

Town of Oriental

FINANCIAL REPORT

June 30, 2015



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Town of Oriental
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REPORT





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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Oriental, North Carolina, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Oriental, North Carolina, as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-13 and the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Asset and Contributions on pages 48-49 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Carr, Riggs & Ingram, L.L.C.

CARR, RIGGS & INGRAM, LLC
New Bern, North Carolina
March 2, 2016

Town of Oriental Management's Discussion and Analysis

As management of the Town of Oriental "the Town", we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2015. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

Financial Highlights

- The assets and deferred outflows of resources of the Town exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$2,907,481 (net position).
- The government's total net position increased by \$52,897 due to a combination of factors; primarily repairs and upgrades to water plant.
- As of the close of the current fiscal year, the Town's governmental fund (General Fund) reported an ending fund balance of \$743,803, an increase of \$97,322 in comparison with the prior year. The central reasons for the increase include higher ad valorem tax revenues and reduced expenditures within public works and buildings and grounds. Approximately 44% percent of this total amount, or \$323,637, is available for spending at the government's discretion (unassigned fund balance). For additional information regarding classification of the Town's fund balance, please see Note II, D.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$323,637, or 44% percent of total general fund expenditures for the fiscal year.

Overview of the Financial Statements

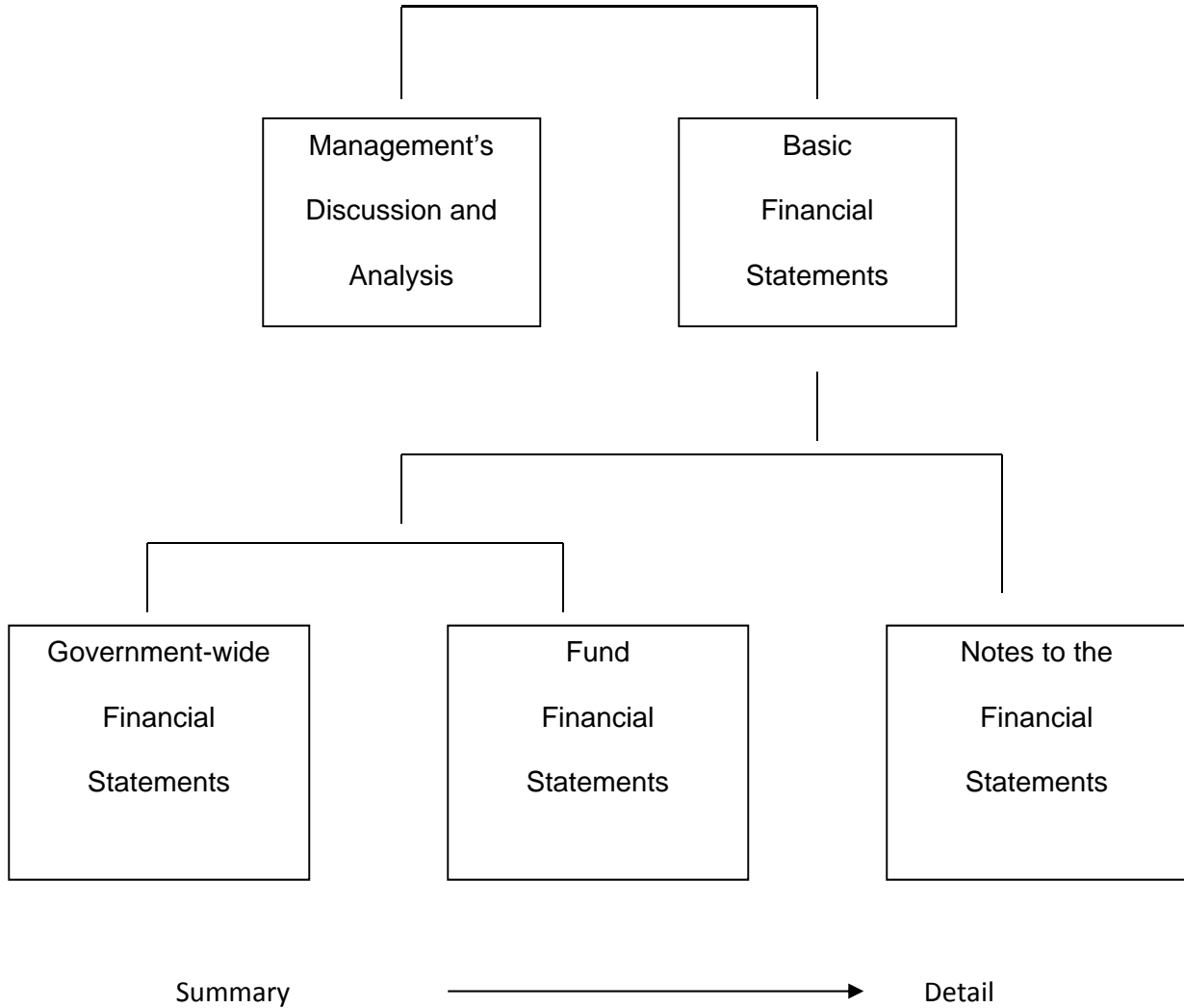
This discussion and analysis is intended to serve as an introduction to the Town's basic financial statements. The Town's basic financial statements consist of three components (see figure 1). They are as follows:

- Government-wide financial statements
- Fund financial statements
- Notes to the financial statements

The basic financial statements present two different views of the Town through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the Town.

Town of Oriental Management's Discussion and Analysis

Required Components of Annual Financial Report
Figure 1



Basic Financial Statements

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

The next statements (Exhibits 3 through 9) are Fund Financial Statements. These statements focus on the activities of the individual parts of the Town's government. These statements provide more detail than the government-wide statements. There are four parts to the fund financial statements:

Town of Oriental Management's Discussion and Analysis

1) the governmental fund statements; 2) the budgetary comparison statements; 3) the proprietary fund statements; and 4) fiduciary fund statements.

The next section of the basic financial statements is the Notes. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, supplemental information is provided to show details about the Town's individual funds. Budgetary information required by the General Statutes can also be found in this part of the statements.

Government-wide financial statements. The government-wide financial statements consist of two statements. They are the Statement of Net Position and the Statement of Activities. They are designed to provide readers with a broad overview of the Town's finances, in a manner similar to a private-sector business.

The Statement of Net Position presents information on all of the Town's assets and liabilities, with the difference between the two reported as net position. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

The Statement of Activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of cash flows. Thus, revenue and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the Town that are primarily supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Town include general government, public safety, buildings and grounds, economic/physical development, environmental protection, and culture and recreation. The business-type activities of the Town include water operations.

The government-wide financial statements can be found on pages 14 - 16 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like other local governments, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. All of the funds of the Town can be divided into two categories: governmental funds and proprietary funds.

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

Town of Oriental Management's Discussion and Analysis

spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting*, which provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the Town's programs. The relationship between government activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

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

Proprietary Funds. The Town's proprietary type funds provide the same type of information found in the government-wide financial statements, but in more detail. The Town uses enterprise funds to account for its water and sewer activity.

The fund financial statements can be found on pages 17 - 25 of this report.

Notes to the financial statements. The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The notes to the financial statements can be found on pages 26 - 39 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the Town's property taxes and the Town's progress in funding its obligation to provide pension benefits to its employees.

The other information can be found on pages 40 - 47 of this report.

Town of Oriental Management's Discussion and Analysis

Interdependence with Other Entities: The Town depends on financial resources flowing from, or associated with, both the Federal Government and the State of North Carolina. Because of this dependency, the Town is subject to changes in specific flows of intergovernmental revenues based on modifications to Federal and State laws and Federal and State appropriations.

Government-Wide Financial Analysis

Town of Oriental's Net Position

Figure 1

	Governmental Activities		Business-type Activities		Totals	
	2015	2014	2015	2014	2015	2014
Current and other assets	\$ 823,561	\$ 721,608	\$ 205,624	\$ 189,861	\$ 1,029,185	\$ 911,469
Capital assets	672,090	671,160	1,307,901	1,343,008	1,979,991	2,014,168
Deferred outflows of resources	17,422	-	3,156	-	20,578	-
Total assets and deferred outflows of resources	1,513,073	1,392,768	1,516,681	1,532,869	3,029,754	2,925,637
Long term liabilities outstanding	17,171	12,204	-	-	17,171	12,204
Other liabilities	18,240	26,861	27,818	31,988	46,058	58,849
Deferred inflows of resources	43,740	-	15,304	-	59,044	-
Total liabilities and deferred inflows of resources	79,151	39,065	43,122	31,988	122,273	71,053
Net position:						
Net investment						
in capital assets	672,090	671,160	1,307,901	1,343,008	1,979,991	2,014,168
Restricted	161,646	143,992	-	-	161,646	143,992
Unrestricted	600,186	538,551	165,658	157,873	765,844	696,424
Total net position	\$1,433,922	\$1,353,703	\$1,473,559	\$1,500,881	\$2,907,481	\$2,854,584

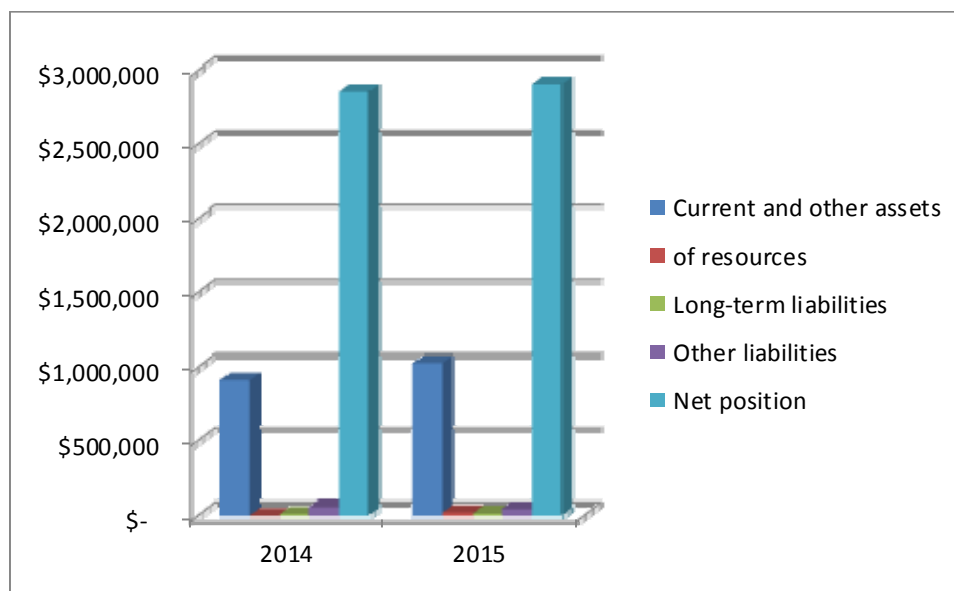
As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets of the Town exceeded liabilities by \$2,907,481 as of June 30, 2015. The Town's net position increased by \$52,897 for the fiscal year ended June 30, 2015. However, the largest portion of net position (68%) reflects the Town's investment in capital assets (e.g. land, buildings, infrastructure, machinery, and equipment), less any related debt still outstanding that was issued to acquire those items. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

Although the Town's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Town's net position (5.6%)

Town of Oriental Management's Discussion and Analysis

represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$765,844 is unrestricted. Also, the Town of Oriental implemented GASB Statement 68 this year. With the new reporting change, the Town is allocated its proportionate share of the Local Government Employees' Retirement System's net pension asset, deferred outflows of resources, deferred inflows of resources, and pension expense. A restatement to record the effects of the new reporting guidance decreased beginning net position by \$27,652. Decisions regarding the allocations are made by the administrators of the pension plan, not by the Town of Oriental's management.

Government-wide Statement of Net Position Components – June 30, 2015 and June 30, 2014



Several aspects of the Town's financial operations influenced its government-wide net position components:

- increase in cash position within the governmental activities
- increases in accounts payables and accrued expenses
- decrease in cash position within the business-type activities

Governmental activities: Governmental activities increased the Town's net position by \$100,704. Key elements of this increase are as follows:

- Tax revenues increased slightly.
- Expenditures were reduced.

Town of Oriental Management's Discussion and Analysis

Business-type activities: Business-type activities decreased the Town's net position by \$20,155 Key elements of this decrease are as follows:

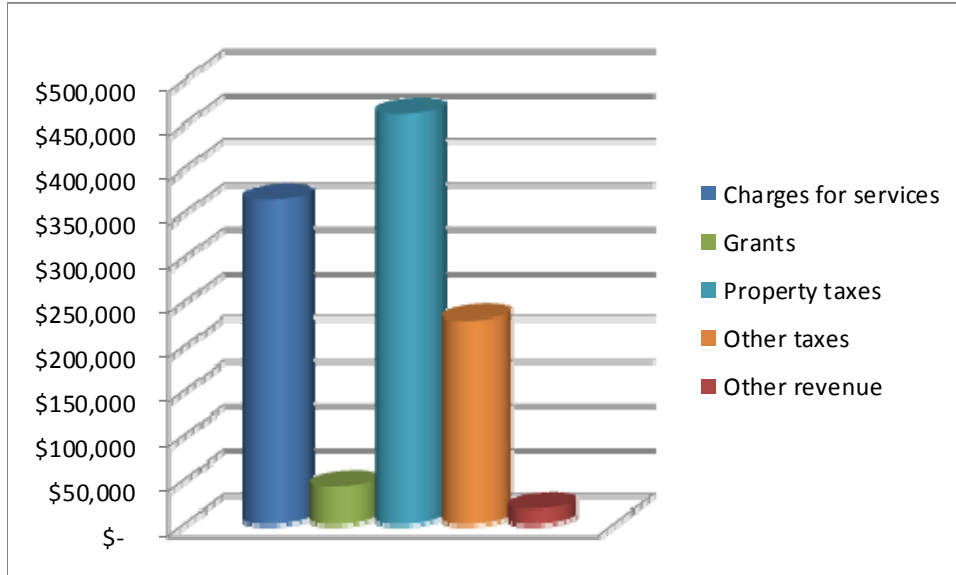
- Reduction of water use by customers.
- Water plant repairs/improvements, capital investment in infrastructure

Town of Oriental's Changes in Net Position
Figure 2

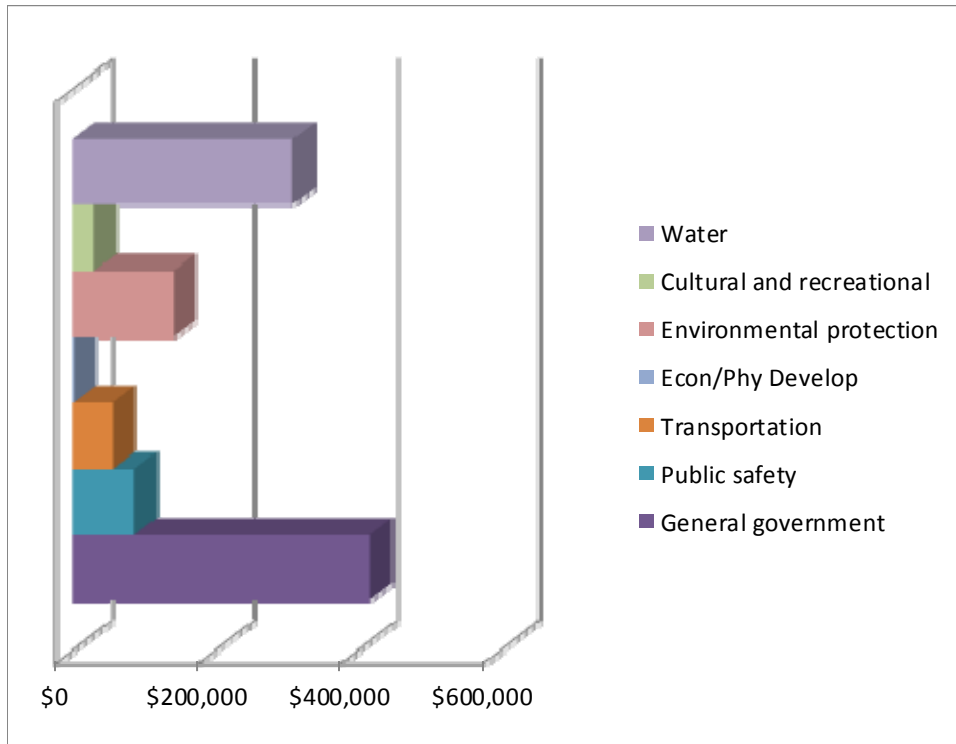
	Governmental Activities		Business-type Activities		Totals	
	2015	2014	2015	2014	2015	2014
Revenues:						
Program revenues:						
Charges for services	\$ 88,123	\$ 77,580	\$ 276,525	\$ 278,358	\$ 364,648	\$ 355,938
Operating grants and contributions	42,040	75,081	-	-	42,040	75,081
Capital grants and contributions	13,120	-	-	-	13,120	-
General revenues:						
Property taxes	460,828	468,002	-	-	460,828	468,002
Other taxes	228,761	205,348	-	-	228,761	205,348
Unrestricted investment earnings	203	251	74	111	277	362
Miscellaneous	4,265	6,858	12,341	12,426	16,606	19,284
Total revenues	837,340	833,120	288,940	290,895	1,126,280	1,124,015
Expenses:						
General government	417,213	471,036	-	-	417,213	471,036
Public safety	86,969	110,007	-	-	86,969	110,007
Transportation	56,426	39,682	-	-	56,426	39,682
Economic and physical development	2,848	2,168	-	-	2,848	2,168
Environmental protection	142,387	134,257	-	-	142,387	134,257
Cultural and recreational	30,793	37,981	-	-	30,793	37,981
Water	-	-	309,095	349,819	309,095	349,819
Total expenses	736,636	795,131	309,095	349,819	1,045,731	1,144,950
Change in net position	100,704	37,989	(20,155)	(58,924)	80,549	(20,935)
Net position, July 1 (consolidated)	1,353,703	1,315,714	1,500,881	1,559,805	2,854,584	2,875,519
Restatement	(20,485)	-	(7,167)	-	(27,652)	-
Net position, beginning restated	1,333,218	1,315,714	1,493,714	1,559,805	2,826,932	2,875,519
Net position, June 30	\$1,433,922	\$1,353,703	\$1,473,559	\$1,500,881	\$2,907,481	\$2,854,584

Town of Oriental Management's Discussion and Analysis

Government-wide Revenues – 6/30/2015



Government-wide Expenses – 6/30/2015



Town of Oriental Management's Discussion and Analysis

Financial Analysis of the Town's Funds

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

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

The general fund is the chief operating fund of the Town. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$323,637, while total fund balance reached \$743,803. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 44% percent of total General Fund expenditures, while total fund balance represents 99.6% percent of the same amount. For additional information regarding Fund Balance, please see Note II, D.

General Fund Budgetary Highlights

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

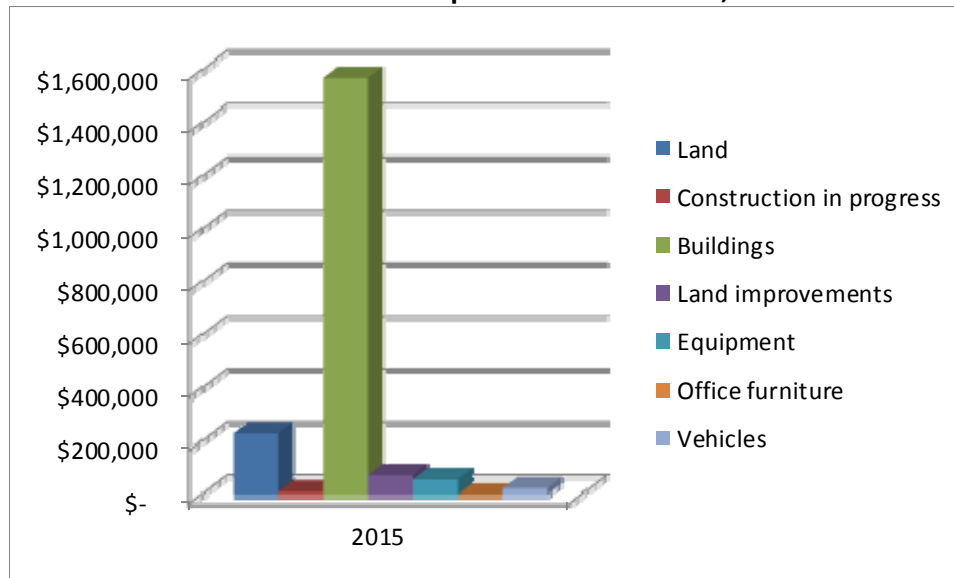
Proprietary funds. The Town's proprietary funds provide the same type of information found in the government-wide financial statements but in more detail. Unrestricted net position of the water fund at the end of the fiscal year amounted to \$165,658, whereas net position comprised of net investment in capital assets amounted to \$1,307,901. The total decrease in net position was \$27,322 over the previous fiscal year.

Capital assets. The Town's net investment in capital assets for its governmental and business-type activities as of June 30, 2015, totals \$1,979,991 (net of accumulated depreciation). These assets include land, buildings, infrastructure, machinery, and equipment, and vehicles

Additional information on the Town's capital assets can be found on pages 34 - 35 of this report.

Town of Oriental Management's Discussion and Analysis

Government-wide Capital Assets – June 30, 2015



**Town of Oriental's Capital Assets
(net of depreciation)**

Figure 3

	Governmental Activities		Business-type Activities		Totals	
	2015	2014	2015	2014	2015	2014
Land	\$ 232,107	\$ 232,107	\$ -	\$ -	\$ 232,107	\$ 232,107
Construction in progress	13,120	-	-	-	13,120	-
Buildings	303,943	312,334	1,270,552	1,300,001	1,574,495	1,612,335
Land improvements	74,689	79,931	-	-	74,689	79,931
Equipment	21,964	10,643	37,349	43,007	59,313	53,650
Office furniture	1,094	1,351	-	-	1,094	1,351
Vehicles	25,173	34,794	-	-	25,173	34,794
Total revenues	\$ 672,090	\$ 671,160	\$ 1,307,901	\$ 1,343,008	\$ 1,979,991	\$ 2,014,168

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

Economic Factors and Next Year's Budgets and Rates

The Town budget is designed to provide services, maintain a healthy fund balance, and keep tax rates as low as possible. The Town is experiencing minimal growth in the number of housing units with condominiums being the biggest single factor in our growth. This has been in reaction to the worldwide economic downturn which has hit hardest the national housing market. We anticipate a slight increase in revenues from property taxes as this market recovers from the recession.



Town of Oriental Management's Discussion and Analysis

The Town of Oriental relies primarily on the collection of state shared revenue and ad valorem property taxes to fund its operation. During the current fiscal year, the Town collected 97.5% of its current tax levy. Property taxes provide approximately 55.6% of the normal revenues of the General Fund.

Request for Information

This report is designed to provide an overview of the Town's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Town Manager, Town of Oriental, P.O. Box 472, Oriental, NC 28571.



FINANCIAL STATEMENTS

Town of Oriental
Statement of Net Position
June 30, 2015
Exhibit 1

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 389,040	\$ 137,739	\$ 526,779
Restricted cash	308,722	24,456	333,178
Taxes receivable (net)	41,072	-	41,072
Accounts receivable (net)	56,165	27,460	83,625
Due from (to) other funds	8,116	(8,116)	-
Inventory	-	16,931	16,931
Total current assets	803,115	198,470	1,001,585
Non-current assets:			
Net pension asset	20,446	7,154	27,600
Capital assets:			
Land and construction in progress	245,227	-	245,227
Depreciable assets, net	426,863	1,307,901	1,734,764
Total capital assets	672,090	1,307,901	1,979,991
Total assets	1,495,651	1,513,525	3,009,176
DEFERRED OUTFLOWS OF RESOURCES			
Contributions to pension plan in current fiscal year	17,422	3,156	20,578
Total deferred inflows of resources	17,422	3,156	20,578
LIABILITIES			
Current liabilities:			
Accounts payable	18,240	3,362	21,602
Deposits and advances	-	24,456	24,456
Total current liabilities	18,240	27,818	46,058
Long-term liabilities:			
Accrued vacation	17,171	-	17,171
Total liabilities	35,411	27,818	63,229
DEFERRED INFLOWS OF RESOURCES			
Pension deferrals	43,740	15,304	59,044
Total deferred inflows of resources	43,740	15,304	59,044
NET POSITION			
Net investment in capital assets	672,090	1,307,901	1,979,991
Restricted for:			
Stabilization by State Statute	64,281	-	64,281
Streets	97,365	-	97,365
Unrestricted	600,186	165,658	765,844
Total net position	\$ 1,433,922	\$ 1,473,559	\$ 2,907,481

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

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
General government	\$ 417,213	\$ 2,225	\$ -	\$ -
Public safety	86,969	-	-	-
Transportation	56,426	-	40,395	-
Economic and physical development	2,848	-	-	-
Environmental protection	142,387	85,898	1,045	11,720
Cultural and recreation	30,793	-	600	1,400
Total governmental activities	736,636	88,123	42,040	13,120
Business-type activities				
Water	309,095	276,525	-	-
Total primary government	\$ 1,045,731	\$ 364,648	\$ 42,040	\$ 13,120
General revenues:				
Taxes:				
Property taxes				
Other taxes				
Unrestricted investment earnings				
Miscellaneous				
Total general revenues				
Change in net position				
Net position, beginning, previously reported				
Restatement				
Net position, beginning, restated				
Net position, ending				

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

Town of Oriental
Statement of Activities
For the Fiscal Year Ended June 30, 2015
Exhibit 2

Net (Expense) Revenue and Changes in Net Position			
Governmental Activities	Business-type Activities	Total	
\$ (414,988)	\$ -	\$	(414,988)
(86,969)	-		(86,969)
(16,031)	-		(16,031)
(2,848)	-		(2,848)
(43,724)	-		(43,724)
(28,793)	-		(28,793)
(593,353)	-		(593,353)
-	(32,570)		(32,570)
(593,353)	(32,570)		(625,923)
460,828	-		460,828
228,761	-		228,761
203	74		277
4,265	12,341		16,606
694,057	12,415		706,472
100,704	(20,155)		80,549
1,353,703	1,500,881		2,854,584
(20,485)	(7,167)		(27,652)
1,333,218	1,493,714		2,826,932
\$ 1,433,922	\$ 1,473,559	\$	2,907,481

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

Town of Oriental
Balance Sheet – Governmental Fund
June 30, 2015
Exhibit 3

	General Fund
ASSETS	
Cash and cash equivalents	\$ 389,040
Restricted cash	308,722
Receivables, net:	
Taxes	41,072
Accounts	56,165
Due from other funds	8,116
Total assets	803,115
 LIABILITIES	
Accounts payable and accrued liabilities	18,240
 DEFERRED INFLOWS OF RESOURCES	
Property taxes receivable	41,072
 FUND BALANCES	
Restricted:	
Stablization by State Statute	64,281
Streets	97,365
Committed:	
Travel and tourism	211,358
Assigned:	
Subsequent year's expenditures	47,162
Unassigned	323,637
Total fund balance	\$ 743,803

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

Town of Oriental
Reconciliation of the Balance Sheet of the
Governmental Fund to the Statement of Net Position
June 30, 2015
Exhibit 3

Amounts reported for governmental activities in the Statement of Net Position (Exhibit 1) are different because:

Total Fund Balance, Governmental Funds	\$	743,803
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Gross capital assets at historical cost		1,007,987
Accumulated depreciation		(335,897)
		672,090
Net pension asset		20,446
Contributions to pension plan in current fiscal year are deferred outflows of resources on the Statement of Net Position		
		17,422
Liabilities for earned revenues considered deferred inflows of resources in fund statements.		
		41,072
Pension related deferrals		(43,740)
Other long-term liabilities (accrued vacation) are not due and payable in the current period and therefore are not reported in the funds.		
		(17,171)
Net position of governmental activities	\$	1,433,922

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

Town of Oriental
Statement of Revenues, Expenditures, and
Changes in Fund Balance—Governmental Fund
For the Fiscal Year Ended June 30, 2015
Exhibit 4

	General Fund
REVENUES	
Ad valorem taxes	\$ 468,022
Other taxes and licenses	154,960
Unrestricted intergovernmental	73,801
Restricted intergovernmental	54,095
Permits and fees	2,225
Sales and services	85,898
Investment earnings	203
Miscellaneous	5,330
Total revenues	844,534
EXPENDITURES	
Current:	
General government	409,011
Public safety	83,680
Transportation	55,177
Economic and physical development	2,848
Environmental protection	156,576
Cultural and recreation	39,920
Total expenditures	747,212
Excess (deficiency) of revenues over expenditures	97,322
FUND BALANCES	
Beginning of the year	646,481
End of year	\$ 743,803

The accompanying footnotes are an integral part of these financial statements.

Town of Oriental
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balance—Governmental Fund
to the Statement of Activities
For the Fiscal Year Ended June 30, 2015
Exhibit 4

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

Net change in fund balances - governmental funds \$ 97,322

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay expenditures which were capitalized	27,309	
Depreciation expense for governmental assets	<u>(26,379)</u>	930

Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities		17,422
--	--	--------

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:

Change in unavailable revenue for tax revenues		(7,194)
--	--	---------

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Compensated absences	(4,967)	
Pension expense	(2,809)	(7,776)

Total changes in net position of governmental activities		\$ 100,704
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The accompanying footnotes are an integral part of these financial statements.

Town of Oriental
General Fund Statement of Revenues, Expenditures, and Change
in Fund Balance –Budget to Actual
For the Fiscal Year Ended June 30, 2015
Exhibit 5

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES				
Ad valorem taxes	\$ 432,645	\$ 432,645	\$ 468,022	\$ 35,377
Other taxes and licenses	128,000	128,000	154,960	26,960
Unrestricted intergovernmental	179,050	58,350	73,801	15,451
Restricted intergovernmental	88,100	88,100	54,095	(34,005)
Permits and fees	750	750	2,225	1,475
Sales and services	83,400	83,400	85,898	2,498
Investment earnings	160	160	203	43
Miscellaneous	9,450	10,470	5,330	(5,140)
Total revenues	921,555	801,875	844,534	42,659
EXPENDITURES				
Current:				
General government	542,422	443,844	409,011	34,833
Public safety	86,111	87,131	83,680	3,451
Transportation	60,000	60,000	55,177	4,823
Economic and physical development	2,250	2,848	2,848	-
Environmental protection	159,972	162,472	156,576	5,896
Cultural and recreation	93,225	99,233	39,920	59,313
Total expenditures	943,980	855,528	747,212	108,316
Revenues over (under) expenditures	(22,425)	(53,653)	97,322	150,975
Fund balance appropriated	22,425	53,653	-	(53,653)
Net change in fund balance	\$ -	\$ -	97,322	\$ 97,322
Fund balances:				
Beginning of the year			646,481	
End of year			\$ 743,803	

The accompanying footnotes are an integral part of these financial statements.

Town of Oriental
Statement of Fund Net Position – Proprietary Fund
June 30, 2015
Exhibit 6

Water Fund

ASSETS

Current assets:

Cash and cash equivalents	\$	137,739
Accounts receivable		27,460
Inventory		16,931
Restricted cash		24,456
<hr/>		
Total current assets		206,586

Noncurrent assets:

Net pension asset		7,154
Capital assets		1,307,901
<hr/>		
Total noncurrent assets		1,315,055
<hr/>		
Total assets		1,521,641

DEFERRED OUTFLOWS OF RESOURCES

Contributions to pension plan		3,156
<hr/>		
Total deferred outflows of resources		3,156

LIABILITIES

Current liabilities:

Accounts payable		3,362
Due to other funds		8,116
Deposits and advances		24,456
<hr/>		
Total current liabilities		35,934
<hr/>		
Total liabilities		35,934

DEFERRED INFLOWS OF RESOURCES

Pension deferrals		15,304
<hr/>		
Total deferred inflows of resources		15,304

NET POSITION

Net investment in capital assets		1,307,901
Unrestricted		165,658
<hr/>		
Total net position	\$	1,473,559

The accompanying footnotes are an integral part of these financial statements.

Town of Oriental
Statement of Revenues, Expenses, and Changes in Fund Net Position –
Proprietary Fund
For the Fiscal Year Ended June 30, 2015
Exhibit 7

	Water Fund
OPERATING REVENUES	
Charges for services:	\$ 256,951
Impact fee	7,500
Service fee	3,297
Tap fee	6,176
Other revenues	2,601
Total operating revenues	276,525
 OPERATING EXPENSES	
Water treatment	191,097
General and administrative	57,426
Depreciation	60,572
Total operating expenses	309,095
Operating income (loss)	(32,570)
 NONOPERATING REVENUES	
Interest income	74
Other revenues	12,341
Total nonoperating revenues	12,415
Change in net position	(20,155)
Total net position, previously reported	1,500,881
Restatement	(7,167)
Total net position, restated	1,493,714
Total net position, ending	\$ 1,473,559

The accompanying footnotes are an integral part of these financial statements.

Town of Oriental
Statement of Cash Flows – Proprietary Fund
For the Fiscal Year Ended June 30, 2015
Exhibit 8

	Water Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 269,980
Cash paid for goods and services	(149,528)
Cash paid to or on behalf of employees for services	(104,286)
Customer deposits received	3,728
Customer deposits returned	(896)
Other operating revenues	2,601
Net cash provided (used) by operating activities	21,599
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of capital assets	(25,465)
Net cash provided (used) by capital and related financing activities	(25,465)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest from investments	74
Other non-operating revenue	12,341
Net cash provided by investing activities	12,415
Net increase (decrease) in cash and cash equivalents	8,549
Balances, beginning	153,646
Balances, ending	\$ 162,195
Reconciliation of operating income to net cash provided by operating activities:	
Operating income (loss)	\$ (32,570)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities	
Depreciation expense	60,572
Pension expense	983
Changes in assets and liabilities:	
(Increase) decrease in receivables	(3,944)
(Increase) decrease in inventory	(4,232)
Increase (decrease) in payables	1,228
Increase (decrease) in customer deposits	2,832
(Increase) decrease in customer deposits	(3,156)
Increase (decrease) in due to other funds	(114)
Net cash provided (used) by operating activities	\$ 21,599

The accompanying footnotes are an integral part of these financial statements.

Town of Oriental
Statement of Fiduciary Net Position
For the Fiscal Year Ended June 30, 2015
Exhibit 9

	Agency Fund
ASSETS	
Cash and cash equivalents	\$ 37,380
Accounts receivable, billed	36,330
Total assets	73,710
 LIABILITIES	
Intergovernmental payable	\$ 73,710

The accompanying footnotes are an integral part of these financial statements.

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The Town of Oriental (the Town) is a municipal corporation that is governed by an elected mayor and a five-member Council. As required by generally accepted accounting principles, these financial statements present the financial information of the Town only. The Town does not have a component unit.

B. Basis of Presentation

Government-wide Statements: The statement of net position and the statement of activities display information about the primary government. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the Town. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

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

Town of Oriental Notes to Financial Statements

Fund Financial Statements: The fund financial statements provide information about the Town's funds, including a fiduciary fund. Separate statements for each fund category – *governmental, proprietary, and fiduciary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column.

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

The Town reports the following major governmental fund:

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

The Town reports the following major enterprise fund:

Water Fund. This fund is used to account for the Town's water operations.

The Town reports the following fund type:

Agency Fund. Agency funds are custodial in nature and do not involve the measurement of operating results. Agency funds are used to account for assets the Town holds on behalf of others. The Town maintains one agency fund, the Bay River Metropolitan Sewerage District Fund, which accounts for sewer fees and deposits that are billed and collected by the Town for the District.

C. Measurement Focus and Basis of Accounting

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

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

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

The proprietary fund distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenues of the Town enterprise fund are charges to customers for sales and services. The Town also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the water and sewer system. Operating expenses for the enterprise fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

The Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as a revenue because the amount is not susceptible to accrual. At June 30, taxes receivable are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of 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

Town of Oriental Notes to Financial Statements

of North Carolina is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts. Property taxes are due when vehicles are registered. The billed taxes are applicable to the fiscal year in which they are received. Uncollected taxes that were billed in periods prior to September 1, 2013 and for limited registration plates are shown as a receivable in these financial statements and are offset by deferred inflows of resources.

Sales taxes and certain intergovernmental revenues, such as utilities franchise tax, collected and held by the State at year-end on behalf of the Town are recognized as revenue. Sales taxes are considered a shared revenue for the Town of Oriental because the tax is levied by Pamlico County and then remitted to and distributed by the State. Most intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. All taxes, including those dedicated for specific purposes are reported as general revenues rather than program revenues. Grant revenues which are unearned at year-end are recorded as unearned revenues. Under the terms of grant agreements, the Town funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there is both restricted and unrestricted net position available to finance the program. It is the Town's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

D. Budgetary Data

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund and the Enterprise Fund. All annual appropriations lapse at the fiscal-year end. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds.

Amendments are required for any revisions that alter total expenditures of any fund or that change functional appropriations by more than \$1,000. All amendments must be approved by the governing board. During the year, several material amendments to the original budget were necessary mainly due to unforeseen expenditures. The budget ordinance must be adopted by July 1st of the fiscal year or the governing Council must adopt an interim budget that covers that time until the annual ordinance can be adopted.

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Fund Equity

1. Deposits and Investments

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

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

The Town had no such investments at June 30, 2015.

2. Cash and Cash Equivalents

All cash and investments are essentially demand deposits and are considered cash and cash equivalents. The Town Council considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash and cash equivalents.

Town of Oriental
Notes to Financial Statements

3. Restricted Assets

Money in the Travel and Tourism Fund is classified as restricted cash because its use is restricted for travel and tourism purposes within the Town. Powell Bill funds are also classified as restricted cash because it can be expended only for the purposes of maintaining, repairing, constructing, reconstructing or widening of local streets per G.S. 136-41.1 through 136-41.4. Customer deposits held by the Town before any services are supplied are restricted to the service for which the deposit was collected.

Town of Oriental Restricted Cash			
Governmental Activities			
General Fund			
	Economic Development	\$	211,358
	Streets		97,365
Total governmental activities			308,723
Business-type Activities			
Water Fund			
	Customer deposits		24,456
Total restricted cash		\$	333,179

4. Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad valorem taxes on property other than motor vehicles on July 1st, the beginning of the fiscal year. The taxes are due on September 1st (lien date); however, interest does not accrue until the following January 6th. These taxes are based on the assessed values as of January 1, 2014.

5. Allowances for Doubtful Accounts

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

6. Inventory and Prepaid Items

The inventories of the Town are valued at cost (first-in, first-out), which approximates market. The inventories of the Town’s enterprise funds consist of materials and supplies held for subsequent use. The cost of these inventories is expensed when consumed rather than when purchased.

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

7. Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. The Town has a capitalization policy of \$5,000. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. As allowed by GASB Statement 34, the Town has elected not to capitalize general infrastructure assets acquired prior to July 1, 2008. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets’ lives are not capitalized.

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

Asset Class	Estimated Useful Lives
Infrastructure	30 years
Buildings	20-40 years
Improvements	10-20 years
Vehicles	5 years
Furniture and equipment	5-10 years

8. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Town has an item that meet this criterion, contributions made to the pension plan in the 2015 fiscal year. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. The separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Town has several items that meet the criterion for this category - property taxes receivable, and deferrals of pension expense that result from the implementation of GASB Statement 68.

9. Long-Term Obligations

In the government-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.

10. Compensated Absences

The vacation policy of the Town provide for the accumulation of up to thirty days earned vacation leave with such leave being fully vested when earned. For the Town's government-wide and proprietary funds, an expense and a liability for compensated absences and the salary related payments are recorded as the leave is earned. The Town has assumed a first in, first out method of using accumulated compensated time. The portion of that time that is estimated to be used in the next fiscal year has been designated as a current liability in the government-wide financial statements

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

11. Net Position/Fund Balances

Net Position

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

Fund Balances

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

The governmental fund types classify fund balance 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. There are no amounts that meet this classification at June 30, 2015.

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

Town of Oriental Notes to Financial Statements

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

Restricted for Streets – Powell Bill – portion of fund balance that is restricted by revenue source for street construction and maintenance expenditures. This amount represents the balance of the total unexpended Powell Bill funds.

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

Committed for Travel and Tourism – portion of fund balance assigned by the Board for Travel and Tourism purposes.

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

Subsequent year’s expenditures – portion of fund balance that is appropriated in the next year’s budget that is not already classified in restricted or committed. The governing body approves the appropriation; however the budget ordinance authorizes the manager to modify the appropriations by resource or appropriation within funds up to \$1,000.

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

12. Pensions

For purposes 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 of Oriental’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.

NOTE II – DETAIL NOTES ON ALL FUNDS

A. Assets

1. Deposits

All the deposits of the Town are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the Town's agents in the unit'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 agents 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; this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Town has no formal policy regarding custodial credit risk for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The Town complies with the provision of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2015, the Town's deposits had a carrying amount of \$533,508 and a bank balance of \$536,182. Of the bank balances, \$250,000 was covered by federal depository insurance and the remainder was covered by collateral held under the Pooling Method. At June 30, 2015, the Town had \$150 in cash on hand.

Town of Oriental
Notes to Financial Statements

2. Investments

At June 30, 2015, the Town had \$363,679, invested with the North Carolina Capital Management Trust's Cash Portfolio which carried a credit rating of AAAM by Standard and Poor's. The Town has no policy regarding credit risk of its investments.

3. Receivables – Allowances for Doubtful Accounts

The amounts presented in the Balance Sheet and the Statement of Net Position are net of the following allowances for doubtful accounts:

Fund	June 30, 2015
General Fund:	
Taxes receivable	\$ 17,602
Accounts receivable	578
Total	18,180
<hr/>	
Enterprise Fund	412
<hr/>	
Total	\$ 18,592

Town of Oriental
Notes to Financial Statements

4. Capital Assets

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets not being depreciated:				
Land and land improvements	\$ 232,107	\$ -	\$ -	\$ 232,107
Construction in progress	-	13,120	-	13,120
Total capital asset not being depreciated	232,107	13,120	-	245,227
Capital assets being depreciated:				
Buildings	349,914	-	-	349,914
Land improvements	104,831	-	-	104,831
Equipment and machinery	131,039	14,189	-	145,228
Office furniture & equipment	14,888	-	-	14,888
Vehicles	147,899	-	-	147,899
Total capital asset being depreciated	748,571	14,189	-	762,760
Less accumulated depreciation for:				
Buildings	37,580	8,391	-	45,971
Land improvements	24,900	5,242	-	30,142
Equipment and machinery	120,396	2,868	-	123,264
Office furniture & equipment	13,537	257	-	13,794
Vehicles	113,105	9,621	-	122,726
Total accumulated depreciation	309,518	\$ 26,379	\$ -	335,897
Total capital asset being depreciated, net	439,053			426,863
Governmental activities capital assets, net	\$ 671,160			\$ 672,090

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

General government	\$ 15,681
Public safety	5,456
Transportation	1,249
Cultural and recreational	3,993
Total	\$ 26,379

Town of Oriental
Notes to Financial Statements

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
<i>Water Fund</i>				
Capital assets being depreciated:				
Water plant	\$ 2,368,444	\$ 25,465	\$ -	\$ 2,393,909
Equipment	65,006	-	-	65,006
Vehicles	14,790	-	-	14,790
Total capital assets being depreciated	2,448,240	25,465	-	2,473,705
Less accumulated depreciation for:				
Water plant	1,068,443	54,914	-	1,123,357
Equipment	21,999	5,658	-	27,657
Vehicles	14,790	-	-	14,790
Total accumulated depreciation	1,105,232	\$ 60,572	\$ -	1,165,804
Total capital assets being depreciated, net	1,343,008			1,307,901
Business-type activities capital assets, net	\$ 1,343,008			\$ 1,307,901

B. Liabilities

1. Pension Plan Obligations

a. Local Governmental Employees' Retirement System

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

Town of Oriental Notes to Financial Statements

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. Town of Oriental employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Town of Oriental'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. Contributions to the pension plan from the Town of Oriental were \$ 20,578 for the year ended June 30, 2015.

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.

Town of Oriental Notes to Financial Statements

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 \$27,600 for its proportionate share of the net pension asset. 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 0.00468% , which was an increase of 0.00068% from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the Town recognized pension expense of \$3,792. 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 of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 3,016
Changes of assumptions	-	-
Net differences between projected and actual earnings on pension plan investments	-	64,252
Changes in proportion and differences between Town contributions and proportionate share of contributions	-	(8,224)
Town contributions subsequent to the measurement date	20,578	-
Total	\$ 20,578	\$ 59,044

\$ 20,578 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as an increase of the net pension asset in the year ended June 30, 2016. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2016	\$ (14,758)
2017	(14,758)
2018	(14,758)
2019	(14,771)
2020	-
Thereafter	-

Town of Oriental Notes to Financial Statements

Actuarial Assumptions. The total pension liability in the December 31, 2013 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

The actuarial assumptions used in the December 31, 2013 valuation were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

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

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2014 are summarized in the following table:

Town of Oriental Notes to Financial Statements

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
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%
Total	<u>100%</u>	

The information above 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.

A new asset allocation policy was finalized during the fiscal year ended June 30, 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 3.4%.

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

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

**Town of Oriental
Notes to Financial Statements**

	1% Decrease (6.25%)	Discount Rate (7.25%)	1% Increase (8.25%)
Town's proportionate share of the net pension liability (asset)	\$ 93,687	\$ (27,600)	\$ (129,720)

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

b. Law Enforcement Officers Special Separation Allowance

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

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

Retirees receiving benefits	-
Terminated plan members entitled to but not yet receiving benefits	1
Active plan members	-
Total	1

A separate report was not issued for the plan.

Summary of Significant Accounting Policies

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

Town of Oriental Notes to Financial Statements

The Separation Allowance has no assets accumulated in a trust that meets the following criteria which are outlined in GASB Statements 67 and 68:

- Contributions to the pension plan and earnings on those contributions are irrevocable
- Pension plan assets are dedicated to providing benefits to plan members
- Pension plan assets are legally protected from the creditors or employers, nonemployer contributing entities, the plan administrator, and plan members.

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

Contributions

The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the benefit payments on a pay as you go basis through appropriations made in the General Fund operating budget. The Town's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. Contributions for the year ended June 30, 2015 were \$-0- from the Town. There were no contributions made by employees.

The Town has not obtained an actuarial valuation for the plan due to annual pension costs being immaterial. As stated above, the Town funds the plan when the benefit payments are due and records these payments as General Fund expenditures.

c. Supplemental Retirement Income Plan for Law Enforcement Officers

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

Funding Policy. Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2015 were \$3,342, which consisted of \$2,232 from the Town and \$1,110 from the law enforcement officers.

2. Deferred Outflows and Inflows of Resources

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

Source	Amount
Contributions to pension plan in current fiscal year	\$ 20,578

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

Taxes receivable (General Fund), less penalties	\$ 41,072
Pension deferrals	59,044

3. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town participates in two self funded risk financing pools administered by the North Carolina League of Municipalities. Through these pools, the Town obtains general liability and auto liability coverage of \$1 million per occurrence, property coverage up to the total insurance values of the property policy, and workers' compensation coverage up to statutory limits. The liability and property exposures are reinsured through commercial carriers for claims in excess of retentions as selected by the Board of Trustees each year. Stop loss insurance is purchased by the Board of Trustees to protect against large medical claims that exceed certain dollar cost levels. Specific information on the limits of the reinsurance, excess and stop loss policies purchased by the Board of Trustees can be obtained by contacting the Risk Management Services Department of the NC League of Municipalities. The pools are audited annually by certified public accountants, and the audited financial statements are available to the City upon request.

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

Town owned facilities and properties are not located within a designated flood plan; however, the Town experienced damage to Town Hall from flooding in the past, and has purchased a flood insurance policy with coverage to repair or replace the building of \$500,000 and contents of \$100,000.

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

4. Claims, Judgments and Contingent Liabilities

At June 30, 2015, the Town was a defendant to various lawsuits. In the opinion of the Town's management and the Town attorney, the ultimate effect of these legal matters will not have a material adverse effect of the Town's financial position.

5. Long-Term Obligations

a. Changes in Long-Term Liabilities

Debt activity for the Town at June 30, 2015 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<i>Governmental activities:</i>				
Compensated absences	\$ 12,204	\$ 4,967	\$ -	\$ 17,171
Net pension liability (LGERS)	35,718	-	35,718	-
Compensated absences	\$ 47,922	\$ 4,967	\$ 35,718	\$ 17,171
<i>Business-type activities:</i>				
Net pension liability (LGERS)	\$ 12,497	\$ -	\$ 12,497	\$ -

The LGERS plan had a net pension asset as of June 30, 2015; however, the plan had a net pension liability at the beginning of the fiscal year.

Compensated absences typically have been liquidated in the general fund.

C. Interfund Balances and Activity

Balances due to/from other funds at June 30, 2015, consist of the following:

Due to the General Fund for the solid waste fees collected by the Water Fund General Fund in the amount of \$8,116.

D. Fund Balance

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

Town of Oriental
Notes to Financial Statements

Total fund balance-General Fund	\$ 743,803
Less:	
Stabilization by State Statute	64,281
Streets-Powell Bill	97,365
Appropriated Fund Balance in 2016 budget	47,162
Committed-Travel and tourism	211,358
Remaining Fund Balance	323,637

NOTE III – JOINTLY GOVERNED ORGANIZATION

The Town, in conjunction with 9 counties and 47 municipalities, established the East Carolina Council of Governments (Council). The participating governments established the Council to coordinate various funding received from federal and State agencies. Each participating government appoints one member to the Council's governing board. The Town has no equity interest nor does the town materially contribute to the continued existence of the Council. The Town's interests are other than financial.

NOTE IV – SUMMARY OF DISCLOSURE OF SIGNIFICANT CONTINGENCIES

Federal and State Assisted Programs

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

NOTE V – CHANGE IN ACCOUNTING PRINCIPLES/RESTATEMENT

The Town implemented Governmental Accounting Standards Board (GASB) statement 68, *Accounting and Financial Reporting for Pensions (an amendment of GASB Statement No. 27)*, in the fiscal year ending June 30, 2015. The implementation of the statement required the Town to record beginning net pension liability and the effects on net position of contributions made by the Town during the measurement period (fiscal year ending June 30, 2014). As a result, net position for the governmental and business-type activities decreased by \$20,485 and \$7,167, respectively.



**REQUIRED SUPPLEMENTARY
INFORMATION**

Town of Oriental
Proportionate Share of Net Pension Liability (Asset)
Required Supplementary Information
Last Two Fiscal Years

Local Government Employees' Retirement System

	2015	2014
Town's proportion of the net pension liability (asset) (%)	0.00468%	0.00400%
Town's proportion of the net pension liability (asset) (\$)	\$ (27,600)	\$ 48,215
Town's covered-employee payroll	\$ 339,154	\$ 372,068
Town's proportion of the net pension liability (asset) as a percentage of its covered-employee payroll	-8.14%	12.96%
Plan fiduciary net position as a percentage of the total pension liability	102.64%	94.35%

Town of Oriental
Schedule of Contributions
Required Supplementary Information
Last Two Fiscal Years

Local Government Employees' Retirement System

	2015	2014
Contractually required contribution	\$ 20,578	\$ 20,756
Contributions in relation to the contractually required contribution	20,578	20,756
Town's proportion of the net pension liability (asset) as a percentage of its covered-employee payroll	\$ -	\$ -
Town's covered-employee payroll	\$ 339,154	\$ 372,068
Contributions as a percentage of covered-employee payroll	6.07%	5.58%

Town of Oriental
General Fund Schedules of Revenues, Expenditures, and
Changes in Fund Balances – Budget and Actual
For the Fiscal Year Ended June 30, 2015
Schedule 1

	Budget	Actual	Variance Positive (Negative)
REVENUES			
Ad valorem taxes:			
Current year		\$ 454,198	
Prior year		10,834	
Interest on taxes		2,990	
Total ad valorem taxes	\$ 432,645	468,022	\$ 35,377
Other taxes and licenses:			
Local option sales		133,180	
Occupancy tax		21,780	
Total other taxes and licenses	128,000	154,960	26,960
Unrestricted intergovernmental:			
Federal & state gas refund		1,316	
Franchise tax		68,197	
Beer & wine tax		4,288	
Total unrestricted intergovernmental	58,350	73,801	15,451
Restricted intergovernmental:			
Powell Bill allocation		40,395	
CAMA grant		1,400	
Clean Vessel Act grant		11,720	
Solid waste disposal tax		580	
Total restricted intergovernmental	88,100	54,095	(34,005)
Permits and fees:			
Zoning and planning fees	750.00	2,225	1,475
Sales and service:			
Solid waste fees	83,400	85,898	2,498
Investment earnings	160	203	43
Miscellaneous			
Donations		1,065	
Other income		4,265	
Total miscellaneous	10,470	5,330	(5,140)
Total revenues	801,875	844,534	42,659

Town of Oriental
General Fund Schedules of Revenues, Expenditures, and
Changes in Fund Balances – Budget and Actual
For the Fiscal Year Ended June 30, 2015
Schedule 1

	Budget	Actual	Variance Positive (Negative)
EXPENDITURES			
General government:			
Governing body:			
Membership dues		2,447	
Other operating expenditures		3,698	
Total governing body		6,145	
Administration and finance:			
Salaries and employee benefits		146,977	
Professional services		12,645	
Other operating expenditures		45,854	
Total administration and finance		205,476	
Taxes:			
Collection fees		9,688	
Legal:			
Contracted services		4,300	
Other litigation		18,208	
Total legal		22,508	
Public buildings:			
Salaries and employee benefits		134,852	
Repairs		3,709	
Other operating expenditures		26,633	
Capital outlay		-	
Total public buildings		165,194	
Total general government	443,844	409,011	34,833
Public safety:			
Police:			
Salaries and employee benefits		61,843	
Vehicle repairs and maintenance		1,422	
Other operating expenditures		20,415	
Capital outlay		-	
Total public safety	87,131	83,680	3,451

Town of Oriental
General Fund Schedules of Revenues, Expenditures, and
Changes in Fund Balances – Budget and Actual
For the Fiscal Year Ended June 30, 2015
Schedule 1

	Budget	Actual	Variance Positive (Negative)
Transportation:			
Streets and highways:			
Street lights		17,516	
Other operating expenditures		37,661	
Total transportation	60,000	55,177	4,823
Economic and physical development:			
Other operating expenditures	2,848	2,848	-
Environmental protection:			
Solid waste:			
Contracted garbage		74,896	
Tipping fees		20,835	
Recycling		46,656	
Capital outlay		14,189	
Total environmental protection	162,472	156,576	5,896
Cultural and recreation:			
Other operating expenditures		26,800	
Capital outlay		13,120	
Total cultural and recreation	99,233	39,920	59,313
Total expenditures	855,528	747,212	108,316
Revenues over (under) expenditures	(53,653)	97,322	150,975
Fund balance appropriated	53,653	-	53,653
NET CHANGE IN FUND BALANCE	\$ -	97,322	\$ 204,628
Fund balances:			
Beginning of year		646,481	
End of year		\$ 743,803	

Town of Oriental
Water Fund Schedules of Revenues
and Expenditures (Non-GAAP)
For the Fiscal Year Ended June 30, 2015
Schedule 2

	Budget	Actual	Variance Positive (Negative)
REVENUES			
Operating revenues:			
Charges for services:		\$ 256,951	
Impact fee		7,500	
Service fee		3,297	
Tap fee		6,176	
Other revenues		2,601	
Total operating revenues	\$ 274,064	276,525	\$ 2,461
Nonoperating revenues:			
Interest income		74	
Other revenues		12,341	
Total operating revenues	12,475	12,415	(60)
Total revenues	286,539	288,940	2,401
EXPENDITURES			
Water treatment:			
Salaries and employee benefits		71,854	
Chemicals, salt and chlorine		40,027	
Repairs and maintenance		35,487	
Utilities		15,510	
Sample cost		16,136	
Other operating expenditures		12,462	
Total water treatment	232,129	191,476	40,653
General and administrative:			
Salaries and employee benefits		32,318	
Postage		5,792	
Professional fees		2,105	
Software maintenance		2,352	
School		2,740	
Other administrative expenditures		13,913	
Total general and administrative:	61,946	59,220	2,726

Town of Oriental
Water Fund Schedules of Revenues
and Expenditures (Non-GAAP)
For the Fiscal Year Ended June 30, 2015
Schedule 2

	Budget	Actual	Variance Positive (Negative)
Capital outlay:			
Equipment		25,465	
Total capital outlay	1,500	25,465	(23,965)
Total expenditures	295,575	276,161	19,414
Revenues over expenditures	(9,036)	12,779	21,815
Net assets appropriated	9,036	-	(9,036)
REVENUES AND OTHER SOURCES			
OVER EXPENDITURES	\$ -	12,779	\$ 12,779

**Reconciliation from budgetary basis
(modified accrual) to full accrual:**

Reconciling items:

Deferred outflows of resources for contributions made to pension plan in current fiscal year		3,156	
Pension expense		(983)	
Depreciation		(60,572)	
Capital Outlay		25,465	
Total reconciling items		(32,934)	
Change in net position		\$ (20,155)	

Town of Oriental
Agency Fund
Statement of Changes in Assets and Liabilities
For the Fiscal Year Ended June 30, 2015
Schedule 3

	Beginning Balance	Increases	Decreases	Ending Balance
ASSETS				
Cash and cash equivalents	\$ 38,401	\$ 284,424	\$ 285,445	\$ 37,380
Accounts receivable, billed	43,251	277,851	284,772	36,330
Total assets	\$ 81,652	\$ 562,275	\$ 570,217	\$ 73,710
LIABILITIES				
Intergovernmental payable	\$ 81,652	\$ 562,275	\$ 570,217	\$ 73,710

Town of Oriental
Schedule of Ad Valorem Taxes Receivable
June 30, 2015
Schedule 4

Fiscal Year	Uncollected Balance June 30, 2014	Additions	Collections and Credits	Uncollected Balance June 30, 2015
2014-2015	\$ -	\$ 458,604	\$ 446,806	\$ 11,798
2013-2014	26,637		17,035	9,602
2012-2013	11,175		2,740	8,435
2011-2012	6,995		895	6,100
2010-2011	5,518		493	5,025
2009-2010	6,831		118	6,713
2008-2009	5,634		61	5,573
2007-2008	3,057		78	2,979
2006-2007	1,575			1,575
2005-2006	894		20	874
2004-2005	635		635	-
Total	\$ 68,951	\$ 458,604	\$ 468,881	58,674

Less: allowance for uncollectible accounts 17,602

Ad valorem taxes receivable - net 41,072

Reconciliation with revenues:

Ad valorem taxes - General Fund	\$ 468,022
Reconciling items:	
Interest collected	(2,990)
Releases	3,849
Subtotal	859
<u>Total collections and credits</u>	<u>\$ 468,881</u>

Town of Oriental
Analysis of Current Tax Levy – Town-Wide Levy
June 30, 2015
Schedule 5

	Town-Wide			Total Levy	
	Property Valuation	Rate	Total Levy	Property excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Property taxed at current	\$ 306,227,567	0.15	\$ 459,341	\$ 440,086	\$ 19,255
Penalties			213	213	-
Abatements	(633,613)		(950)	(950)	-
<u>Total property valuation</u>	<u>\$ 305,593,954</u>				
Net levy			458,604	439,349	19,255
Uncollected taxes at June 30, 2015			(11,798)	(11,798)	-
<u>Current years taxes collected</u>			<u>\$ 446,806</u>	<u>\$ 427,551</u>	<u>\$ 19,255</u>
<u>Current levy collection percentage</u>			<u>97.43%</u>	<u>97.31%</u>	<u>100.00%</u>



REQUIRED COMMUNICATIONS



Carr, Riggs & Ingram, LLC
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New Bern, North Carolina 28563

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(252) 633-5821
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March 2, 2016

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

Dear Mayor and Board Members:

We are pleased to present the results of our audit of the June 30, 2015 financial statements of the Town of Oriental.

This report to the Mayor, Board Members and Management summarizes our audit, the report issued and various analyses and observations related to the Town's accounting and reporting. The document also contains the communications required by our professional standards.

Our audit was designed, primarily, to express an opinion on the Town's June 30, 2015 financial statements. We considered the Town's current and emerging business needs, along with an assessment of risks that could materially affect the financial statements, and aligned our audit procedures accordingly. We conducted the audit with the objectivity and independence that you, the Mayor, Board Members and Management, expect. We received the full support and assistance of Town of Oriental personnel.

At Carr, Riggs & Ingram, LLC (CRI), we are continually evaluating the quality of our professionals' work in order to deliver audit services of the highest quality that will meet or exceed your expectations. We encourage you to provide any feedback you believe is appropriate to ensure that we do not overlook a single detail as it relates to the quality of our services.

This report is intended solely for the information and use of the Mayor, Board Members, Management and others within the Town and should not be used by anyone other than these specified parties.

We appreciate this opportunity to work with you. If you have any questions or comments, please contact me at 252-633-5821 or cburton@cricpa.com.

Very truly yours,

Chris Burton, CPA

As discussed with the management during our planning process, our audit plan represented an approach responsive to the assessment of risk for the Town. Specifically, we planned and performed our audit to:

- Perform audit services, as requested by management, in accordance with auditing standards generally accepted in the United States of America, in order to express an opinion on the Town's financial statements for the year ended June 30, 2015;
- Communicate directly with the mayor, board members and management regarding the results of our procedures;
- Address with the mayor, board members and management any accounting and financial reporting issues;
- Anticipate and respond to concerns of the mayor, board members and management; and
- Other audit-related projects as they arise and upon request.

Required Communications

We have audited the financial statements of Town of Oriental for the year ended June 30, 2015 and have issued our report thereon dated March 2, 2016. Professional standards require that we provide you with the following information related to our audit:

MATTER TO BE COMMUNICATED	AUDITOR'S RESPONSE
Auditor's responsibility under Generally Accepted Auditing Standards	<p>As stated in our engagement letter dated May 8, 2015, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America (GAAP). Our audit of the financial statements does not relieve you or management of your responsibilities.</p> <p>As part of our audit, we considered the internal control of the Town. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.</p>
Client's responsibility	<p>Management, with oversight from those charged with governance, is responsible for establishing and maintaining internal controls, including monitoring ongoing activities; for the selection and application of accounting principles; and for the fair presentation in the financial statements of financial position, results of operations, and cash flows in conformity with the applicable framework. Management is responsible for the design and implementation of programs and controls to prevent and detect fraud.</p>
Planned scope and timing of the audit	<p>Our initial audit plan was not significantly altered during our fieldwork.</p>
Management judgments and accounting estimates <i>The process used by management in forming particularly sensitive accounting estimates and the basis for the auditor's conclusion regarding the reasonableness of those estimates.</i>	<p>Please see the following section titled "Accounting Policies, Judgments and Sensitive Estimates and CRI Comments on Quality."</p>
Potential effect on the financial statements of any significant risks and exposures <i>Major risks and exposures facing the Town and how they are disclosed.</i>	<p>No such risks or exposures were noted.</p>

Required Communications

MATTER TO BE COMMUNICATED	AUDITOR'S RESPONSE
<p>Significant accounting policies, including critical accounting policies and alternative treatments within generally accepted accounting principles and the auditor's judgment about the quality of accounting principles</p> <ul style="list-style-type: none"> • <i>The initial selection of and changes in significant accounting policies or their application; methods used to account for significant unusual transactions; and effect of significant policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.</i> • <i>The auditor should also discuss the auditor's judgment about the quality, not just the acceptability, of the Town's accounting policies as applied in its financial reporting. The discussion should include such matters as consistency of accounting policies and their application, and clarity and completeness of the financial statements, including disclosures. Critical accounting policies and practices applied by the Town in its financial statements and our assessment of management's disclosures regarding such policies and practices (including any significant modifications to such disclosures proposed by us but rejected by management), the reasons why certain policies and practices are or are not considered critical, and how current and anticipated future events impact those determinations;</i> • <i>Alternative treatments within GAAP for accounting policies and practices related to material items, including recognition, measurement, presentation and disclosure alternatives, that have been discussed with client management during the current audit period, the ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the auditor; Furthermore, if the accounting policy selected by management is not the policy preferred by us, discuss the reasons why management selected that policy, the policy preferred by us, and the reason we preferred the other policy.</i> 	<p>None.</p>

Required Communications

MATTER TO BE COMMUNICATED	AUDITOR'S RESPONSE
<p>Significant difficulties encountered in the audit <i>Any significant difficulties, for example, unreasonable logistical constraints or lack of cooperation by management.</i></p>	None.
<p>Disagreements with management <i>Disagreements, whether or not subsequently resolved, about matters significant to the financial statements or auditor's report. This does not include those that came about based on incomplete facts or preliminary information.</i></p>	None.
<p>Other findings or issues <i>Matters significant to oversight of the financial reporting practices by those charged with governance. For example, an entity's failure to obtain the necessary type of audit, such as one under Government Auditing Standards, in addition to GAAS.</i></p>	None.
<p>Matters arising from the audit that were discussed with, or the subject of correspondence with, management <i>Business conditions that might affect risk or discussions regarding accounting practices or application of auditing standards.</i></p>	None.
<p>Corrected and uncorrected misstatements <i>All significant audit adjustments arising from the audit, whether or not recorded by the Town, that could individually or in the aggregate have a significant effect on the financial statements. We should also inform the Board about uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented, that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole. Any internal control deficiencies that could have prevented the misstatements.</i></p>	Please see the following section titled "Summary of Audit Adjustments."

Required Communications

MATTER TO BE COMMUNICATED	AUDITOR'S RESPONSE
<p>Major issues discussed with management prior to retention</p> <p><i>Any major accounting, auditing or reporting issues discussed with management in connection with our initial or recurring retention.</i></p>	None.
<p>Consultations with other accountants</p> <p><i>When management has consulted with other accountants about significant accounting or auditing matters.</i></p>	None of which we are aware.
<p>Written representations</p> <p><i>A description of the written representations the auditor requested (or a copy of the representation letter).</i></p>	See "Management Representation Letter" section.
<p>Internal control deficiencies</p> <p><i>Any significant deficiencies or material weaknesses in the design or operation of internal control that came to the auditor's attention during the audit.</i></p>	See "Internal Control Findings" section.
<p>Fraud and illegal acts</p> <p><i>Fraud involving senior management, the Board Members or those responsible for internal controls, or causing a material misstatement of the financial statements, where the auditor determines there is evidence that such fraud may exist. Any illegal acts coming to the auditor's attention involving senior management and any other illegal acts, unless clearly inconsequential.</i></p>	We are unaware of any fraud or illegal acts involving management or causing material misstatement of the financial statements.
<p>Related parties and prohibited transactions</p> <p><i>Any related parties, prohibited transactions and other reportable transactions.</i></p>	No related parties, prohibited transactions or reportable transactions were noted.
<p>Other information in documents containing audited financial statements</p> <p><i>The external auditor's responsibility for information in a document containing audited financial statements, as well as any procedures performed and the results.</i></p>	<p>Our responsibility related to documents (including annual reports, websites, etc.) containing the financial statements is to read the other information to consider whether:</p> <ul style="list-style-type: none"> • Such information is materially inconsistent with the financial statements; and • We believe such information represents a material misstatement of fact. <p>We have not been provided any such items to date and are unaware of any other documents that contain the audited financial statements.</p>

Accounting Policies, Judgements and Sensitive Estimates & CRI Comments on Quality

We are required to communicate our judgments about the quality, not just the acceptability, of the Town’s accounting principles as applied in its financial reporting. We are also required to communicate critical accounting policies and sensitive accounting estimates. The mayor, board members and management may wish to monitor throughout the year the process used to compute and record these accounting estimates. The table below summarizes our communications regarding these matters.

AREA	ACCOUNTING POLICY	CRITICAL POLICY?	JUDGMENTS & SENSITIVE ESTIMATE	COMMENTS ON QUALITY OF ACCOUNTING POLICY & APPLICATION
Allowance for doubtful accounts	Based on the procedures we performed with respect to allowance for doubtful accounts, we noted that it appears the Town is using a percentage of the receivable balance.	X	The Town relies on estimates and valuations to calculate an appropriate allowance for doubtful accounts for the property tax, water, and garbage receivables.	The Town’s policies are in accordance with all applicable accounting guidelines.

Summary of Audit Adjustments

During the course of our audit, we accumulate differences between amounts recorded by the Town and amounts that we believe are required to be recorded under GAAP reporting guidelines. Those adjustments are either recorded (corrected) by the Town or passed (uncorrected).

There were two adjustments corrected as a result of our audit procedures. The approved entries were recorded to reclassify allocated expenses between the water fund and general fund and to adjust accounts receivable balances to actual amounts.

QUALITATIVE MATERIALITY CONSIDERATIONS

In evaluating the materiality of audit differences when they arise, we consider both quantitative and qualitative factors, for example:

- Whether the difference arises from an item capable of precise measurement or whether it arises from an estimate, and, if so, the degree of imprecision inherent in the estimate.
- Whether the difference masks a change in earnings or other trends.
- Whether the difference changes a net decrease in assets to addition, or vice versa.
- Whether the difference concerns an area of the Town's operating environment that has been identified as playing a significant role in the Town's operations or viability.
- Whether the difference affects compliance with regulatory requirements.
- Whether the difference involves concealment of an unlawful transaction.
- Whether the difference involves concealment of a prohibited transaction, or transaction with a related party.

Management Representation Letter



TOWN OF ORIENTAL

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March 2, 2016

Carr, Riggs & Ingram, LLC
Post Office Box 1547
New Bern, North Carolina 28563

This representation letter is provided in connection with your audit of the financial statements of Town of Oriental, which comprise the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows for the year then ended, and the related notes to the financial statements, for the purpose of expressing opinions as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of March 2, 2016, the following representations made to you during your audit.

Financial Statements

- 1) We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated May 8, 2015, including our responsibility for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP and for preparation of the supplementary information in accordance with the applicable criteria.
- 2) The financial statements referred to above are fairly presented in conformity with U.S. GAAP and include all properly classified funds and other financial information of the primary government required by generally accepted accounting principles to be included in the financial reporting entity.
- 3) We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
- 4) We acknowledge our responsibility for the design implementation, and maintenance of internal control to prevent and detect fraud.
- 5) Significant assumptions we used in making accounting estimates are reasonable.
- 6) Related party relationships and transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with U.S. GAAP.
- 7) Adjustments or disclosures have been made for all events, including instances of noncompliance, subsequent to the date of the financial statements that would require adjustment to or disclosure in the financial statements.

Management Representation Letter

- 8) We are in agreement with the adjusting journal entries you have proposed, and they have been posted to the accounts..
- 9) The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with U.S. GAAP.
- 10) Guarantees, whether written or oral, under which the Town of Oriental is contingently liable, if any, have been properly recorded or disclosed.

Information Provided

- 11) We have provided you with:
 - a) Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters.
 - b) Additional information that you have requested from us for the purpose of the audit.
 - c) Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
 - d) Minutes of the meetings of Board of Commissioners or summaries of actions of recent meetings for which minutes have not yet been prepared.
- 12) All material transaction have been recorded in the accounting records and are reflected in the financial statements.
- 13) We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- 14) We have no knowledge of any fraud or suspected fraud affects the entity and involves:
 - a) Management,
 - b) Employees who have significant roles in internal control, or
 - c) Others where the fraud could have a material effect on the financial statements.
- 15) We have no knowledge of any allegations of fraud or suspected fraud affecting the Town's financial statements communicated by employees, former employees, analysts, regulators, or others.
- 16) We have no knowledge of instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.
- 17) We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.
- 18) We have disclosed to you the identity of the Town's related parties and all the related party relationships and transactions of which we are aware.

Government—specific

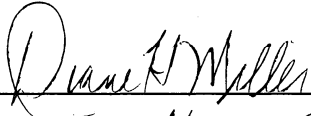
- 19) There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
- 20) We have a process to track the status of audit findings and recommendations.
- 21) We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
- 22) We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for the report.
- 23) The Town has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.

Management Representation Letter

- 24) We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts; and legal and contractual provisions for reporting specific activities in separate funds.
- 25) We have identified and disclosed to you all instances, which have occurred or are likely to have occurred, of fraud and noncompliance with provisions of laws and regulations that we believe have a material effect on the financial statements or other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance.
- 26) We have identified and disclosed to you all instances, which have occurred or are likely to have occurred, of noncompliance with provisions of contracts and grant agreements that we believe have a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
- 27) We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of abuse that could be quantitatively or qualitatively material to the financial statements or other financial data significant to the audit objectives..
- 28) There are no violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
- 29) As part of your audit, you assisted with preparation of the financial statements and related notes. We acknowledge our responsibility as it relates to those nonaudit services, including that we assume all management responsibilities; oversee the services by designating an individual, preferably within senior management, who possesses suitable skill, knowledge, or experience; evaluate the adequacy and results of the services performed; and accept responsibility for the results of the services. We have reviewed, approved, and accepted responsibility for those financial statements and related notes.
- 30) The Town has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
- 31) The Town has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
- 32) The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.
- 33) The financial statements properly classify all funds and activities, in accordance with GASB Statement No 34.
- 34) All funds that meet the quantitative criteria in GASB Statement Nos. 34 and 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.
- 35) Components of net position (net investment in capital assets; restricted; and unrestricted) and equity amounts are properly classified and, if applicable, approved.
- 36) Provisions for uncollectible receivables have been properly identified and recorded.
- 37) Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
- 38) Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
- 39) Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.

Management Representation Letter

- 40) Deposits and investment securities and derivative transactions are properly classified as to risk and are properly disclosed.
- 41) Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated.
- 42) We have appropriately disclosed the Town's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available and have determined that net assets were properly recognized under the policy.
- 43) We are following our established accounting policy regarding which resources (that is, restricted, committed, assigned, or unassigned) are considered to be spent first for expenditures for which more than one resource classification is available. That policy determines the fund balance classifications for financial reporting purposes.
- 44) We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.

By: 
Title: Town Manager



INTERNAL CONTROL RECOMMENDATIONS

March 2, 2016

To the Board of Commissioners
and Town Manager of Town of Oriental

In planning and performing our audit of the financial statements of the governmental activities, business-type activities,, each major fund, and the aggregate remaining fund information of Town of Oriental as of and for the year ended June 30, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered Town of Oriental's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Oriental's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Oriental's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in Town of Oriental's internal control to be significant deficiencies:

The Town has limited staff with technical ability to draft its year end financial statements and notes. Thus the Town relies on its auditors to draft the year end financials and notes. As a result, we believe the organization has a significant deficiency in its internal control over year end financial statement preparation. To eliminate the deficiency the Town may consider outsourcing the preparation of year end financial statements. However, the Board is willing to accept this deficiency based on the cost/benefit analysis of eliminating this control deficiency.

During the year, there was not documented review of the bank reconciliations being done. This is considered a significant deficiency over internal control. Management was made aware of this control deficiency and took corrective action to remedy the control deficiency.

During our testing for cash disbursement controls there was a control deficiency related to invoice approval documentation and purchase order usage. One invoice was noted to not have proper approval documented with the invoice. There also were a couple of instances of purchase orders not being used on purchases as required per Town policy. The invoice documentation and purchase order processes will be more closely reviewed to mitigate this control deficiency.

This communication is intended solely for the information and use of management, Board of Commissioners, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Carr, Riggs & Ingram, L.L.C.

Carr, Riggs & Ingram, LLC
New Bern, North Carolina
March 2, 2016