects – portion of fund balance within the CDBG Special Revenue Funds that relates to unspent grant funding that is restricted to CDBG approved projects.

Committed Fund Balance

This classification includes portion of fund balance that can only be used for specific purposes imposed by majority vote by quorum of Town Council (highest level of decision-making authority) through a budget ordinance amendment. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken to remove or revise it.

Committed for Street Projects – includes (1) entire fund balance in the Street Project Fund (sub-fund of the Capital Project Fund), which is appropriated to specific street projects or (2) a portion of fund balance in the Capital Reserve Fund (sub-fund of the Capital Project Fund) that is committed to street projects per Town ordinances or fee schedules.

Committed for Downtown Projects – includes entire fund balance in the new Downtown Project Fund (sub-fund of Capital Project Fund), which is appropriated to specific downtown projects.

Committed for Parks, Recreation and Culture – includes (1) entire fund balance in the Parks Project Fund (sub-fund of the Capital Project Fund), which is appropriated to specific parks, recreation and cultural resources projects or (2) a portion of fund balance in the Capital Reserve Fund (sub-fund of the Capital Project Fund) that is committed to these same type of projects per Town ordinances or fee schedules or (3) a portion of fund balance in the General Fund specifically committed to a parks, recreation and cultural resources activity by Council action.

Committed for Fire Projects – entire fund balance in the Fire Project Fund (sub-fund of Capital Project Fund), which is appropriated to specific fire projects.

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

E. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES AND FUND EQUITY (NET POSITION) (Continued)

Committed for General Governmental Projects – includes (1) entire fund balance in the General Governmental Project Fund (sub-fund of the Capital Project Fund), which is appropriated to specific general governmental projects or (2) a portion of fund balance in the General Fund specifically committed to a general governmental activity by Council action.

Committed for Governmental Capital Projects – portion of fund balance in the Capital Reserve Fund (sub-fund of the Capital Projects Fund) that is available for any governmental project and is considered committed to this area per Town ordinances or fee schedules, and by definition of a capital reserve fund.

Committed for Transit – portion of fund balance in the Transit Special Revenue Fund that is considered committed by Council. This amount represents total fund balance in this fund after restrictions are removed.

Committed for Economic Development – total fund balance (after restrictions are removed) in the Economic Development Special Revenue Fund is considered committed by Council.

Assigned Fund Balance

This classification includes portion of fund balance that the Town intends to use for specific purposes. Assignments may be created, amended or eliminated by the Town Manager's office. Although managed as dedicated to specific areas, amounts are available for appropriation by council.

Assigned for Subsequent Year Appropriations - portion of total fund balance not already classified in restricted or committed that is (1) appropriated in fiscal year 2015 budget or (2) appropriated through the rollover process from fiscal year 2014 to 2015 as allowed by the Town's budget ordinance.

Assigned for Affordable Housing - portion of fund balance not already classified in restricted or committed that is assigned to affordable housing projects and activities, including rehabilitation, façade improvement and grants or loans to non-profit agencies who provide related services. These funds may be included in the Town's Annual Action Plan for the U.S. Department of Housing and Urban Development (HUD), but are not restricted like the Community Development Block Grant funds from HUD, that are accounted for in the CDBG Special Revenue Fund.

Assigned for Workers' Compensation Self Insurance – portion of fund balance in the General Fund not already classified in restricted or committed that is assigned to the workers compensation self insurance program for the payment of claims and the administration of the program.

Assigned for Small Claims Self Insurance – portion of fund balance in the General Fund not already classified in restricted or committed that is assigned to the self insurance program for small claims, which covers claims expense, co-payments and deductibles not covered by the Town's insurance policy.

Assigned for Parks, Recreation and Culture – portion of fund balance in the General Fund not already classified in restricted or committed that is assigned to various parks, recreation and cultural resources projects or activities, including Town festivals and amphitheatre operations.

Unassigned Fund Balance

This classification includes the portion of fund balance that has not been restricted, committed or assigned to specific purposes and is available for general appropriation by Town Council.

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

E. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES AND FUND EQUITY (NET POSITION) (Continued)

For projects that include multiple revenue sources, the Town's standard practice is that resources will be used in the following hierarchy: bond proceeds, federal funds, state funds, local non-town funds, town funds. For purposes of fund balance classification, expenditures are to be spent from restricted fund balance first, followed in order by committed, assigned and lastly unassigned fund balance. The Finance Director or their appointee has the authority to deviate from this policy in order to comply with grant agreements, bond orders or if it is in the best interest of the Town.

In April 2015, the Town adopted a fund balance policy for the General Fund. At a minimum, assigned and unassigned fund balance (referred to as "accessible" in the policy) will be at least 25% of budgeted General Fund expenditures. Total fund balance shall be at least 40% of budgeted General Fund expenditures, which equates to approximately five months of operations. Amounts of assigned and unassigned over the minimum will be considered as a potential funding source for one-time capital needs. Accessible fund balance (as defined in the policy) can only be used in excess of these limits in order to provide for unforeseen shortfalls in revenues or for emergencies such as a natural disaster. In the event balances fall below these minimums, Council will adopt a plan to restore balances to meet the policy within a three year period at most.

11. Pensions

For the purpose of measuring the net pension asset, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Local Governmental Employees' Retirement System (LGERS) and additions to/deductions from LGERS' fiduciary net position have been determined on the same basis as they are reported by LGERS. For this purpose, plan member contributions are recognized in the period in which the contributions are due. The Town's employer contributions are recognized when due and the Town has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of LGERS. Investments are reported at fair value.

12. Comparative data/reclassifications

Comparative total data for the prior year have been presented in the fund financial statements for the annually budgeted governmental and proprietary funds in order to provide an understanding of the changes in the financial position and operations of these funds. Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

Note 2 DEPOSITS AND INVESTMENTS

Deposits

All of the Town's deposits 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 agent in the Town's name. 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 agent in the Town's name. 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 risk for deposits.

TOWN OF CARY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

Note 2 DEPOSITS AND INVESTMENTS (Continued)

At June 30, 2015, the Town's deposits (not including certificates of deposit) had a carrying amount of \$96.1 million and a bank balance of \$95.6 million. Of the bank balance, \$750,000 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method. At June 30, 2015, the Town's petty cash fund totaled approximately \$17,000. The amount held in trust related to the Law Separation Allowance is \$1.3 million and is held in a separate cash account at the North Carolina Capital Management Trust (NCCMT). Certificates of deposit are purchased for investment purposes and are reported below with other investments. All certificates held are covered by federal depository insurance and collateral held under the pooling method.

Investments

	<u>Fair Value</u>	<u>Less than 1 Year</u>	<u>1-2 Years</u>	<u>2-3 Years</u>	<u>3-5 Years</u>
US Treasuries	\$51,842,997	11,059,355	19,707,193	21,076,449	---
US Agencies -					
FFCB	113,189,908	55,339,820	28,441,793	29,408,295	---
FHLB	102,489,926	26,540,332	29,927,651	42,034,851	3,987,092
FHLMC	57,805,935	23,450,455	19,826,691	14,528,789	---
FNMA	68,145,354	31,484,193	27,466,851	9,194,310	---
Certificates of Deposit	1,239,263	1,239,263	---	---	---
Municipal Paper	6,673,928	4,464,265	---	2,209,663	---
NCCMT	4,946,816	4,946,816	---	---	---
Total	<u>\$406,334,127</u>	<u>158,524,499</u>	<u>125,370,179</u>	<u>118,452,357</u>	<u>3,987,092</u>

Interest Rate Risk – In accordance with its investment policy, the Town manages its exposure to declines in fair values by requiring purchases of securities to be laddered with staggered maturity dates and limiting all securities to a final maturity of no more than five years.

Credit Risk - State law limits investments in commercial paper to the top rating issued by nationally recognized statistical rating organizations (NRSROs). As of June 30, 2015 the Town had no investments in commercial paper. The Town has a formal policy that addresses the management of credit risk in various ways, including its compliance with NC G.S. 159-30, and its quarterly review of the investment portfolio by an independent consultant. The Town's investments in the NC Capital Management Trust Cash Portfolio carried a credit rating of AAAm by Standard & Poor's as of June 30, 2015. The Town's investments in US Agencies (Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association) are rated AA+ by Standard & Poor's and Aaa by Moody's Investors Service as of June 30, 2015.

Concentration of Credit Risk - The Town's policy does not limit the amount that the Town may invest in any one issuer; however the Town will make every effort to maintain a diversified investment portfolio according to security type and institution. More than 5 percent of the Town's investments are in Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation and Federal National Mortgage Association securities. These investments are 25%, 28%, 14% and 17% respectively, of the Town's total investments.

TOWN OF CARY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

Note 3 RECEIVABLES AND RELATED ACCOUNTS

Accounts Receivable as of year-end for the Town's individual major funds in the aggregate as presented in the fund financials and entity-wide totals, including the applicable allowances for uncollectible accounts, is as follows:

	<u>General</u>	<u>Capital Projects</u>	<u>Special Revenue</u>	<u>Total Governmental Funds</u>	<u>Full Accrual Adjustment</u>	<u>Entity-Wide Governmental Activity</u>	<u>Business- type Utility System</u>
Receivables:							
Housing Loans	\$ 248	---	---	248	1,259,339	1,259,587	---
Due from other							
Governments	12,772,802	1,035,544	661,974	14,470,320	12,305,330	26,775,650	3,685,208
Accounts	1,261,842	---	5,499	1,267,341	467,161	1,734,502	11,085,365
Gross receivables	14,034,892	1,035,544	667,473	15,737,909	14,031,830	29,769,739	14,770,573
Less: Allowance							
Accounts	(39,670)	---	---	(39,670)	---	(39,670)	(552,587)
Housing loans	---	---	---	---	(568,500)	(568,500)	---
Net total receivables at June 30, 2015	\$13,995,222	1,035,544	667,473	15,698,239	13,463,330	29,161,569	14,217,986

The amounts above do not include accrued interest receivable and ad valorem taxes receivable which are listed separately in the Basic Financial Statements. Taxes receivable of \$621,000, as listed in the Basic Financial Statements, is net of a \$319,000 allowance for doubtful accounts.

Special Revenue Fund receivables include \$195,000 related to the Transit Fund, \$400,000 related to the CDBG fund and the remainder in the Emergency Telephone System Fund. Health Insurance Internal Service Fund receivables of \$174,000 is included in Governmental Activities (primary customer) in the entity-wide financial statements.

For governmental activities, \$12.3 million of the \$26.8 million recorded as due from other governments is related to grants or other financial assistance that have been awarded. Of this total, \$10.4 million is considered unearned, which is the full balance of unearned revenue at June 30, 2015 for governmental activities. The remainder of the governmental receivables is related to sales tax and other similar allocations that relate to fiscal year 2015 and were received within the 90 day window after June 30, 2015. For Business-type activities, \$.3 million of the \$3.7 million recorded as due from other governments is related to grants or other financial assistance that have been awarded. All of this balance is also included in unearned revenue. For reporting purposes, the remainder of the due from other governments is related to partner receivables from the Town of Apex related to shared water and reclamation facility projects. All of the \$11.1 million recorded as accounts receivable is related to a variety of customer utility services.

In conformity with accounting principles generally accepted in the United States of America, revenues that are measurable but not available are reported as either an advance from customers/grantors or a deferred inflow of resources in the fund financials. The \$.2 million of advance from customers/grantors in the General Fund is mostly comprised of prepaid fees related to parks, recreation and culture activities and a small amount of CDBG unspent funds. See Note 4 for details on deferred inflow of resources.

TOWN OF CARY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
 For the Year Ended June 30, 2015

Note 4 DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES

At June 30, 2015, the various components of deferred outflows of resources related to the entity-wide statements are as follows:

	Governmental Activities	Business-Type Activities
Deferred Charge on Debt Refinancing	\$1,515,117	\$2,565,869
Deferred Outflow Related to Pensions (Note 11)	4,189,579	884,156
Total Deferred Outflows	<u>\$5,704,696</u>	<u>\$3,450,025</u>

At June 30, 2015, the various components of deferred inflows of resources are as follows:

	Earned but Unavailable	Received and Unearned	Fund Financial Balance	Net Unearned (Earned) Portion of Receivables	Entity-Wide Balance
<u>Governmental Deferred Inflows:</u>					
Ad Valorem Taxes	\$620,855	23,041	643,896	(462,159)	181,737
Vehicle Tag Revenue	570,147	---	570,147	(569,853)	294
Total Deferred Inflows Related to Property Taxes & Vehicle Tag Fees	<u>\$1,191,002</u>	<u>23,041</u>	<u>1,214,043</u>	<u>(1,032,012)</u>	182,031
Pension Activity (Note 11)					<u>15,766,391</u>
Total Deferred Inflows of Resources at June 30, 2015					<u>\$15,948,422</u>
<u>Utilities Deferred Inflows:</u>					
Pension Activity (Note 11)					<u>\$3,327,294</u>

More detail on Pension related Deferred Inflows and Outflows of Resources is provided in Note 11.

TOWN OF CARY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

Note 5 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2015, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers In (Out)</u>	<u>Ending Balance</u>
Government Activities:					
<u>Capital assets, Non-depreciable:</u>					
Land & Improvements	\$192,829,726	10,673,721	---	10,892,174	214,395,621
Construction-in-Progress	73,934,176	13,432,745	(2,920,438)	(22,292,649)	62,153,834
Total Capital Assets, Non-depreciable	266,763,902	24,106,466	(2,920,438)	(11,400,475)	276,549,455
<u>Capital Assets, Depreciable:</u>					
Buildings & Improvements	106,170,540	---	---	9,523,229	115,693,769
Machinery & Equipment	21,025,975	918,821	(1,224,282)	545,427	21,265,941
Vehicles	27,673,143	920,531	(1,138,850)	926,640	28,381,464
Infrastructure	700,339,257	19,609,128	---	405,179	720,353,564
Intangible Assets	1,834,273	47,000	---	---	1,881,273
Total Capital Assets, Depreciable	857,043,188	21,495,480	(2,363,132)	11,400,475	887,576,011
<u>Less Accumulated Depreciation for:</u>					
Buildings & Improvements	25,840,615	2,369,862	---	---	28,210,477
Machinery & Equipment	14,722,217	1,765,552	(1,223,460)	---	15,264,309
Vehicles	18,763,897	2,351,546	(1,063,169)	---	20,052,274
Infrastructure	282,088,092	18,020,006	---	---	300,108,098
Intangible Assets	1,053,909	484,196	---	---	1,538,105
Total Accumulated Depreciation	342,468,730	24,991,162	(2,286,629)	---	365,173,263
Total Capital Assets, Depreciable, Net	514,574,458	(3,495,682)	(76,503)	11,400,475	522,402,748
Governmental Activities Capital Assets, Net	\$781,338,360	20,610,784	(2,996,941)	---	798,952,203

Total Governmental assets include Internal Service Fund book value of \$1.1 million. General infrastructure constructed and donated by area developers (and acquired through annexations) with a value of \$30.3 million is included in governmental additions. A total of \$31.1 million was recorded as a capital contribution which also includes developer agreement adjustments.

TOWN OF CARY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

Note 5 CAPITAL ASSETS (Continued)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers In (Out)</u>	<u>Ending Balance</u>
Business-type Activities:					
<u>Capital assets, Non-depreciable:</u>					
Land & Improvements	\$23,592,586	---	(126,500)	245,280	23,711,366
Construction-in-Progress	232,870,838	49,912,080	(3,873,284)	(97,151,672)	181,757,962
Total Capital Assets, Non-depreciable	256,463,424	49,912,080	(3,999,784)	(96,906,392)	205,469,328
<u>Capital assets, Depreciable:</u>					
Buildings & Improvements	81,436,920	---	---	89,452,194	170,889,114
Machinery & Equipment	7,059,760	488,264	(92,857)	437,753	7,892,920
Vehicles	3,996,181	253,973	(91,401)	25,816	4,184,569
Infrastructure	521,675,962	11,464,214	---	6,990,629	540,130,805
Intangible Assets	1,259,238	---	---	---	1,259,238
Total Capital Assets, Depreciable	615,428,061	12,206,451	(184,258)	96,906,392	724,356,646
<u>Less Accumulated Depreciation for:</u>					
Buildings & Improvements	25,162,449	2,523,459	---	---	27,685,908
Machinery & Equipment	4,606,145	554,015	(21,233)	---	5,138,927
Vehicles	3,278,515	282,857	(81,413)	---	3,479,959
Infrastructure	130,285,615	11,025,705	---	---	141,311,320
Intangible Assets	1,259,239	---	---	---	1,259,239
Total Accumulated Depreciation	164,591,963	14,386,036	(102,646)	---	178,875,353
Total Capital Assets, Depreciable, Net	450,836,098	(2,179,585)	(81,612)	96,906,392	545,481,293
Business-type Activities Capital Assets, Net	\$707,299,522	47,732,495	(4,081,396)	---	750,950,621

Area developers donated utility infrastructure with a gross value of \$11.5 million, which is included in the business-type asset additions. A total of \$12.2 million was recorded as a capital contribution which also includes developer agreement adjustments.

TOWN OF CARY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

Note 5 CAPITAL ASSETS (Continued)

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

Governmental Activities:

General Governmental	\$1,878,333
Development	29,955
Facilities & Infrastructure	18,212,199
Public Safety	1,570,357
Public Works	770,778
Environmental Protection	893,071
Parks, Recreation and Culture	1,562,087
Total depreciation expense (excluding internal service)	24,916,780
Capital assets held by the Town's Fleet Management internal service fund are charged to the various functions based on their usage of assets	74,382
Total depreciation expense – governmental activities	<u>\$24,991,162</u>

Business-type Activities:

Utility System	<u>\$14,386,036</u>
----------------	---------------------

The Town has numerous active construction projects as of June 30, 2015. These projects include new street construction, widening and improvements of existing streets, new parks and related facilities, fire stations, fire trucks and pumpers, utility system improvements and new construction, utility plant expansions and other Town facilities and equipment. At year-end, the Town's significant commitments with contractors are as follows:

	<u>Spent-to-date</u>	<u>Contract Commitments</u>
Capital project fund:		
Asset Management Software	\$200,000	600,000
Carpenter Fire Station Rd. – CSX Rail Grade	720,383	1,045,000
Carpenter Neighborhood Park	754,184	2,060,000
Cary Tennis Park Court Renovations	91,325	873,000
Downtown Streetscape Improvements – Academy/Dry Streets	1,085,305	5,353,000
Fire Station #2 – Architectural Services and Construction	2,685,502	2,338,000
Jack Smith Park	1,198,599	2,598,000
New Hope Church Rd. Trailhead Park	1,879,499	594,000
Radio System Upgrade	7,122,357	1,295,000
Street Improvements – Bonds	3,115,302	2,165,000

TOWN OF CARY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

Note 5 CAPITAL ASSETS (Continued)

	<u>Spent-to-date</u>	<u>Contract Commitments</u>
Street Improvements FY2015	\$220,540	4,212,000
Traffic Signal System – 2012 Bonds	2,024	2,438,000
Walnut St. Improvements	1,564,552	3,855,000
Parks and Recreation Projects	29,153,470	2,381,000
Other Street Projects	80,093,057	3,679,000
Other General Government Projects	22,010,648	1,294,000
Downtown and Fire Projects	14,260,592	797,000
TOTAL CAPITAL PROJECT COMMITMENTS	<u>\$166,157,339</u>	<u>37,577,000</u>
Utility system enterprise fund:		
Aquastar	\$985,353	1,095,000
Biosolids Aeration System Improvements	1,415,539	978,000
Cary/Apex Water Treatment Plant – Phase 3 Expansion & Improvements, net	32,286,672	36,615,000
Cary/Apex Water Treatment Plant – Raw Water Pipeline, net	606,491	571,000
Force Main Inspection & Rehabilitation FY2008	2,053,112	1,023,000
Holly Springs Rd. Water Line	986,206	754,000
Kilmayne Water Storage Tank	939,723	1,050,000
Kit Creek Pump Station Improvements	204,187	1,125,000
Morris Branch Pump Station Improvements	172,951	629,000
Plumtree Tank Modifications	570,344	873,000
TCAP – Streetscape Water Upgrades	218,687	558,000
Wastewater SCADA	208,080	895,000
Water Line Upgrades FY2013	25,693	826,000
Water Line Upgrades FY2014	62,203	1,000,000
Water Line Upgrades FY2015	4,308	567,000
West Cary Water Storage Tank	977,769	718,000
WWRWMF – Beaver Creek Force Main, net	11,964,177	535,000
WWRWMF – Beaver Creek Pump Station, net	11,735,488	511,000
WWRWMF – Effluent Pipeline Phase 2, net	14,866,622	991,000
WWRWMF – New Water Reclamation Facility, net	88,540,752	3,764,000
WWRWMF – Water & Sewer Policy Implementation, net	1,110,551	1,098,000
Other Utility Projects, net	104,074,249	9,511,000
TOTAL UTILITY PROJECT COMMITMENTS	<u>\$274,009,157</u>	<u>65,687,000</u>

Note 6 INTERFUND RECEIVABLES AND PAYABLES

The Town has several interfund receivable/payable accounts. The allocation of internal profits and losses to the Utility System Enterprise Fund from the Health Insurance and Fleet Management Internal Service Funds amounted to \$.6 million. In the entity-wide financial statements, this amount is a net receivable for business-type activity and a net payable for governmental activities. In addition, the Town has a fund financial receivable in the General Fund for a \$.3 million payable in the Community Development Block Grant Special Revenue Fund, which is a temporary cash loan recorded at the end of fiscal year 2015 to cover expenditures and was paid off in full in early fiscal year 2016 when the funds were received.

Note 7 LEASES

A. OPERATING LEASES

The Town leases and rents numerous pieces of equipment, facilities and supplies on a regular basis. Most of these agreements are short term in nature with no long term commitments and or significant financial impacts. Lease or rental agreements that are financially significant (either annually or over a multiple year commitment) are discussed specifically herein.

In fiscal year 2012 the Town entered into a new 42 month agreement with Air Liquide Industrial US LP for a liquid oxygen system at the Cary/Apex Water Treatment Plant. The total cost was \$126,000 over the life of the lease. In fiscal year 2015 the final lease payment of \$18,000 was made and a new 7 year lease was entered into. The total cost of this new lease is \$210,000. In fiscal year 2015 lease payments of \$30,000 were made. As part of the joint ownership agreement and related inter-local agreement, Apex shared approximately seventeen percent (17%) of the total cost. In looking at both leases, Apex's cost over the life of the lease was approximately \$21,000 for the old lease and \$35,000 for the new lease. In fiscal year 2015, Apex's part of the combined lease payments was \$8,000. The remaining commitment for the new lease is \$180,000 at June 30, 2015 (\$30,000 related to Apex) with the expected annual lease payment for future years to be \$30,000 (\$5,000 related to Apex). Lease payment expense, as well as the related long-term liability, are included in the utility enterprise fund statements.

In fiscal year 2013 the Town entered into an agreement with Toshiba that will be effective until June 30, 2017. Monthly charges averaged \$13,000 in fiscal year 2015, which includes a base charge of approximately \$6,000 with the remaining being a variable charge per copy. Considering average monthly cost and possible increase in volume, the total cost is estimated to be \$600,000 over the life of the lease. Approximately \$154,000 was paid in fiscal year 2015 (\$137,000 General Fund, \$17,000 Utility Enterprise Fund). Lease payments are allocated to operating departments throughout the Town and are therefore included as expenses in the General Fund and the operations sub-fund of the Utility Enterprise Fund. Due to the way the contract is structured, there is no related long-term liability recorded.

The Town has numerous agreements with Wake County Public Schools for the use of their facilities and equipment related to Town programs. The Town is required to pay certain rental fees according to the school fee schedule. Availability agreements exist for individual schools and are typically for a 25 year period. There is no minimum obligation for rental amounts since fees are based on specific needs, which are organized collectively with the Town and the school system on a periodic basis. Approximately \$56,000 was paid to Wake County Public Schools during fiscal year 2015 for this purpose and is included in General Fund expenditures. Amount to be paid in fiscal year 2016 is not expected to exceed \$70,000.

Starting in September 2013, the Town entered into a four year operating lease agreement with Carolina Recording Systems for a voice logging recorder used in the Town's main 911 center. Annual payments (including what was paid in fiscal year 2015) are \$15,000 with the last payment due in early fiscal year 2018. The total cost of the lease is approximately \$59,000 over the life of the lease. During fiscal year 2015, the Town entered into an additional 5 year lease agreement with the same company for similar equipment in the Town's new backup 911 center. Annual payments (including what was paid in fiscal year 2015) are \$5,000 with the last payment due in fiscal year 2019. The total cost of this lease is \$26,000 over the life of the lease. Payments related to both leases are included as expenditures in the Emergency Telephone Special Revenue Fund. There is a remaining commitment of \$50,000 at June 30, 2015. A related long-term liability is recorded in the entity-wide statements for Governmental activities.

Note 7 LEASES

A. OPERATING LEASES *(Continued)*

After completing some of the Ontario capital leases in previous fiscal years and during fiscal year 2015, the Town opted to enter into a month-to-month operating lease agreement for various pieces of technical equipment and software. Although some specific pieces of equipment may have been purchased, in general, titles were not transferred to the Town for the related equipment after the respective capital leases were complete. Some of these operating leases ended during fiscal year 2015 and some are still active as of the date of this report (on a month-to-month basis). In fiscal year 2015, payments of approximately \$77,000 were made related to these operating lease agreements. Based on current activity, the expected maximum future annual commitment on Ontario active operating leases should not exceed \$155,000. These lease payments are included as expenditures in the General Fund with certain qualified pieces included as expenditures in the Emergency Telephone System Special Revenue Fund.

After a capital lease with CCA Financial in fiscal year 2014 for the lease of technical equipment, the Town entered into an operating agreement on a month-to-month basis with approximately \$14,000 paid during fiscal year 2015. This lease ended in February 2015. These lease payments are included as expenditures in the General Fund.

B. CAPITAL LEASES

Over the past several years the Town has entered into numerous lease agreements with Ontario Leasing (later assigned to Bank Financial) and CCA Financial for technology purchases, which includes equipment, accessories and software. The Town typically enters into one new lease per year at a minimum, but usually more. In fiscal year 2015, the Town entered into 5 new capital leases with Ontario. For leases, only assets meeting the \$5,000 threshold for equipment or \$25,000 for software are added to asset inventory. The book value of leased assets at June 30, 2015 is \$1 million with \$.2 million related to new capital leases started in fiscal year 2015. These are recorded as governmental-activity capital assets in the entity-wide financial statements, as well as the related long-term obligations.

The Ontario leases are typically for three years and at the end of the lease, the old equipment is usually replaced with the new equipment that will be financed through a similar lease or kept for a short-term through an operating lease (month-to-month). Imputed interest rates on these leases range from 0.25% to 5%. Title to the equipment does not transfer automatically to the Town upon completion of these leases; however, these leases meet the capital lease criteria due to the ratio of present value (of payments) to the fair value of the leased equipment. The Town may choose to purchase certain equipment at the end of the lease. The annual amount paid for active Ontario leases for fiscal year 2015, was approximately \$1.1 million, which includes interest. Monthly debt service (including interest) on active Ontario leases was approximately \$89,000 at June 30, 2015.

The last remaining CCA Financial lease is also for three years an imputed interest rate of 1.2%. Title to the equipment does not transfer automatically to the Town upon completion of the lease; however, this lease meets the capital lease criteria due to the ratio of present value (of payments) to the fair value of the leased equipment and software. The annual amount paid for this lease for fiscal year 2015 was approximately \$17,000, which includes interest. Monthly debt service (including interest) is less than \$2,000. This lease is expected to end during fiscal year 2016.

TOWN OF CARY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

Note 7 LEASES

B. CAPITAL LEASES *(Continued)*

Most of these technology related capital lease payments are funded by the General Fund, with certain eligible pieces being funded by the Emergency Telephone System Special Revenue Fund. The future minimum lease obligations and the net present value of these future minimum lease payments as of June 30, 2015, are as follows:

<u>Year Ending June 30</u>	<u>Ontario</u>	<u>CCA</u>	<u>Total</u>
2016	\$844,817	6,314	851,131
2017	477,180	---	477,180
2018	<u>185,599</u>	<u>---</u>	<u>185,599</u>
Total minimum lease payments	1,507,596	6,314	1,513,910
Less: Interest	<u>(36,621)</u>	<u>(23)</u>	<u>(36,644)</u>
Present value of future minimum lease payments	<u>\$1,470,975</u>	<u>6,291</u>	<u>1,477,266</u>

Note 8 LONG-TERM OBLIGATIONS

A. INSTALLMENT FINANCING AGREEMENTS

In July 2008, the Town entered into an installment purchase agreement with RBC Bank (PNC Bank as of March 2012) to finance an aerial fire truck and a rescue truck. The financing required principal payments to begin in fiscal year 2009 with an interest rate of 3.56% to be paid semi-annually. Debt service payments will be funded by the General Fund. At June 30, 2015, no unspent proceeds remain available.

At June 30, 2015, the installment purchase debt related to the fire trucks is \$.4 million with future debt service payments as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	
2016	\$141,820	14,434	156,254
2017	146,916	9,338	156,254
2018	<u>151,830</u>	<u>4,063</u>	<u>155,893</u>
Total	<u>\$440,566</u>	<u>27,835</u>	<u>468,401</u>

TOWN OF CARY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

Note 8 LONG-TERM OBLIGATIONS (Continued)

B. LIMITED OBLIGATION BONDS

In June 2010, the Town refunded a portion of the 2002 certificates of participation by issuing \$15.2 million of Limited Obligation Bonds, resulting in a net present value savings of approximately \$.8 million (see debt section E for more information on refinancings). Limited obligation bonds, like certificates of participation, continue to pledge the underlying assets related to the original financing, but result in lower interest rates than certificates of participation. Interest rates range from 2% to 3.25%. Principal and interest requirements will be provided by General Fund appropriation in the year in which they become due. At June 30, 2015, no unspent proceeds remain available.

At June 30, 2015, the installment purchase debt related to the limited obligation bonds, series 2010 is \$11.3 million, with future debt service payments as follows:

Year Ending June 30	Governmental Activities		Total
	Principal	Interest	
2016	\$915,000	348,600	1,263,600
2017	2,445,000	298,200	2,743,200
2018	2,405,000	225,450	2,630,450
2019	2,365,000	152,100	2,517,100
2020	800,000	98,825	898,825
2021-2025	2,365,000	117,788	2,482,788
Total	<u>\$11,295,000</u>	<u>1,240,963</u>	<u>12,535,963</u>

In February 2012, the Town issued \$11.3 million in Limited Obligation Refunding Bonds, Series 2012 to refund all of the remaining certificates of participation, series 2002A except for the payment to be made in fiscal year 2013. The refunding was done as a private bank placement via a competitive bid and resulted in a fixed interest rate of 2.34%. The refunding resulted in net present value savings of over \$.8 million (see debt section E for more information on refinancings). Principal and interest requirements will be provided by General Fund appropriation in the year in which they become due. At June 30, 2015, no unspent proceeds remain available.

At June 30, 2015, the installment purchase debt related to the limited obligation bonds, series 2012 is \$8.5 million, with future debt service payments as follows:

Year Ending June 30	Governmental Activities		Total
	Principal	Interest	
2016	\$1,670,000	178,191	1,848,191
2017	110,000	157,365	267,365
2018	115,000	154,733	269,733
2019	115,000	152,042	267,042
2020	1,655,000	131,333	1,786,333
2021-2025	4,785,000	166,550	4,951,550
Total	<u>\$8,450,000</u>	<u>940,214</u>	<u>9,390,214</u>

TOWN OF CARY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

Note 8 LONG-TERM OBLIGATIONS (Continued)

C. GENERAL OBLIGATION BONDS

The Town issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities.

All of the Town's general obligation bonds are issued with a fixed rate, except for the Public Improvement, Series 2006, which is the Town's first and currently the only variable rate general obligation bonds held. Interest on these variable rate bonds is determined by a remarketing agent based upon market conditions. Average interest rate throughout fiscal year 2015 was .052%. In March 2014 the Town issued \$74.3 million of general obligation bonds to fund fire, parks, streets and wastewater projects. Interest on the bonds ranges from 3-5% with the wastewater bonds being paid back over 25 years and the remainder over 20 years. As of June 30, 2015, there is \$39.1 million outstanding unspent proceeds related to the Series 2014 general obligation bonds.

General obligation bonds are direct obligations and pledge the full faith and credit of the government. These bonds generally are issued as 20-year serial bonds with equal amounts of principal maturing each year. General obligation bonds outstanding at June 30, 2015 are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Date Issued</u>	<u>Date Series Matures</u>	<u>Amount of Original Issue</u>	<u>Balance Outstanding June 30, 2015</u>
<u>Governmental Activities</u>					
Public Improvement, Series 2006	Variable	7/12/2006	6/1/2027	\$47,255,000	\$34,655,000
Public Improvement, Series 2009	3% - 5%	6/1/2009	6/1/2029	28,000,000	21,781,886
Refunding Bonds, Series 2009	2% - 5.25%	6/1/2009	6/1/2020	12,650,000	6,330,000
Refunding Bonds, Series 2010B	4%	10/5/2010	6/1/2022	14,670,000	14,670,000
Public Improvement, Series 2014	3% - 5%	3/4/2014	3/1/2034	32,915,000	30,145,000
Total Governmental Activities					<u>\$107,581,886</u>
<u>Business-Type Activities</u>					
Public Improvement, Series 2009	3% - 5%	6/1/2009	6/1/2029	\$25,000,000	\$19,448,116
Refunding Bonds, Series 2009	2% - 5.25%	6/1/2009	6/1/2020	27,370,000	17,450,000
Refunding Bonds, Series 2010A	3% - 5%	6/15/2010	3/1/2022	9,278,605	5,760,000
Public Improvement, Series 2014	3% - 5%	3/4/2014	3/1/2039	41,405,000	40,480,000
Total Business-Type Activities					<u>\$83,138,116</u>

TOWN OF CARY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
 For the Year Ended June 30, 2015

Note 8 LONG-TERM OBLIGATIONS

C. GENERAL OBLIGATION BONDS *(Continued)*

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending June 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2016	\$7,795,849	3,944,325	5,919,151	3,415,588
2017	8,345,849	3,796,798	5,939,151	3,155,131
2018	8,335,849	3,431,501	5,959,151	2,893,373
2019	8,330,849	3,085,507	5,984,151	2,630,316
2020	8,310,849	2,740,748	6,014,151	2,365,708
2021 – 2025	39,869,245	8,965,600	19,630,755	8,524,551
2026 – 2030	20,553,396	2,869,415	14,001,604	5,281,714
2031 – 2035	6,040,000	604,000	10,085,000	3,071,450
2036 – 2040	---	---	9,605,000	923,288
TOTAL	\$107,581,886	29,437,894	83,138,114	32,261,119

D. REVENUE BONDS

The Town issued the first series of revenue bonds in fiscal year 2001, the second series in fiscal year 2004, the third series in the latter part of fiscal year 2007, the fourth series in fiscal year 2013 and the last series in fiscal year 2015. The first series were paid off in fiscal year 2012. Part of the second series is related to an advanced refunding of a portion of the 1996 Sewer General Obligation bonds, which is discussed below in Section E. A portion of the bonds issued in 2013 is related to an advanced refunding of a portion of the 2004 Revenue bonds, which is discussed below in Section E. The balance of the 2004 Revenue bonds were paid off in fiscal year 2015. A portion of the bonds issued in 2015 advanced refunded a portion of the 2007 Revenue bonds, which is discussed below in Section E. With these bonds, the Town pledges income derived from the acquired or constructed assets to pay debt service. \$18 million of the 2015 bonds remain unspent as of June 30, 2015. Revenue bonds outstanding at year-end are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Date Issued</u>	<u>Date Series Matures</u>	<u>Amount of Original Issue</u>	<u>Balance Outstanding June 30, 2015</u>
Series 2007 Combined Utility System	3.88% - 5.00%	6/5/2007	12/1/2033	\$35,710,000	12,900,000
Series 2013 Combined Utility System	2.00% - 5.00%	1/29/2013	12/1/2042	98,400,000	98,400,000
Series 2015 Combined Utility System	3.00% - 5.00%	3/11/2015	12/1/2039	53,785,000	53,785,000
				Total Revenue Bonds	\$165,085,000

TOWN OF CARY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
 For the Year Ended June 30, 2015

Note 8 LONG-TERM OBLIGATIONS

D. REVENUE BONDS *(Continued)*

Revenue bond debt service requirements to maturity are as follows:

Year ending June 30	Principal	Interest	Total
2016	\$2,890,000	6,986,856	9,876,856
2017	3,045,000	6,885,338	9,930,338
2018	3,235,000	6,773,075	10,008,075
2019	3,405,000	6,652,191	10,057,191
2020	3,605,000	6,516,950	10,121,950
2021 – 2025	21,940,000	29,849,981	51,789,981
2026 – 2030	27,850,000	24,169,781	52,019,781
2031 – 2035	34,245,000	17,869,138	52,114,138
2036 – 2040	42,110,000	10,380,256	52,490,256
2041 - 2043	22,760,000	1,745,000	24,505,000
TOTAL	\$165,085,000	117,828,566	282,913,566

TOWN OF CARY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
 For the Year Ended June 30, 2015

Note 8 LONG-TERM OBLIGATIONS

D. REVENUE BONDS *(Continued)*

The total principal and interest remaining to be paid on all outstanding series of revenue bonds was \$282.9 million as of June 30, 2015. These revenue bonds are secured by a covenant to budget and collect revenues in the utility enterprise system sufficient enough to pay the principal and interest requirements. The Town has been in compliance with the covenants for all series of revenue bonds, which require the debt service coverage for parity indebtedness (revenue bonds only) to be 1.200 and for all indebtedness to be 1.000. Financial information below is from the Utility System Enterprise Fund.

Net Income	\$18,176,969	
Adjustments:		
Depreciation Expense	14,386,036	
Water & Sewer Development Fees	(10,823,566)	
Reimbursements	(75,444)	
Sale of Capital Assets	166,990	
Bond Interest Expense	5,330,867	
Bond Service Expenses & Refunding Loss	1,179,563	
Payment to General Fund for Open Space	918,229	
Administrative Costs Paid to the General Fund	<u>3,014,460</u>	
Income Available for Debt Service	32,274,104	
15% of Unrestricted Net Position	<u>28,159,226</u>	
Total Sources Available for Debt Service	<u><u>\$60,433,330</u></u>	
		<u>Coverage</u>
Parity Debt Service (Revenue Bonds Only)	\$ 7,977,206	7.576
Other Utility Debt Service (gross of partner reimbursement)	<u>13,103,304</u>	
Total Debt Service	<u><u>\$21,080,510</u></u>	1.531

E. REFUNDINGS AND REFINANCINGS

The Town has defeased numerous Utility Systems Bonds over the years by placing the proceeds of the new bonds in an irrevocable trust to provide for future debt service payments on the old bonds. Accordingly, all related trust account assets and liabilities for the defeased bonds are not included in the Town's financial statements.

In June 2009, the Town issued \$40 million in Refunding, Series 2009 bonds, which refunded the Park & Recreation Facilities, Series 1996 and Series 1998, a portion of the Public Improvement, Series 2001 and Water Bonds, Series 2001. The Series 1996 and 1998 bonds were fully called on July 1, 2009, qualifying as a current refund during fiscal year 2009. A portion of the Public Improvement, Series 2001 and Water Bonds, Series 2001 were advanced refunded. The reacquisition price on these defeased bonds exceeded the carrying value of the old debt in the amount of \$3.8 million, resulting in a refunding loss with an unamortized balance at June 30, 2015, of \$.4 million for Governmental-type and \$1.1 million for Business-type for a total of \$1.5 million to be amortized over the remaining life of the bonds. The Town completed this refunding to reduce its total debt service payments and to

Note 8 LONG-TERM OBLIGATIONS

E. REFUNDINGS AND REFINANCINGS *(Continued)*

obtain an economic gain (the difference between the present values of the old debt and new debt service payments) of \$2.7 million, of which \$.9 million is Governmental-type savings and \$1.8 million is Business-type savings.

In June 2010, the Town issued \$10.2 million in General Obligation Public Improvement Refunding Bonds, Series 2010A, which refunded a portion of the Public Improvement Bonds, Series 2001 and Water Bonds, Series 2001. \$.9 million of this debt is governmental and the remaining \$9.3 million is business-type. The bonds were advanced refunded and were redeemed on March 1, 2011. The advance refunding resulted in a net present value savings of \$.6 million for the Town of which \$55,000 is Governmental-type savings and \$.5 million is Business-type savings. The reacquisition price on these defeased bonds exceeded the carrying value of the old debt in the amount of \$561,000, resulting in a refunding loss with an unamortized balance at June 30, 2015 of \$.2 million for Business-type and \$43,000 for Governmental type, to be amortized over the remaining life of the bonds.

In addition, in June 2010, the Town issued \$15.2 in Limited Obligation Refunding Bonds, Series 2010 to refund a portion of the Certificates of Participation, Series 2002A and all of the remaining Series 2002B. The Series 2002B were fully called on June 15, 2010, and the Series 2002A were called on December 1, 2012. The refunding resulted in a net present value savings of \$.8 million all Governmental-type savings. The reacquisition price on the defeased bonds exceeded the carrying value of the old debt in the amount of \$.3 million, resulting in a refunding loss with an unamortized balance at June 30, 2015, of \$.1 million Governmental-type, to be amortized over the remaining life of the bonds.

In October, 2010, the Town issued \$14.7 million in General Obligation Public Improvement Refunding Bonds, Series 2010B, which refunded a portion of the Public Improvement Bonds, Series 2003. The bonds were advanced refunded and were redeemed on June 1, 2013. The advance refunding resulted in a net present value savings of \$.6 million all Governmental-type savings. The reacquisition price on these defeased bonds exceeded the carrying value of the old debt in the amount of \$1.5 million, resulting in a refunding loss with an unamortized balance at June 30, 2015 of \$.9 million Governmental type, to be amortized over the remaining life of the bonds.

In February 2012, the Town issued \$11.3 million in Limited Obligation Refunding Bonds, Series 2012 to refund \$10.9 million (all but the FY 2013 portion of the Certificates of Participation, Series 2002A). The Series 2002A were called on December 1, 2012. The refunding resulted in a net present value savings of \$.8 million all Governmental-type savings. The reacquisition price on the defeased bonds exceeded the carrying value of the old debt in the amount of \$.2 million, resulting in a refunding loss with an unamortized balance at June 30, 2015 of \$81,000 Governmental-type, to be amortized over the remaining life of the bonds.

The Town refunded a portion of the 2004 revenue bonds when the Town issued the Combined Enterprise System Revenue and Revenue Refunding Bonds, Series 2013. As part of this transaction, the Town issued \$12.7 million of utility system revenue bonds to advance refund \$14.1 million of the 2004 revenue bonds. This advance refunding resulted in a net present value savings of \$1.8 million for the Town. The reacquisition price on these defeased bonds exceeded the carrying value of the old debt in the amount of \$1.1 million, resulting in a refunding loss with an unamortized balance at June 30, 2015 of \$0. The remaining 2004 Revenue Bonds were called on 12/1/14 and the trust accounts have been closed.

The Town defeased the remainder of the Series 2003 Public Improvement General Obligation bonds in July 2014 paying \$6 million in principal and \$35,000 in interest. By paying the bonds off early, the Town realized over \$.4 million in interest savings.

In March 2015, the Town refunded a portion of the 2007 revenue bonds when the Town issued the Combined Enterprise System Revenue and Revenue Refunding Bonds, Series 2015. The Town issued \$15.8 million of utility system revenue bonds to advance refund \$16.1 million of the 2007 revenue bonds that were eligible to be refunded. The advance refunding resulted in a net present value savings of \$1.3 million for the Town. The reacquisition price on the defeased bonds exceeded the carrying value of the old debt in the amount of \$1.4 million, resulting in a refunding loss with an unamortized balance at June 30, 2015 of \$1.4 million. The 2007 Revenue Bonds that were eligible to be advanced refunded will be called on 12/1/2017.

Note 8 LONG-TERM OBLIGATIONS (Continued)

F. DEFERRED CHARGE ON DEBT REFINANCINGS

Due to numerous refinancing opportunities, the Town has incurred accounting losses, which are deferred at the time of the loss and amortized over time. This deferred charge is shown on the statements as a deferred outflow of resources. Details for each activity are as follows:

	Governmental Activities	Business-Type Activities
Balance June 30, 2014	\$1,768,333	1,941,854
Loss Due to Current Year Refinancing	---	1,250,026
Current Year Amortization	(253,216)	(626,011)
Ending Balance at June 30, 2015	<u>\$1,515,117</u>	<u>2,565,869</u>

G. DEPARTMENT OF HOUSING & URBAN DEVELOPMENT – SECTION 108 LOAN

On September 12, 2013 the Town Council approved an agreement with Memento Mori, LLC that provided authorization for the Town to pursue a Section 8 loan from the US Department of Housing and Urban Development (HUD). This loan was approved by the Department of Housing and Urban Development in June 2014 and will enable the Town to borrow funds related to the economic development plan by Memento Mori, LLC to build a boutique hotel in downtown Cary. The loan amount was approved at \$1.4 million with a 20 year term. At June 30, 2015, no draws have been made. Draws are expected to begin in the first half of fiscal year 2016. Once the project starts, the Town will receive loan payments from Memento Mori, LLC to be used to repay the loan to HUD. Should Memento Mori, LLC default on the loan, the Town must pledge its CDBG funds to repay the outstanding loan amount. No liabilities for the loan and no receivables related to the payback from Memento Mori, LLC are recorded at June 30, 2015.

H. STATE REVOLVING LOAN

During fiscal year 2004, the Town entered into a State Revolving Loan (SRL) to finance a biosolids dryer project. The draws for this loan were finalized during fiscal year 2007 for a total principal amount of \$10.2 million at a fixed interest rate of 2.42%. Repayment of this loan commenced on May 1, 2007, with annual principal and semi-annual interest payments through May 1, 2026. At June 30, 2015, the outstanding balance is \$5.6 million.

During fiscal year 2005, the Town entered into a State Revolving Loan to finance the planning, permitting, a portion of the design and other projects related to the new Western Wake Regional Wastewater Management Facility (WWRWMF). The initial loan was approved at \$5 million; however the loan draws were finalized during fiscal year 2007 based on actual costs for a total principal of \$4 million at a fixed interest rate of 2.205%. Repayment of the loan commenced during fiscal year 2008 and will continue through fiscal year 2027. Although this loan is the Town's debt, the Town has an interlocal agreement with the Town of Apex to pay a portion of the debt service (principal and interest) equal to their proportionate share of the project. There was also an interlocal agreement with the Town of Holly Springs to pay their proportionate share of the loan, however Holly Springs withdrew from the project and a settlement agreement was approved by Council at the February 13, 2013 meeting. A portion of the settlement payment made by Holly Springs was pre-payment of their liability for future state revolving fund loan payments. The Town applied the funds of \$.3 million in May of 2013 against the principal of the loan and reduced Holly Springs' liability to zero. The principal amount has been recorded as a long-term receivable and will be netted against the SRL long-term liability on the face of the financial statements. At June 30, 2015, the outstanding balance is \$1.4 million (net of \$.7 million partner receivable).

In February 2011, the Town received a State Revolving Loan for \$1 million which was the balance of the \$5 million State Revolving Loan that was approved in 2005, but not fully distributed at that time. The interest rate is 2.205% with payments over 20 years and the first payment was due in May 2012. Like the original loan, the Town of Apex will pay a portion of the debt service (principal and interest) equal to their proportionate share of the project. At June 30, 2015, the outstanding balance is \$.5 million (net of \$.3 million partner receivable).

TOWN OF CARY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

Note 8 LONG-TERM OBLIGATIONS

H. STATE REVOLVING LOAN (Continued)

In April 2011, the Town formally accepted a \$35 million State Revolving Loan to finance a portion of the construction of the WWRWMF. Repayment will be over a 20 year period, with an interest rate of 2.22% and principal and interest payments will begin in May 2015. As of June 30, 2015, the outstanding balance is \$31.5 million with \$33.3 million in loan draws having been made. The remaining difference of \$1.7 million is recorded as a long-term receivable, which is netted against the long-term liability balance.

In January 2013, the Town formally accepted a \$2.7 million State Revolving planning loan to finance the design for the expansion of the Cary/Apex Water Treatment Plant from 40 million gallons per day to 56 million gallons per day. The planning loan will be repaid over a 5 year period, with a zero percent interest rate and the principal payments began in May 2014. As of June 30, 2015, \$2.5 million in loan draws have been made and balance on the loan is \$1.4 million. The remaining difference of \$.2 million is recorded as a long-term receivable, which is netted against the long-term liability balance.

State revolving loan debt service requirements to maturity are as follows:

Year Ending	Biosolids Dryer		2005 WWRWMF #1		2011 WWRWMF #2		2011 Construction		2013 WTP Planning		Total SRL	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
June 30												
2016	\$511,161	136,071	178,734	47,293	52,061	18,367	1,750,000	738,150	539,000	---	3,030,956	939,881
2017	511,161	123,701	178,734	43,352	52,061	17,219	1,750,000	699,300	539,000	---	3,030,956	883,572
2018	511,161	111,331	178,734	39,411	52,061	16,071	1,750,000	660,450	539,000	---	3,030,956	827,263
2019	511,161	98,961	178,734	35,470	52,061	14,923	1,750,000	621,600	---	---	2,491,956	770,954
2020	511,161	86,591	178,734	31,529	52,061	13,775	1,750,000	582,750	---	---	2,491,956	714,645
2021 - 2025	2,555,806	247,402	893,671	98,527	260,308	51,658	8,750,000	2,331,000	---	---	12,459,785	2,728,587
2026 - 2030	511,161	12,370	357,468	11,823	260,308	22,959	8,750,000	1,359,750	---	---	9,878,937	1,406,902
2031 - 2035	---	---	---	---	52,061	1,148	7,000,000	388,500	---	---	7,052,061	389,648
Sub-total	5,622,772	816,427	2,144,809	307,405	832,982	156,120	33,250,000	7,381,500	1,617,000	---	43,467,563	8,661,452
Long-Term Receivable	---	---	---	---	---	---	(1,750,000)	---	(195,817)	---	(1,945,817)	---
Interlocal Agreements	---	---	(698,242)	(90,006)	(284,049)	(68,479)	---	---	---	---	(982,288)	(158,488)
TOTAL	\$5,622,772	816,427	1,446,567	217,399	548,933	87,641	31,500,000	7,381,500	1,421,183	---	40,539,458	8,502,964

TOWN OF CARY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

Note 8 LONG-TERM OBLIGATIONS (Continued)

I. CHANGES IN LONG-TERM LIABILITIES

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Refunded</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts due within one year</u>
GOVERNMENTAL ACTIVITIES						
Bonds & Notes Payable:						
General Obligation Debt	\$115,257,735	---	---	(7,675,849)	107,581,886	7,795,849
Limited Obligation Bonds	22,350,000	---	---	(2,605,000)	19,745,000	2,585,000
Installment Financing Agreements	577,472	---	---	(136,906)	440,566	141,820
Total Bonds & Loans Payable	138,185,207	---	---	(10,417,755)	127,767,452	10,522,669
Deferred Adjustments:						
Premium	6,889,608	---	---	(480,788)	6,408,820	---
Total Bonds & Notes Payable, Net	145,074,815	---	---	(10,898,543)	134,176,272	10,522,669
Other Liabilities:						
Capital Leases	1,738,674	765,816	---	(1,027,224)	1,477,266	936,408
Compensated Absences	4,927,964	4,238,209	---	(4,020,280)	5,145,893	4,202,198
Unfunded OPEB Liability	39,440,896	5,929,431	---	---	45,370,327	---
Workers' Compensation Long-Term Reserve	2,700,000	550,629	---	(1,048,137)	2,202,492	2,202,492
Health Insurance Long-Term Reserve	1,150,000	13,201,103	---	(12,898,756)	1,452,347	1,452,347
Small Claims Reserve	677,279	821,047	---	(1,004,552)	493,774	493,774
Development Fee Credits	10,281,116	418,404	---	(1,739,674)	8,959,846	452,000
Law Separation Allowance Unfunded Pension Liability	269,733	242,976	---	---	512,709	---
Other Long Term Agreements	784,819	25,825	---	(457,743)	352,901	194,772
Total Other Liabilities	61,970,481	26,193,440	---	(22,196,366)	65,967,555	9,933,991
Governmental Activities Long-Term Liabilities	\$207,045,296	26,193,440	---	(33,094,909)	200,143,827	20,456,660

Internal service funds predominantly serve the governmental funds. Accordingly, the long-term liabilities for them are included as part of the above totals for governmental activities. At year-end governmental long-term liabilities include \$56,000 and \$60,000 of the Fleet Management Internal Service Fund compensated absences and other post-employment liability, respectively, as well as \$1.5 million of the Health Insurance Internal Service Fund long-term reserve. With the exception of Development Fee Credits (discussed below), the majority of the remainder of the governmental liabilities will be satisfied by the General fund, with \$50,000 of the long-term agreement being satisfied by the Emergency Telephone Special Revenue Fund.

The Town enters into numerous developer agreements throughout the year, which award developers credits toward future fees based on their contributions to the Town's street infrastructure system. These credits are calculated and specifically identifiable in each agreement and are recorded as long-term liabilities in the entity-wide financial statements. Usage of credits is tracked through the general receipting and permitting system of the Town, and credits are written off as they expire per individual contractual agreements. Of the \$1.7 million reduction in the current year, \$1.2 million is related to expired agreements. As credits are used, revenue is also recorded.

TOWN OF CARY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

Note 8 LONG-TERM OBLIGATIONS

I. CHANGES IN LONG-TERM LIABILITIES (Continued)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Refunded</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts due within one year</u>
BUSINESS-TYPE ACTIVITIES						
Bonds & Notes Payable – Utility System:						
General Obligation Debt	\$88,832,267	---	---	(5,694,151)	83,138,116	5,919,151
Revenue Bonds	129,310,000	53,785,000	(16,050,000)	(1,960,000)	165,085,000	2,890,000
State Revolving Loans, net	43,494,973	---	---	(2,955,515)	40,539,458	2,890,240
Total Bonds & Loans Payable	261,637,240	53,785,000	(16,050,000)	(10,609,664)	288,762,574	11,699,391
Deferred Adjustments:						
Discount	(11,217)	---	---	1,613	(9,604)	---
Premium	19,756,708	4,899,627	(344,569)	(1,083,611)	23,228,155	---
Total Bonds & Notes Payable, Net	281,382,731	58,684,627	(16,394,569)	(11,691,662)	311,981,125	11,699,391
Other Liabilities – Utility System:						
Compensated Absences	908,107	970,504	---	(877,032)	1,001,579	963,719
Unfunded OPEB Liability	8,629,464	1,251,327	---	---	9,880,791	---
Development Fee Credits	3,936,213	---	---	(746,337)	3,189,876	60,000
Morrisville Debt Agreement	160,425	---	---	(160,425)	---	---
Other Long Term Agreements	---	210,000	---	(30,000)	180,000	30,000
Total Other Liabilities	13,634,209	2,431,831	---	(1,813,794)	14,252,246	1,053,719
Business-Type Activities Long-Term Liabilities	\$295,016,940	61,116,458	(16,394,569)	(13,505,456)	326,233,371	12,753,110

All business-type liabilities will be liquidated by the Utility Systems Enterprise Fund.

The Town enters into numerous developer agreements throughout the year, which award developers credits toward future fees based on their contributions to the Town's utility infrastructure system (water, sewer and reclaimed). These credits are calculated and specifically identifiable in each agreement and are recorded as long-term liabilities in the entity-wide financial statements. Usage of credits is tracked through the general receipting and permitting system of the Town, and credits are written off as they expire per individual contractual agreements. Of the \$.7 million reduction in the current year, \$.6 million is related to expired agreements. As credits are used, revenue is also recorded.

In fiscal year 2006, the Town of Morrisville's water and sewer utility system merged with the Town of Cary's utility system, with Cary being the sole operator. The Town of Cary assumed ownership of all Morrisville utility assets, as well as certain liabilities related to future utility debt service payments on Morrisville general obligation bonds and future Jordan Lake water capacity payments to the State of North Carolina. Final payments were made in fiscal year 2015 and were and paid within the Utility System Operating Fund, a sub-fund of the Utility Systems Enterprise Fund. All other business-type liabilities will be satisfied by this same operating fund.

Not included in the schedules above is the beginning liability balance related to the Local Government Retirement System pension. At the beginning of the year there was a total liability of \$15.7 million (\$13 million for Governmental and \$2.7 million for Business-Type). This flipped during the year leaving a pension asset at June 30, 2015. See Note 11.A. for details related to implementation of GASB 68 and 71, including the adjustment to beginning Net Position for change in accounting principal.

TOWN OF CARY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
 For the Year Ended June 30, 2015

Note 8 LONG-TERM OBLIGATIONS (Continued)

J. AUTHORIZED UNISSUED BONDS AND LEGAL DEBT MARGIN

The Town is subject to the Local Government Bond Act of North Carolina, which limits the amount of net bonded debt the Town may have outstanding to 8 percent of the appraised value of property subject to taxation. At June 30, 2015, such statutory limit for the Town was \$1.8 billion providing a legal debt margin of approximately \$1.5 billion. The Town does not intend to extend its debt to any amount near the legal debt limit.

At June 30, 2015, the Town had authorized but not issued general obligation bonds of \$40.2 million, \$5.4 million, \$1.4 million and \$43.6 million, designated for streets, parks/recreational facilities, fire facilities and wastewater facilities, respectively for a total of \$90.6 million.

Note 9 ACCOUNTS PAYABLE, AND OTHER ACCRUED LIABILITIES

Accounts payable and other accrued liabilities as of year-end for the Town's individual major funds in the aggregate as presented in the fund financials and entity-wide statements are as follows:

	<u>General</u>	<u>Capital Projects</u>	<u>Special Revenue</u>	<u>Total Governmental Funds</u>	<u>Full Accrual Adjustment</u>	<u>Entity-Wide Governmental Activity</u>	<u>Business-type Utility System</u>
Salaries and employee benefits	\$4,786,037	4,563	11,972	4,802,572	36,358	4,838,930	533,934
Due to other governments	4,334,432	---	---	4,334,432	---	4,334,432	---
Due to Vendors	2,208,336	3,509,079	467,232	6,184,647	178,148	6,362,795	7,936,036
Miscellaneous	295,924	390,500	---	686,424	---	686,424	43,091
	<u>\$11,624,729</u>	<u>3,904,142</u>	<u>479,204</u>	<u>16,008,075</u>	<u>214,506</u>	<u>16,222,581</u>	<u>8,513,061</u>

The governmental amount for the Special Revenue Funds is comprised of approximately \$62,000 for the CDBG Fund, \$31,000 for the Emergency Telephone System Fund and \$386,000 for the Transit Fund. The full accrual adjustment represents the Fleet Management Internal Service Fund accounts payable and accrued liabilities. For presentation purposes, the accounts payable portion of the worker's compensation and small claims liability is included with the long-term liabilities on the Entity-Wide financial statements and in the supporting note.

Note 10 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; on-the-job injuries to employees; and natural disasters. The Town administers three self-funded programs that cover small claims and losses, employee, spouse and dependent health and dental claims, and workers' compensation. The Town contracted with a third-party to perform an actuarial valuation for an estimate of claims incurred, but not reported for workers compensation and health and dental as of June 30, 2015.

Workers' Compensation – The Town is self-insured for statutory workers' compensation coverage with a retention per occurrence of \$.6 million for all employee classifications, a maximum limit of indemnity per occurrence of \$1 million, and a maximum limit of indemnity of \$1 million for aggregate claims losses. Based on historical trends and information available, the third party administrator and actuarial information from the previous year a reserve of \$2.2 million was calculated as of June 30, 2015, for claims incurred but not reported and for items reported but not paid. This entire amount is estimated to be paid within the next fiscal year and included in the current portion of long-term liabilities within the entity-wide statements. \$.1 million of this liability is considered a current liability within the fund financials; however, it is included in long-term liabilities for readability purposes. The

TOWN OF CARY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

Note 10 RISK MANAGEMENT (Continued)

full amount of the liability is estimated to be paid within the next fiscal year and included in the current portion of long-term liabilities within the entity wide statements.

Small Claims and Losses - The Town self-funds small claims and losses incurred throughout the year. Claims are administered by an internal risk manager. Based on historical data and information available, management estimated and reserved \$.5 million for claims incurred but not reported and for items reported but not paid. This entire amount is estimated to be paid within the next fiscal year and included in the current portion of long-term liabilities within the entity-wide statements. \$33,000 of this liability is considered a current liability within the fund financials; however, it is included in long-term liabilities for readability purposes. The full amount of the liability is estimated to be paid within the next fiscal year and included in the current portion of long-term liabilities within the entity wide statements.

Health and Dental Claims – Since fiscal year 2003, the Town has self-funded health and dental coverage for all permanent employees, which is administered by Blue Cross Blue Shield, a third party administrator. Employees can also pay a portion of the premium to add a spouse or dependent(s) or increase coverage. These claims are also administered by the third party administrator. Based on information available, the third party administrator and actuarial information from the previous year a reserve of \$1.4 million was calculated, as of June 30, 2015, for health claims incurred but not reported and for items reported but not paid and a reserve of less than \$.1 million was calculated for dental claims incurred but not reported and for items reported but not paid. \$1.3 million (most in health and only \$37,000 in dental) of this liability is considered a current liability within the fund financials; however, it is included in long-term liabilities for readability purposes. The full amount of the liability is estimated to be paid within the next fiscal year and included in the current portion of long-term liabilities within the entity wide statements.

All reserves and estimated claims reported but not paid and incurred but not recorded are accrued and reported within the General Fund and the Health Insurance Internal Service Fund in the fund financials and in governmental activities in the entity-wide financials.

The following is a reconciliation of changes in liabilities for claims from amounts reported June 30, 2013 to the current fiscal year ended June 30, 2015:

	Workers' Compensation	Small Claims and Losses	Dental Claims	Health Claims	Total
Balance June 30, 2013	\$1,901,387	636,015	146,189	1,611,793	4,295,384
Claims reported and changes in estimates for FY 2014	2,068,489	851,412	1,091,977	9,791,712	13,803,590
Claims paid in FY 2014	<u>(1,269,876)</u>	<u>(810,148)</u>	<u>(1,163,166)</u>	<u>(10,328,505)</u>	<u>(13,571,695)</u>
Balance June 30, 2014	2,700,000	677,279	75,000	1,075,000	4,527,279
Claims reported and changes in estimates for FY 2015	550,629	821,047	1,189,904	12,011,199	14,572,779
Claims paid in FY 2015	<u>(1,048,137)</u>	<u>(1,004,552)</u>	<u>(1,191,782)</u>	<u>(11,706,974)</u>	<u>(14,951,445)</u>
Balance June 30, 2015	<u>\$2,202,492</u>	<u>493,774</u>	<u>73,122</u>	<u>1,379,225</u>	<u>4,148,613</u>

TOWN OF CARY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

Note 10 RISK MANAGEMENT (Continued)

The Town provides for property and liability coverage through comprehensive third party insurance policies. The Town's property and liability coverage at June 30, 2015 are as follows:

Property Coverage

<u>Coverage</u>	<u>Liability Coverage Limits</u>
Property Insurance – Building and Contents	\$421,384,422
Extra coverage for Town Hall and Operations Center	1,000,000
Communication Equipment	2,051,261
Contractor Equipment	5,452,947
Leased Equipment	400,000
General and Automobile Liability	1,000,000
Excess Liability	6,000,000
Tort Liability for Public Officials, Law Enforcement and Employment Practices	500,000
Workers' Compensation	Statutory
Per Retention per Accident and/or Disease	600,000
Employers' Liability per occurrence	1,000,000
Aggregate Retention	1,000,000

Deductibles are established at appropriate levels as determined by management and an independent insurance consultant. For fiscal year 2015, the self-insured retention was \$25,000 per incident for catastrophic damage, \$250,000 per claim for Public Officials, Law Enforcement and Employment practices, and deductibles for other damages ranged from \$5,000 to \$10,000 per year. The Town's Finance Director, Wake County's and Chatham County's Tax Collectors and Revenue Collectors are covered by individual bonds of \$100,000 each. The Town is also covered by a \$75,000 individual Treasurer's bond. The Town carries no flood insurance.

Note 11 PENSION PLAN OBLIGATIONS

A. LOCAL GOVERNMENT 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 General Statute 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. LGERS 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 by visiting their website at www.osc.nc.gov.

Note 11 PENSION PLAN OBLIGATIONS

A. LOCAL GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM *(Continued)*

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, 2015, 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. The Town's contributions to LGERS for the years ended June 30, 2015, 2014 and 2013 were \$5.1, \$4.8 and \$4.4 million, respectively. The contributions made by the Town equaled the required contributions for each year.

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.

Prior Period Adjustment – Change in Accounting Principal: Since fiscal year 2015 is the first year of implementation of the new Pension GASB Statement 68 and 71, a prior period adjustment is required related to the change in accounting principal. Based on information from the State for LGERS, at June 30, 2013 (one-year prior to measurement date of June 30, 2014), there was a pension liability of \$15.7 million and a deferred outflow of \$4.8 million, creating a \$10.9 million decrease to beginning Net Position. Of this amount \$9 million was related to Governmental Activities (including approximately \$91,000 related to Fleet Management Internal Service Fund) with the remaining \$1.9 million relating to Business-Type Activities.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: At June 30, 2015, the Town reported an asset of \$7.7 million for its proportionate share of the net pension asset (\$6.4 million governmental, \$1.3 million business-type). The net pension asset was measured as of June 30, 2014. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2013. The total pension liability was then rolled forward to the measurement date of June 30, 2014 utilizing update procedures incorporating the actuarial assumptions. The Town's proportion of the net pension asset was based on a projection of the Town's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2014, the Town's proportion was 1.313%, which was an increase of .010% from its proportion measured as of June 30, 2013.

TOWN OF CARY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

Note 11 PENSION PLAN OBLIGATIONS

A. LOCAL GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM *(Continued)*

For the year ended June 30, 2015, the Town recognized pension expense of approximately \$5.2 million. At June 30, 2015, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows	Deferred Inflows
Differences Between Expected and Actual Experience	\$ ---	(845,942)
Net Difference between Projected and Actual Earnings on Pension Plan Investments	---	(18,023,092)
Changes in Proportion and Differences Between Town Contributions and Proportionate Share of Contributions	---	(224,651)
Town Contributions Subsequent to the Measurement Date	5,073,735	---
	<u>\$5,073,735</u>	<u>(19,093,685)</u>

\$5.1 million reported as deferred outflows (listed above) resulted from Town contributions made subsequent to the measurement date of June 30, 2014. This will be recognized as an increase of the net pension asset in fiscal year 2016. Other amounts reported as deferred inflows will be recognized as an addition to pension expense as follows:

Fiscal Year	Expense Adjustment
2016	\$4,774,092
2017	4,774,092
2018	4,774,092
2019	4,771,409
	<u>\$19,093,685</u>

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	36.0%	2.5%
Global Equity	40.5	6.1
Real Estate	8.0	5.7
Alternatives	6.5	10.5
Credit	4.5	6.8
Inflation Protection	4.5	3.7
	<u>100.0%</u>	

The information in the preceding tables is based on 30 year expectations developed with the consulting actuary for the 2013 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 3.19%. All rates of return and inflation are annualized.

Note 11 PENSION PLAN OBLIGATIONS

A. LOCAL GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM *(Continued)*

A new asset allocation policy was finalized during fiscal year 2014 to be effective July 1, 2014. The new asset allocation policy utilizes different asset classes, changes in the structure of certain asset classes, and adopts new benchmarks. Using the asset class categories in the preceding table, the new long-term expected arithmetic real rates of return are: Fixed Income 2.2%, Global Equity 5.8%, Real Estate 5.2%, Alternatives 9.8%, Credit 6.8% and Inflation Protection 3.5%.

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 table below 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/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 Asset (Liability)	(\$26,279,536)	7,741,950	36,386,947

Pension Plan Fiduciary Net Position: Detailed information about the pension plan's fiduciary net position is available in the separately issued CAFR for the State of North Carolina.

B. LAW ENFORCEMENT OFFICERS SPECIAL SEPARATION ALLOWANCE

Plan Description - The Town of Cary 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. For reporting purposes, the Separation Allowance is reported in the Town's report as a pension trust fund; however, it does not meet the criteria for trust funds outlined in GASB Statement 68. No separate report is issued.

All full-time law enforcement officers of the Town are covered by the Separation Allowance. At December 31, 2014, the Separation Allowance's membership consisted of:

Retirees receiving benefits	15
Terminated plan members entitled to but not yet receiving benefits	0
Active plan members	<u>191</u>
Total	<u><u>206</u></u>

Summary of Significant Accounting Policies - Financial statements are prepared using the accrual basis of accounting. Employer contributions to the plan are recognized when due and when the Town has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Both contributions and benefits are included in the annual operating budget.

Note 11 PENSION PLAN OBLIGATIONS

B. LAW ENFORCEMENT OFFICERS SPECIAL SEPARATION ALLOWANCE *(Continued)*

Contributions – The Town has chosen to fund the amounts necessary to cover a portion of benefits earned by using the most recent actuarial valuation at the time of budget development as a guideline. This amount is not equal to the annual required contribution. A contribution to the Pension Trust Fund (expenditure) is budgeted in the General Fund to cover the funding requirements. Investments are reported at fair value and are invested in the North Carolina Capital Management Trust (NCCMT). NCCMT investments are reported at cost or amortized cost, which approximates fair value. The Town’s obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly.

For the current year, the Town contributed \$.4 million, or 2.80% of annual covered payroll. There were no contributions made by employees. The Town’s obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. Administration costs of the Separation Allowance are financed through the General Fund as part of operations in the General Governmental function.

The annual required contribution for the current year was determined as part of the December 31, 2014 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 5% investment rate of return (net of administrative expenses) and (b) projected salary increases of 4.25-7.85% per year. Both (a) and (b) included an inflation component of 3%. The assumptions did not include post-employment benefit increases. The actuarial value of assets was determined using the market value of investments. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at December 31, 2014 was 16 years.

Annual Pension Cost and Net Pension Reserve - The Town’s annual pension cost (expense) and net pension obligation to the Separation Allowance for the current year were as follows:

Annual Required Contribution (ARC)	\$616,470
Interest on Net Pension Obligation	13,487
Adjustment to ARC	<u>(22,786)</u>
Annual Pension Cost (Expense)	607,171
Contributions Made in FY2015	<u>364,195</u>
Increase in Net Pension Reserve	242,976
Net Pension Obligation, June 30, 2014	<u>269,733</u>
Net Pension Obligation, June 30, 2015	<u><u>\$512,709</u></u>

Three-Year Trend Information

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
06/30/2015	\$607,171	59.98 %	\$512,709
06/30/2014	491,051	64.82	269,733
06/30/2013	458,765	65.39	96,973

Note 11 PENSION PLAN OBLIGATIONS

B. LAW ENFORCEMENT OFFICERS SPECIAL SEPARATION ALLOWANCE *(Continued)*

Funded Status and Funding Progress – As of December 31, 2014, the most recent actuarial valuation date, the plan was 22.20% funded. The actuarial accrued liability for benefits was \$5.9 million and the actuarial value of assets was \$1.3 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$4.6 million. The covered payroll (annual payroll of active employees covered by the plan) was \$13 million and the ratio of the UAAL to the covered payroll was 35.27%.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

C. SUPPLEMENTAL RETIREMENT INCOME PLAN (401K and 401A)

Plan Description - The Town contributes to the Supplemental Retirement Income Plan (Plan), a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Plan provides retirement benefits to all permanent full-time employees, as well as law enforcement officers employed by the Town. All employees, with the exception of law enforcement officers, are given a choice between the plan statutorily defined for officers and a 401A plan. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. All employees begin participation at the date of employment. The Supplemental Retirement Income Plan for Law Enforcement Officers is included in the 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, NC 27699-1410, or by calling (919)981-5454.

Funding Policy - Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. The Town makes an equal contribution of 5% of monthly salary to all other permanent employees. Also, all employees may make voluntary contributions to the plan. Contributions for law enforcement officers for the year ended June 30, 2015, were \$1 million which consisted of \$.7 million from the Town and \$.3 million voluntary contributions from the law enforcement officers. Contributions for all other employees were \$4.3 million, which consisted of \$2.9 million from the Town and \$1.3 million voluntary contributions from other employees.

D. DEATH BENEFIT PLAN

The Town has elected to provide death benefits to employees through the Death Benefit Plan for member of LGERS and through group-term life insurance from a private provider.

Plan Description - The Death Benefit Plan through LGERS (Death Benefit Plan) is a multiple-employer, State-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest month's salary in a row during the 24 months prior to the employee's death, but the benefit may not exceed \$50,000 or be less than \$25,000. For the additional group-term life insurance plan, the Town provides at no cost coverage to all active employees working 20 or more hours per week at one times salary (up to maximum of \$250,000). Employees can further elect to participate in various voluntary insurance programs with no cost to the Town.

Funding Policy – For the Death Benefit Plan, contributions are determined as a percentage of monthly payroll, based upon rates established annually by the State. Separate rates are set for employees not engaged in law enforcement and law enforcement officers. Because the benefit payments are made by the Death Benefit Plan and not by the Town, the Town does not determine the number of eligible participants. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount. Due to a surplus in the death benefit, a decision was made by the State to temporarily stop employer contributions to the Death Benefit Plan beginning July 1,

Note 11 PENSION PLAN OBLIGATIONS

D. DEATH BENEFIT PLAN *(Continued)*

2012. A temporary relief period based on the number of years the employer has contributed as of December 31, 2010 was established. For participants who contributed 20 years or more, which includes the Town, three years of relief were given. Contributions are expected to resume in fiscal year 2016. The period of reprieve is determined separately for law enforcement officers. For the additional group-term life insurance plan, the Town funds on a pay-as-you-go basis.

E. OTHER POST-EMPLOYMENT BENEFITS (OPEB)

Plan Description - The Town administers a single-employer defined benefit healthcare plan (“the health plan”), which provides post-retirement health care benefits to retirees of the Town, provided they meet any of the retirement options available through the North Carolina Local Governmental Employees’ Retirement System (NCLGERS) and reach the 15 year service level of creditable service with the Town. Upon reaching the 15 year service level, the Town will pay 50% of the group plan individual premium and will increase that amount 5% for each additional year of service to the 25 year service level. Health care, prescription drugs, pre-65 dental and vision coverage are provided in the health plan. When the eligible retiree has turned 65 and is no longer covered by the health plan, the Town will continue to provide a substantially equal monetary benefit to the post-65 retiree to cover a premium Medicare supplement and the prescription drug plan. If the benefit is higher than the premium, the amount is available to the retiree in a health reimbursement account (HRA). In addition to this, a lump sum life insurance benefit of \$5,000 is provided to those retirees who have at least 25 years of service at the time of retirement. Dependent or spouse coverage in the health plan must be paid in full by the retiree.

At December 31, 2013, the date of the last actuarial valuation (used in these calculations), membership of the plan consisted of the following:

	General Employees
Retirees, spouses and dependents receiving benefits	171
Active plan members – Employees	<u>1,104</u>
Total	<u><u>1,275</u></u>

Funding Policy – The Town pays the full cost of coverage for the healthcare benefits paid to qualified retirees as authorized by the Town’s Council approved personnel ordinance. In addition, the budget for these expenditures is approved, along with other healthcare expenditures as part of the annual budget process. In addition to coverage from employees, the Town’s members can elect to pay a range of \$90 to \$215 per pay period for spouse, dependent or family coverage. For fiscal year 2015, the Town chose to fund the plan benefits on a pay-as-you-go basis.

The current annual required contribution (ARC) rate is 11.55% of annual covered payroll. For the current year, the Town contributed \$.9 million, which equaled an estimated value of \$1.4 million with the implicit subsidy, or 1.98% of annual covered payroll. The 171 members receiving benefits includes retirees, dependents and several prior employees who are not eligible, but are included in the group insurance and pay 100% of the premium. The Town self-funds health and dental coverage for all retirees, similar to how it is handled for active employees. Like employees, retirees also have the option of upgrading to an increased benefit package. This increased premium expense, along with dependent and/or spouse coverage (for any package option) is paid for in full by the retiree. The total contributed during fiscal year 2015 by retirees over and above the basic benefit was \$.2 million.

Summary of Significant Accounting Policies – Post-employment expenditures are made from the General Fund, Utility Enterprise Fund and the Fleet Management Internal Service Fund, which is maintained on the modified accrual basis of accounting throughout the year and adjusted to full accrual where required for reporting purposes. No funds are set aside in a qualified trust fund to pay benefits and administration costs. These expenditures are paid within the fiscal year as they come due.

Annual OPEB Cost and Net OPEB Obligation – The Town’s annual OPEB cost (expense) is calculated based on the ARC, an amount actuarially determined in accordance with the parameters of Governmental Accounting Standards Board Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost

TOWN OF CARY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

Note 11 PENSION PLAN OBLIGATIONS

E. OTHER POST-EMPLOYMENT BENEFITS (OPEB) (Continued)

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:

	<u>Governmental</u>	<u>Business-Type</u>	<u>Total</u>
Annual Required Contribution (ARC)	\$6,934,105	1,463,354	8,397,459
Interest on Net OPEB Obligation	1,343,348	283,497	1,626,845
Adjustment to ARC	<u>(1,158,960)</u>	<u>(244,586)</u>	<u>(1,403,546)</u>
Annual OPEB Cost (Expense)	7,118,493	1,502,265	8,620,758
Amount Paid in FY2015 for Retiree Benefits	<u>(1,189,062)</u>	<u>(250,938)</u>	<u>(1,440,000)</u>
Increase in Net OPEB Obligation	5,929,431	1,251,327	7,180,758
Net OPEB Obligation, June 30, 2014	<u>39,440,896</u>	<u>8,629,464</u>	<u>48,070,360</u>
Net OPEB Obligation, June 30, 2015	<u><u>\$45,370,327</u></u>	<u><u>9,880,791</u></u>	<u><u>55,251,118</u></u>

As allowed by GASB, the same actuarial analysis was used for current year as was prior year. It is dated December 31, 2013 and uses the projected unit credit methodology for costing. The amortization method for the prior year portion of the annual OPEB cost is level percent of pay (open) over 30 years (amortization factor of 28.9774). The asset valuation method is based on market value of assets. A 4% investment rate of return was used and a range of 4.5% to 8% was used for medical cost trend rate, which includes a 3.75% inflation rate. The year of ultimate trend rate is 2018. The implicit rate subsidy included in the amount paid of \$1.4 million was estimated based on prior year amounts and ratios as compared to actual payments.

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2013 through 2015 are as follows:

For Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2015	\$8,620,758	16.70%	\$55,251,118
2014	8,620,758	14.17	48,070,360
2013	7,119,337	13.88	40,671,123

Funding Status and Funding Progress – As of June 30, 2015, the plan was not funded and this status has not changed. At December 31, 2013 the actuarial accrued liability for benefits and, thus, the unfunded actuarial accrued liability (UAAL) was \$94.2 million. The covered payroll (annual payroll of active employees covered by the plan) for the fiscal year 2015 is estimated at \$72.7 million, and the ratio of the UAAL to the covered payroll was 129.53%. 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.

Note 11 PENSION PLAN OBLIGATIONS

E. OTHER POST-EMPLOYMENT BENEFITS (OPEB) (Continued)

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 plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Note 12 INTERFUND TRANSFERS

A summary of interfund transfers by fund for the year ended June 30, 2015, is as follows:

	TRANSFERS FROM: <u>Governmental</u> General Fund
TRANSFERS TO:	
Governmental:	
Capital Project Fund	\$12,897,595
Transit Special Revenue	1,695,172
Economic Development - Special Revenue	<u>579,000</u>
TOTAL	<u>\$15,171,967</u>

Transfers to the Capital Project Fund are for funding of specific capital needs. Transfers to the Special Revenue Funds are for operations pertaining to those specific purposes.

Note 13 NET INVESTMENT IN CAPITAL ASSETS

The following table provides detail information regarding the Net Investment in Capital Assets that is presented in the entity-wide financial statements:

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>
Capital Assets, net of accumulated depreciation	\$798,952,203	750,950,621
<u>Deduct:</u>		
Debt (net of deferred premium & discount)	(134,176,272)	(311,981,125)
Deferred Refunding Loss	1,515,117	2,565,869
Capital Leases portion related to assets	(960,945)	---
Developer Fee Credits	(8,959,846)	(3,189,874)
Long-term obligations related to intangible assets	(94,077)	---
<u>Add:</u>		
Long-term debt not related to assets	53,987,883	---
Unspent debt proceeds	<u>25,552,703</u>	<u>31,591,518</u>
Net Investment in Capital Assets	<u>\$735,816,766</u>	<u>469,937,009</u>

TOWN OF CARY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
 For the Year Ended June 30, 2015

Note 14 FUND BALANCE

The following schedule provides information on the portion of General Fund balance that is available for appropriation:

Appropriated in the Fiscal Year 2016 Budget (including approved rollovers)	\$6,212,481
Parks, Recreation & Culture	2,080,615
Public Safety Operations & Projects	1,326,297
Affordable Housing	260,394
Workers' Compensation	2,296,787
Small Claims Self Insurance	<u>1,098,934</u>
Restricted, Committed or Assigned for Specific Purposes (excluding stabilization)	13,275,508
Unassigned	<u>64,510,499</u>
AVAILABLE FUND BALANCE	77,786,007
Nonspendable	2,148,248
Stabilization by State Statute	<u>16,081,802</u>
TOTAL FUND BALANCE	<u><u>\$96,016,057</u></u>

Nonspendable fund balance includes balances in inventory, prepaid assets and endowments at June 30, 2015. For a breakdown of the Nonspendable portion and of what is restricted, committed and assigned within available fund balance, see detail presented in Exhibit C.

Stabilization by State Statute is calculated on all Governmental funds that operate under an annual budget. Outstanding encumbrances of \$1.6 million related to the General Fund, \$23,000 related to the Transit Special Revenue Fund and \$90,000 related to the Emergency Telephone System Special Revenue Fund are included in this calculation and are considered amounts needed to pay any commitments related to purchase orders, contracts and other obligations that remain unperformed at year end.

In April 2015, Town Council approved a fund balance policy for the General Fund to maintain "accessible" fund balance at a level of at least 25% and total fund balance at a level of 40% of budgeted general fund expenditures (approximately five months of expenditures). Accessible fund balance is defined as the total of assigned and unassigned fund balance. Use of fund balance over these limits is limited to pay-as-you-go capital expenditures and other one-time only expenditures. Flexibility is given to go below policy levels to accommodate emergencies or dire financial circumstances. In the event limits are breached, Town Council will adopt a plan of specific actions to be taken to restore fund balance to levels according to the policy within a maximum of three fiscal years. Balances at June 30, 2015 are in conformity with this policy.

Note 15 SUBSEQUENT EVENTS

The Town has evaluated subsequent events through October 24, 2015, in connection with the preparation of these financial statements, which is the date the financial statements were available to be issued and the following significant items occurred after June 30, 2015 and prior to the report date:

As of June 30, 2015, the Town had approximately \$.2 million of the state revolving loan that was approved in 2013 for the planning and design of the expansion of the Cary/Apex Water Treatment Plant, but was not yet drawn. The initial loan of \$2.7 million was an estimated amount for planning and design costs as contracts were not finalized at the time.

If the Town had received a construction state revolving loan, any unspent funds from the planning loan would have been rolled to construction. The Town applied for, but did not receive a construction loan. All planning and design costs have been paid from the loan, so the remaining balance will not be drawn. On August 18, 2015, the Town signed a new promissory note with the State Treasurer's Office reducing the total loan to \$2.5 million. Future debt service payments were slightly reduced due to this change.

Note 16 CONTINGENT LIABILITIES

The Town receives amounts from federal, state, and local government agencies in the form of grants. The disbursement of funds under these programs is subject to audit in accordance with Office of Management and Budget Circular A-133 Audit of States, Local Governments, and Non-Profit Organizations. The Town expects the amount, if any, of expenditures that may be disallowed by the granting agencies as a result of these audits to be immaterial.

The Town is a defendant in other various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the Town Attorney and management that the resolution of these matters will not have a material adverse effect on the financial condition of the Town.