

**KERR-TAR REGIONAL COUNCIL  
OF GOVERNMENTS  
HENDERSON, NORTH CAROLINA**

**FINANCIAL STATEMENTS  
AND COMPLIANCE REPORT**

*As of and for the Year Ended June 30, 2015*

*And Report of Independent Auditor*

# KERR-TAR REGIONAL COUNCIL OF GOVERNMENTS

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## Report of Independent Auditor

Board of Directors  
Kerr-Tar Regional Council of Governments  
Henderson, North Carolina

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Kerr-Tar Regional Council of Governments (the "Council"), as of and for the year ended June 30, 2015, and the related notes to financial statements, which collectively comprise the Council'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 did not audit the financial statements of the Region K Community Assistance Corporation (the "Corporation"). Those financial statements were audited by other auditors whose report thereon, has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Corporation, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 Council'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 Council's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### Opinions

In our opinion, based on our report and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Council, as of June 30, 2015, and the respective changes in financial position and the respective budgetary comparisons for the General Fund, the Aging Fund, the Workforce Investment Act Fund, and the Revolving Loan Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Emphasis of Matter

As discussed in Note 6 to the financial statements, the Council adopted Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*, Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68*. Additionally the Council adopted an Alternative Accounting Principle for the accounting treatment and reporting of the long-term receivables effective July 1, 2014. Our opinion is not modified with respect to these matters.

## Other Matters

### Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Required Supplemental Financial Data as listed in the table of contents, 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 supplemental information in accordance with auditing standards generally accepted in the United States of America, which consist of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the basic financial statements that collectively comprise the Council's basic financial statements. The supplementary information as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal and State awards is also presented for the purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the State Single Audit Implementation Act, and is also not a required part of the basic financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The supplementary information and the schedule of expenditures of federal and State awards have 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, the supplementary information and the schedule of expenditures of federal and State awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

### Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2015, on our consideration of the Council's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Council's internal control over financial reporting and compliance.



Raleigh, North Carolina  
November 30, 2015

# KERR-TAR REGIONAL COUNCIL OF GOVERNMENTS

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015

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As management of Kerr-Tar Regional Council of Governments (the "Council"), we offer readers of the Council's financial statements this narrative overview and analysis of the financial activities of the Council 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 Council's financial statements, which follow this narrative.

### Financial Highlights

- The assets of the Council exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$863,524 (*net position*). The Council's total net position increased by \$32,272 in comparison with the prior year.
- As of the close of the current fiscal year, the Council's governmental funds reported a combined ending fund balance of \$1,282,202, an increase of \$53,784 in comparison with the prior year restated combined ending fund balance of \$1,228,418. This entire amount is restricted, non-spendable, or unassigned.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$(234,953) or (11)% of total general fund expenditures for the fiscal year.
- The Council's total debt, which consists solely of accrued liability for other post-employment benefits and accrued annual leave, increased by \$33,240 during the current fiscal year.

### Overview of the Financial Statements

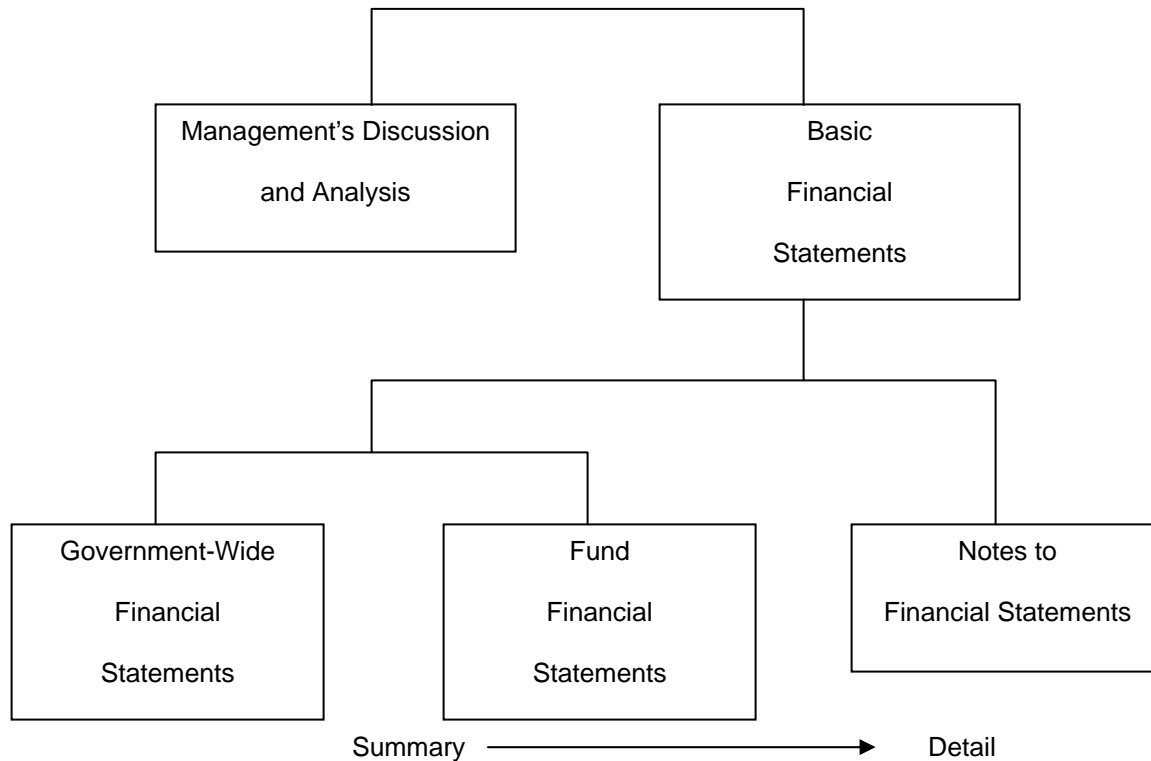
This discussion and analysis is intended to serve as an introduction to the Council's basic financial statements which consist of three components as follows: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to financial statements. The basic financial statements present two different views of the Council's finances 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 Council.

# KERR-TAR REGIONAL COUNCIL OF GOVERNMENTS MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015

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**Figure 1  
Required Components of Annual Financial Report**



## **Basic Financial Statements**

The first two statements (Exhibits A and B) in the basic financial statements are the *government-wide statements*. They provide both short- and long-term information about the Council's financial status.

The next statements (Exhibits C through F) are *fund financial statements*. These statements focus on the activities of the individual parts of the Council's government. These statements provide more detail than the government-wide statements. There are two parts to the fund financial statements: 1) the governmental funds statements and 2) the budgetary comparison statements.

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

# KERR-TAR REGIONAL COUNCIL OF GOVERNMENTS

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015

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### **Government-Wide Financial Statements**

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

The two government-wide statements report the Council's net position and how it has changed. Net position is the difference between the Council's total assets and total liabilities. Measuring net position is one way to gauge the Council's financial condition.

Government-wide financial statements may be divided into as many as three categories: 1) governmental activities, 2) business-type activities, and 3) component units. The governmental activities include all of the Council's basic services such as general administration, economic and community development, human services, environmental protection, and transportation planning services. State and federal grants and contributions from regional non-profits, supporting entities, and local governments comprising the service area of the Council finance most of these activities.

### **Fund Financial Statements**

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

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

The Council adopts an annual budget for its General Fund and each separate special revenue fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the constituent member local governments, the management of the Council, and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the Council to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the Council complied with the budget ordinance and whether or not the Council succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document.

The statement shows four columns: 1) the original budget as adopted by the Board, 2) the final budget as amended by the Board, 3) the actual resources, charges to appropriations, and ending balances in the General Fund, and 4) the difference or variance between the final budget and the actual resources and charges.

*Notes to the Financial Statements* – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 23 of this report.



**KERR-TAR REGIONAL COUNCIL OF GOVERNMENTS  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

JUNE 30, 2015

**Government-Wide Financial Analysis  
Table 1  
Condensed Statement of Net Position  
June 30,**

	<b>Government Activities</b>	
	<b>2014</b>	<b>2015</b>
<b>ASSETS</b>		
Current assets	\$ 2,015,066	\$ 1,984,005
Deferred outflows of resources	-	56,464
	<u>2,015,066</u>	<u>2,040,469</u>
<b>LIABILITIES</b>		
Current liabilities	706,975	590,324
Noncurrent liabilities	348,421	381,661
Deferred inflows of resources	-	204,960
	<u>1,055,396</u>	<u>1,176,945</u>
<b>NET POSITION</b>		
Restricted by Stabilization of State Statute	1,226,883	618,328
Unrestricted	<u>(267,213)</u>	<u>245,196</u>
	<u>\$ 959,670</u>	<u>\$ 863,524</u>

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets of the Council exceeded liabilities by \$863,524 as of June 30, 2015. The Council's net position increased by \$32,272 for the fiscal year ended June 30, 2015. Of the net position, \$618,328 represents resources that are subject to external legal restrictions on how they may be used. Restrictions include Stabilization by State Statute as dictated by North Carolina General Statutes and unspent grants or other revenues with restrictive purposes. The Council's net investment in capital assets (office and computer equipment and software) is \$0 as all assets are fully depreciated. The Council uses these capital assets to provide services to constituent local government members; consequently, these assets are not available for future spending. Also, the Council implemented GASB Statements 68 and 71 this year. With the new reporting change, the Council 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 \$128,418. Decisions regarding the allocations are made by the administrators of the pension plan, not by the Council's management.

**KERR-TAR REGIONAL COUNCIL OF GOVERNMENTS  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

JUNE 30, 2015

**Table 2  
Condensed Statement of Activities  
June 30,**

	<b>Governmental Activities</b>	
	<b>2014</b>	<b>2015</b>
Revenues:		
Program revenues:		
Charges for services	\$ 103,451	\$ 352,706
Operating grants and contributions	4,778,412	4,823,290
General revenues:		
Local government dues	149,140	203,820
Unrestricted investment earnings	270	268
Miscellaneous	31,802	100,697
Total revenues	<u>5,063,075</u>	<u>5,480,781</u>
Expenses:		
Governmental activities:		
General government	51,832	34,420
Public safety	43,039	-
Transportation	179,580	625,712
Economic and physical development	568,699	410,494
Human services	2,653,038	2,493,480
Workforce development	1,701,269	1,884,403
Total expenses	<u>5,197,457</u>	<u>5,448,509</u>
Change in net position	(134,382)	32,272
Net position-beginning of year	1,094,052	959,670
Prior period adjustment	-	(128,418)
Net position- beginning of year-restated	<u>1,094,052</u>	<u>831,252</u>
Net position, end of year	<u>\$ 959,670</u>	<u>\$ 863,524</u>

*Governmental Activities* – Governmental activities increased the Council's net position by \$32,272.

The Council's revenues were \$5.5 million. Ninety percent of the Council's revenues come from federal and State revenues.

The Council's expenditures were \$5.5 million. Forty-six percent of the Council's expenditures were related to Human Services programs, thirty-four percent of expenses were workforce development program related.

Financial Analysis of the Council's Funds – As noted earlier, the Council uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

# KERR-TAR REGIONAL COUNCIL OF GOVERNMENTS

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015

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Governmental Funds – The focus of the Council's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the Council'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 operating fund of the Council. At the end of the fiscal year, the General Fund unassigned fund balance reflects a deficit of \$234,953 while total fund balance was \$96,792, a consequence of State statute requirements that program receivables are reserved. 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. The purpose of the comparison is to understand what resources are available for the coming year operations. At June 30, 2015, the combined fund balance of the governmental funds of the Council increased by \$53,784 over the prior year.

Governmental Funds Budgetary Highlights – During the fiscal year, the Council 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 to recognize new funding amounts from external sources, such as federal and State grants; and 3) increases in appropriations that become necessary to maintain services.

### Capital Asset and Debt Administration

Capital Assets – The Council's investment in capital assets for its governmental activities as of June 30, 2015 totals \$0 (net of accumulated depreciation). These assets include the furniture, fixtures and equipment, and are substantially depreciated. This amount is small because the Council does not own the bulk of its facilities, but operates under operating leases which call for payments of rent.

Additional information on the Council's capital assets can be found in Note 4 of the basic financial statements.

Long-term Debt – The Council's long-term debt consisted of the following for its governmental activities as of June 30, 2015 an OPEB obligation of \$330,700 and Compensated absences accrued of \$50,961 totaling \$381,661.

Additional information on the Council's debt can be found in Notes 1 and 8 of the basic financial statements.

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

The governmental activities of the Council make up the largest percentage of both revenues and expenditures. The Council conducts its administration of the government programs primarily within the indirect cost budget of the government programs it monitors and administers.

The proposed budget for the coming fiscal year calls for funded expenditures of approximately \$6.0 million. The change in the proposed budget over the current year is attributable to an expected increase in grant funding.

### Requests for Information

This report is intended to provide a summary of the financial condition of the Council. Questions or requests for additional information should be addressed to:

Finance Officer  
Kerr-Tar Regional Council of Governments  
P.O. Box 709  
1724 Graham Avenue  
Henderson, NC 27536

**KERR-TAR REGIONAL COUNCIL OF GOVERNMENTS**  
**EXHIBIT A – STATEMENT OF NET POSITION**

JUNE 30, 2015

	<u>Primary Government Governmental Activities</u>	<u>Region K Community Assistance Corporation</u>	<u>Total Reporting Unit</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 896,419	\$ 114,817	\$ 1,011,236
Receivables	652,195	93,557	745,752
Accrued interest receivable	1,180	-	1,180
Notes receivable, net of allowance for bad debts	356,597	-	356,597
Prepaid items	1,183	-	1,183
Net pension asset	76,431	-	76,431
Capital assets, net of depreciation	-	15,146	15,146
<b>Total Assets</b>	<u>1,984,005</u>	<u>223,520</u>	<u>2,207,525</u>
Deferred Outflows of Resources:			
Contributions to pension plan in current fiscal year	56,464	-	56,464
Total Deferred Outflows of Resources	<u>56,464</u>	<u>-</u>	<u>56,464</u>
<b>LIABILITIES</b>			
Accounts payable and accrued expenses	393,386	36,591	429,977
Unearned revenue	196,938	-	196,938
Long-term liabilities:			
Accrued annual leave	50,961	3,119	54,080
Other post-employment benefits	330,700	-	330,700
<b>Total Liabilities</b>	<u>971,985</u>	<u>39,710</u>	<u>1,011,695</u>
Deferred Inflows of Resources:			
Pension deferral	204,960	-	204,960
Total Deferred Inflows of Resources	<u>204,960</u>	<u>-</u>	<u>204,960</u>
<b>NET POSITION</b>			
Restricted for:			
Stabilization by State Statute	618,328	-	618,328
Unrestricted	245,196	183,810	429,006
<b>Total Net Position</b>	<u>\$ 863,524</u>	<u>\$ 183,810</u>	<u>\$ 1,047,334</u>

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

**KERR-TAR REGIONAL COUNCIL OF GOVERNMENTS**  
**EXHIBIT B – STATEMENT OF ACTIVITIES**

YEAR ENDED JUNE 30, 2015

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges	Operating	Capital	Primary	Region K	Total
		for	Grants and	Grants and	Governmental	Community	
	Services	Contributions	Contributions	Activities	Assistance	Reporting	
					Corporation	Unit	
<b>Primary Government:</b>							
Governmental activities:							
General government	\$ 34,420	\$ -	\$ -	\$ -	\$ (34,420)	\$ -	\$ (34,420)
Transportation	625,712	-	473,355	-	(152,357)	-	(152,357)
Economic and physical development	410,494	352,706	60,666	-	2,878	-	2,878
Human services	2,493,480	-	2,445,059	-	(48,421)	-	(48,421)
Workforce development	1,884,403	-	1,844,210	-	(40,193)	-	(40,193)
Total governmental activities	<u>\$ 5,448,509</u>	<u>\$ 352,706</u>	<u>\$ 4,823,290</u>	<u>\$ -</u>	<u>(272,513)</u>	<u>-</u>	<u>(272,513)</u>
Component unit:							
Region K Community Assistance Corporation	<u>\$ 402,672</u>	<u>\$ 12,200</u>	<u>\$ 474,918</u>	<u>\$ -</u>	<u>-</u>	<u>84,446</u>	<u>84,446</u>
General revenues:							
Local governmental dues					203,820	-	203,820
Investment earnings, unrestricted					268	45	313
Miscellaneous, unrestricted					100,697	8,738	109,435
Total general revenues					<u>304,785</u>	<u>8,783</u>	<u>313,568</u>
Change in net position					<u>32,272</u>	<u>93,229</u>	<u>125,501</u>
Net position - beginning of year					<u>959,670</u>	<u>90,581</u>	<u>1,050,251</u>
Prior period adjustment					<u>(128,418)</u>	<u>-</u>	<u>(128,418)</u>
Net position-beginning of year-July 1 restated					<u>831,252</u>	<u>90,581</u>	<u>921,833</u>
Net position-end of year					<u>\$ 863,524</u>	<u>\$ 183,810</u>	<u>\$ 1,047,334</u>

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

**KERR-TAR REGIONAL COUNCIL OF GOVERNMENTS**  
**EXHIBIT C – BALANCE SHEET – GOVERNMENTAL FUNDS**

JUNE 30, 2015

	General	Aging	Workforce Investment Act	Revolving Loan	Non-major	Total Governmental Funds
<b>ASSETS</b>						
Cash and cash equivalents	\$ 41,131	\$ -	\$ 52,795	\$ 705,277	\$ 97,216	\$ 896,419
Accounts receivables, net	364,429	198,447	87,876	1,443	-	652,195
Notes receivable, net of allowance for bad debts	-	-	-	240,321	116,276	356,597
Prepaid expenses	1,183	-	-	-	-	1,183
<b>Total Assets</b>	<b>\$ 406,743</b>	<b>\$ 198,447</b>	<b>\$ 140,671</b>	<b>\$ 947,041</b>	<b>\$ 213,492</b>	<b>\$ 1,906,394</b>
<b>LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND FUND BALANCES</b>						
Liabilities:						
Accounts payable and accrued liabilities	\$ 79,145	\$ 198,447	\$ 115,794	\$ -	\$ -	\$ 393,386
Unearned revenue	196,938	-	-	-	-	196,938
<b>Total Liabilities</b>	<b>276,083</b>	<b>198,447</b>	<b>115,794</b>	<b>-</b>	<b>-</b>	<b>590,324</b>
Deferred Inflow of Resources:						
Receivables uncollected	33,868	-	-	-	-	33,868
Fund Balances:						
Nonspendable:						
Revolving loans	-	-	-	240,321	116,276	356,597
Prepaid expenses	1,183	-	-	-	-	1,183
Restricted:						
Stabilization by State Statute	330,562	198,447	87,876	1,443	-	618,328
Assigned	-	-	-	705,277	97,216	802,493
Unassigned	(234,953)	(198,447)	(62,999)	-	-	(496,399)
<b>Total Fund Balances</b>	<b>96,792</b>	<b>-</b>	<b>24,877</b>	<b>947,041</b>	<b>213,492</b>	<b>1,282,202</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<b>\$ 406,743</b>	<b>\$ 198,447</b>	<b>\$ 140,671</b>	<b>\$ 947,041</b>	<b>\$ 213,492</b>	<b>\$ 1,906,394</b>

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

# KERR-TAR REGIONAL COUNCIL OF GOVERNMENTS

## EXHIBIT C – RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION

JUNE 30, 2015

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Amounts reported for governmental activities in the statement of net position (Exhibit A) are different because:		\$	1,282,202
Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds statements:			
Compensated absences	\$	(50,961)	
OPEB obligation		<u>(330,700)</u>	
Total			(381,661)
Accrued interest receivable is not considered available to satisfy current liabilities and, therefore, is not reported in the fund statements			1,180
Net pension asset			76,431
Contributions to the pension plan in the current fiscal year are deferred outflows of resources on the statement of net position			56,464
Accounts receivable due from other governments not collected within 60 days after year-end is deferred in the fund			33,868
Pension deferral			<u>(204,960)</u>
Net position of governmental activities		\$	<u><u>863,524</u></u>

# KERR-TAR REGIONAL COUNCIL OF GOVERNMENTS

## EXHIBIT D – STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2015

	General	Aging	Workforce Investment Act	Revolving Loan	Non-major	Total Governmental Funds
<b>Revenues</b>						
Charges for services	\$ 302,479	\$ -	\$ -	\$ 50,205	\$ 22	\$ 352,706
Local government revenues	203,820	-	-	-	-	203,820
Operating grants and contributions	1,536,245	1,978,107	1,300,778	-	-	4,815,130
Economic Development and Technical Assistance Grant	52,651	-	-	-	-	52,651
Miscellaneous unrestricted	44,344	-	-	-	-	44,344
Total revenues	<u>2,139,539</u>	<u>1,978,107</u>	<u>1,300,778</u>	<u>50,205</u>	<u>22</u>	<u>5,468,651</u>
<b>Expenditures</b>						
Economic Development Administration - Planning Assistance	135,902	-	-	-	-	135,902
Revolving Loan Fund Administration	15,399	-	-	-	-	15,399
Bike Ped Plan	53,064	-	-	-	-	53,064
Water Quality	22,766	-	-	-	-	22,766
Mobility Manager	77,197	-	-	-	-	77,197
Middleburg USDA	107,046	-	-	-	-	107,046
Henderson Parks and Recreation	633	-	-	-	-	633
Rural Transportation Planning Organization	103,754	-	-	-	-	103,754
Aging-Planning and Administration	182,404	-	-	-	-	182,404
Aging- DOA Admin	48,262	-	-	-	-	48,262
Aging-Ombudsman	101,156	-	-	-	-	101,156
Aging-Elder Abuse	4,656	-	-	-	-	4,656
Aging-CRC/LCA	30,021	-	-	-	-	30,021
Aging-CATCH	8,913	-	-	-	-	8,913
Aging-Triangle North Healthcare	831	-	-	-	-	831

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



**KERR-TAR REGIONAL COUNCIL OF GOVERNMENTS**

**EXHIBIT D – STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS  
(CONTINUED)**

YEAR ENDED JUNE 30, 2015

	General	Aging	Workforce Investment Act	Revolving Loan	Non-major	Total Governmental Funds
Aging-Caregiver Category I	\$ 92,352	\$ -	\$ -	\$ -	\$ -	\$ 92,352
Aging-NCDOT Project	391,797	-	-	-	-	391,797
Aging-Senior Games	4,422	-	-	-	-	4,422
WIA Administration	203,097	-	-	-	-	203,097
WIA Adult Services	141,362	-	-	-	-	141,362
WIA Youth Services	71,351	-	-	-	-	71,351
WIA Dislocated Workers	128,074	-	-	-	-	128,074
CDBG-Granville County SS	7,245	-	-	-	-	7,245
CDBG-Granville County SFR	274	-	-	-	-	274
CDBG-Vance County NSP	16,036	-	-	-	-	16,036
CDBG-Warren County SS	12,166	-	-	-	-	12,166
CDBG-Person County SS	13,816	-	-	-	-	13,816
CDBG-Person County SFR	218	-	-	-	-	218
Bunn Zoning	1,906	-	-	-	-	1,906
Person County Hazard Mitigation	7,821	-	-	-	-	7,821
Middleburg	22,048	-	-	-	-	22,048
Kerr Tar Regional Economic Development Corporation	52,999	-	-	-	-	52,999
Block Grant	-	1,850,749	-	-	-	1,850,749
Caregiver Cat I	-	52,614	-	-	-	52,614
Fans	-	3,247	-	-	-	3,247
Senior Center General Purpose	-	62,292	-	-	-	62,292

**KERR-TAR REGIONAL COUNCIL OF GOVERNMENTS**

**EXHIBIT D – STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS  
(CONTINUED)**

YEAR ENDED JUNE 30, 2015

	General	Aging	Workforce Investment Act	Revolving Loan	Non-major	Total Governmental Funds
Legal	\$ -	\$ 9,205	\$ -	\$ -	\$ -	\$ 9,205
WIA Adult	-	-	449,903	-	-	449,903
WIA Dislocated Workers Program	-	-	435,036	-	-	435,036
WIA Youth	-	-	439,241	-	-	439,241
Loans	-	-	-	173	1,044	1,217
Total Expenditures	<u>2,111,363</u>	<u>1,978,107</u>	<u>1,324,180</u>	<u>173</u>	<u>1,044</u>	<u>5,414,867</u>
Excess of revenues over <under> expenditures	28,176	-	(23,402)	50,032	(1,022)	53,784
Other Financing Sources (Uses):						
Transfers in (out)	<u>15,399</u>	<u>-</u>	<u>-</u>	<u>(15,399)</u>	<u>-</u>	<u>-</u>
Excess of revenues and other financing sources over (under) expenditures and other financing <uses>	<u>43,575</u>	<u>-</u>	<u>(23,402)</u>	<u>34,633</u>	<u>(1,022)</u>	<u>53,784</u>
Fund balance-beginning of the year	53,217	-	48,279	282,545	97,788	481,829
Prior period adjustment	-	-	-	629,863	116,726	746,589
Fund balance-beginning of the year-restated	<u>53,217</u>	<u>-</u>	<u>48,279</u>	<u>912,408</u>	<u>214,514</u>	<u>1,228,418</u>
Fund balance-end of the year	<u>\$ 96,792</u>	<u>\$ -</u>	<u>\$ 24,877</u>	<u>\$ 947,041</u>	<u>\$ 213,492</u>	<u>\$ 1,282,202</u>

**KERR-TAR REGIONAL COUNCIL OF GOVERNMENTS**

**EXHIBIT D – RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF THE GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

*YEAR ENDED JUNE 30, 2015*

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Net change in fund balances-total governmental funds	\$	53,784
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		(33,240)
Council's portion of collective pension expense		56,353
Loan receivable is reported in the governmental funds but not in the statement of activities		(402)
Timing difference due to revenues recognized in statement of activities but not in the governmental funds		<u>(44,223)</u>
Change in net position of governmental activities	\$	<u><u>32,272</u></u>

**KERR-TAR REGIONAL COUNCIL OF GOVERNMENTS****EXHIBIT E – STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND  
BALANCE – BUDGET AND ACTUAL – GENERAL FUND***YEAR ENDED JUNE 30, 2015*

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	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance with Final-Positive (Negative)</b>
Revenues	<u>\$ 2,218,498</u>	<u>\$ 2,571,123</u>	<u>\$ 2,140,384</u>	<u>\$ (430,739)</u>
Expenditures	<u>2,218,498</u>	<u>2,571,123</u>	<u>2,111,363</u>	<u>(459,760)</u>
Excess of Revenues over Expenditures	-	-	29,021	29,021
Other Financing Sources				
Transfers in	<u>-</u>	<u>-</u>	<u>15,399</u>	<u>15,399</u>
Total Other Financing Sources	<u>-</u>	<u>-</u>	<u>15,399</u>	<u>15,399</u>
Excess of Revenues and Other Sources Over Expenditures and Other Uses - Budgetary Basis	<u>\$ -</u>	<u>\$ -</u>	<u>44,420</u>	<u>\$ 44,420</u>
Fund Balance-Beginning of the Year			53,217	
Accrued leave			<u>(845)</u>	
Fund Balance-End of the Year			<u>\$ 96,792</u>	

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

**KERR-TAR REGIONAL COUNCIL OF GOVERNMENTS**

**EXHIBIT F – STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND  
BALANCE – BUDGET AND ACTUAL – AGING FUND**

*YEAR ENDED JUNE 30, 2015*

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	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance with Final-Positive (Negative)</b>
Revenues	<u>\$ 1,832,812</u>	<u>\$ 1,978,116</u>	<u>\$ 1,978,107</u>	<u>\$ (9)</u>
Expenditures	<u>1,832,812</u>	<u>1,978,116</u>	<u>1,978,107</u>	<u>(9)</u>
Revenues Over Expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Fund Balance-Beginning of the Year			<u>-</u>	
Fund Balance-End of the Year			<u>\$ -</u>	

**KERR-TAR REGIONAL COUNCIL OF GOVERNMENTS**

**EXHIBIT G – STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL – WORKFORCE INVESTMENT ACT FUND**

*YEAR ENDED JUNE 30, 2015*

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	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final-Positive (Negative)</u>
Revenues	<u>\$ 1,489,100</u>	<u>\$ 1,795,101</u>	<u>\$ 1,300,778</u>	<u>\$ (494,323)</u>
Expenditures	<u>1,489,100</u>	<u>1,795,101</u>	<u>1,324,180</u>	<u>(470,921)</u>
Revenues Over (Under) Expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>(23,402)</u>	<u>\$ (23,402)</u>
Fund Balance-Beginning of the Year			<u>48,279</u>	
Fund Balance-End of the Year			<u>\$ 24,877</u>	

**KERR-TAR REGIONAL COUNCIL OF GOVERNMENTS****EXHIBIT H – STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND  
BALANCE – BUDGET AND ACTUAL – REVOLVING LOAN FUND***YEAR ENDED JUNE 30, 2015*

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	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance with Final-Positive (Negative)</b>
Revenues	<u>\$ 217,697</u>	<u>\$ 1,675</u>	<u>\$ 50,205</u>	<u>\$ 48,530</u>
Expenditures	<u>217,697</u>	<u>1,675</u>	<u>173</u>	<u>(1,502)</u>
Revenues Over Expenditures	<u>-</u>	<u>-</u>	<u>50,032</u>	<u>50,032</u>
Transfers Out	<u>-</u>	<u>-</u>	<u>(15,399)</u>	<u>(15,399)</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>(15,399)</u>	<u>(15,399)</u>
Excess of Revenues Over Expenditures	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u>34,633</u>	<u><u>\$ 34,633</u></u>
Fund Balance-Beginning of the Year			282,545	
Prior Period Restatement			<u>629,863</u>	
Fund Balance-Beginning of the Year-Restated			<u>912,408</u>	
Fund Balance-End of the Year			<u><u>\$ 947,041</u></u>	

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

**KERR-TAR REGIONAL COUNCIL OF GOVERNMENTS**  
**EXHIBIT I – STATEMENT OF NET POSITION – FIDUCIARY FUND**

*JUNE 30, 2015*

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	<b>Pension Trust Fund</b>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 10,016
<b>NET POSITION</b>	
Assets held in trust for pension benefits	\$ 10,016



**KERR-TAR REGIONAL COUNCIL OF GOVERNMENTS**  
**EXHIBIT J – STATEMENT OF CHANGES IN NET POSITION – FIDUCIARY FUND**

*YEAR ENDED JUNE 30, 2015*

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	<b>Pension Trust Fund</b>
Additions:	
Investment income	\$       10
Net Position, Beginning of Year	<u>10,006</u>
Net Position, End of Year	<u><u>\$   10,016</u></u>

**KERR-TAR REGIONAL COUNCIL OF GOVERNMENTS**  
**NOTES TO FINANCIAL STATEMENTS**

*JUNE 30, 2015*

**Note 1—Summary of significant accounting policies**

The accounting policies of the Kerr-Tar Regional Council of Governments (the “Council”) conform to accounting principles generally accepted in the United States of America (“GAAP”) as applicable to governments. The following is a summary of the more significant accounting policies:

**Reporting Entity**

The Council is a public body and a body corporate and politic created under the authority of Chapter 160A of the General Statutes of North Carolina. It is a jointly governed organization with a 34-member Board of Directors. The governing bodies of each member government appoint 34 members. Three additional at-large members represent the private sector. However, one at large private sector vacancy has yet to be appointed. No one member government appoints a majority. The member governments, the number of Directors appointed and the assessments paid are scheduled below:

	<u>Number of Directors Appointed</u>	<u>Amount of Assessment Paid</u>
Franklin	3	\$ 30,632
Bunn	1	196
Franklinton	1	1,152
Louisburg	1	1,916
Youngsville	1	660
Granville	5	20,788
Butner	1	4,328
Creedmoor	1	2,352
Oxford	1	4,824
Stem	1	264
Stovall	1	240
Person	3	17,728
Roxboro	1	4,766
Vance	4	16,788
Henderson	1	8,760
Kittrell	1	268
Middleburg	1	76
Warren	3	10,760
Macon	1	68
Norlina	1	636
Warrenton	1	492
	<u>34</u>	<u>\$ 127,694</u>

The accompanying financial statements present all funds of the Council and the component unit for which the Council is financially accountable. The Council’s discretely presented component unit is reported in a separate column in the Council’s government-wide financial statements in order to emphasize that it is legally separate from the Council.

# KERR-TAR REGIONAL COUNCIL OF GOVERNMENTS

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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### **Note 1—Summary of significant accounting policies (continued)**

*Discretely Presented Component Unit* - Region K Community Assistance Corporation (the "Corporation") is a nonprofit entity organized to augment and enhance the program and services related to aging, juvenile justice, community development, economic development, workforce development, and transportation planning and development provided by public and private agencies, including but not limited to, the Council, Franklin County, Granville County, Person County, Vance County, Warren County and the municipalities located in each of those counties. Currently, the Corporation operates the Person County Senior Center. The members of the Corporation's Board of Directors are appointed by the Council's Board of Directors and the Council has fiduciary responsibility for the Corporation. The Corporation is presented as a governmental activity. Complete financial statements for the Corporation may be obtained from the finance officer at Region K Assistance Corporation, P.O. Box 709, Henderson, North Carolina 27536.

#### **Purpose**

The Council was created for the purpose of studying regional government problems and developing regional plans on matters affecting human resources, education, housing, health, transportation, criminal justice, recreation, economic issues, natural resources, environment, open space, flood control, domestic water supplies, and assisting local governments in other matters as directed by the governing body of the Council.

#### **Basis of Presentation**

*Government-Wide Statements* – The Council has implemented Government Accounting Standards Board ("GASB") Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and local governments, and related standards. The statement of net position and the statement of activities display information about the Council. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements display the governmental activities of the Council. Governmental activities generally are financed through intergovernmental revenues and other non-exchange transactions. The Council has only governmental activities.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the Council'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 member dues, are presented as general revenues.

*Fund Financial Statements* – The fund financial statements provide information about the Council's funds. The emphasis of fund financial statements is on the major governmental funds, each displayed in a separate column. The Council reports the following major governmental funds:

General Fund: The General Fund is the general operating fund of the Council. It is used to account for all financial resources except those accounted for in the Revolving Loan Fund, Micro-Enterprise Loan Fund, Revolving Loan Fund-Green Jobs, Aging Fund, and Workforce Investment Act Fund, which are Special Revenue Funds.

Special Revenue Funds: Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to expenditures for specific purposes.

# KERR-TAR REGIONAL COUNCIL OF GOVERNMENTS

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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### Note 1—Summary of significant accounting policies (continued)

**Revolving Loan Fund:** The Revolving Loan Fund was created during the year ended June 30, 1988, to account for a grant from the Economic Development Administration for economic adjustment assistance.

**Aging Fund:** The Aging Fund was created during the year ended June 30, 1990, to account for program revenues passed through the North Carolina Department of Health and Human Services to be expended on special services to the aged.

**Workforce Investment Act Fund:** The Workforce Investment Act Fund was created during the year ended June 30, 2000, to account for program revenues passed through the Department of Commerce, Division of Employment and Training to provide workforce investment systems that increase the employment, retention, and earnings of participants, and increase occupational skill attainment by participants.

The Council also reports Other Governmental Funds, which are individually non-major, in total. The Micro-Enterprise Loan fund and the Revolving Loan – Green Jobs fund are both special revenue fund types. They are used to account for and report the proceeds of specific revenue sources that are restricted, committed or assigned for specified purposes other than debt service or capital projects.

The Council reports the following fiduciary fund:

**Pension Trust Fund –** The Council maintains a Pension Trust Fund - Other Post-employment Benefit Trust Fund. Pension trust funds are used to report resources that are required to be held in trust for the members and beneficiaries of defined benefit pension plans, defined contribution plans, or other post-employment benefit plans. The Other Post-employment Benefit Trust Fund accounts for the Council's contributions for healthcare coverage provided to qualified retirees.

### Measurement Focus and Basis of Accounting

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

**Government-Wide and Fiduciary Fund Financial Statements –** The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and 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 Council gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants, entitlements, and donations. Revenues from grants, entitlements, and donations are 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. Internally dedicated resources are reported as general revenues rather than as program revenues.

**Governmental Fund Financial Statements –** Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The Council considers all revenues available if they are collected within 90 days after year-end.

**KERR-TAR REGIONAL COUNCIL OF GOVERNMENTS**  
**NOTES TO FINANCIAL STATEMENTS**

*JUNE 30, 2015*

**Note 1—Summary of significant accounting policies (continued)**

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the Council funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenues. Thus when program expenses are incurred, there are both restricted and unrestricted net position available to finance a program. It is the Council's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

**Budgetary Data**

The Council's budget ordinances are adopted, as required by the North Carolina General Statutes, on or before July 1 for the next fiscal year. An annual budget is adopted for the General Fund and the Special Revenue Funds. All annual appropriations lapse at the fiscal year-end. All budgets are prepared using the modified accrual basis of accounting. As explained below, the Council has chosen to include a provision for accrued annual leave and depreciation on certain capital assets required for cost allocation in its budgeted expenditures. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds. Amendments must be approved by the governing board. During the year, several amendments to the original budget were necessary.

To facilitate the allocation of indirect costs, depreciation is recorded on the items purchased with local funds and annual leave is recorded when earned rather than when paid. These amounts are included in the budgetary comparison in Exhibit E. They are not included in Exhibit D. Adjustments are necessary to reconcile Exhibit E with Exhibit D.

	<u>General Fund</u>
Excess of Revenues and Other sources	
Over Expenditures and Other	
Uses from Exhibit E	\$ 44,420
Less in accrued leave	<u>(845)</u>
Excess of Revenue and Other Sources	
Over (Under) Expenditures and Other	
Uses from Exhibit D	<u>\$ 43,575</u>

**Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Fringe Benefits and Indirect Costs**

Fringe Benefits are allocated to departments based on gross pay. Schedule 5 gives an analysis of total fringe benefits for the year.

Indirect costs are recorded as paid. These costs are detailed in Schedule 6 and consist mainly of administrative costs. Indirect costs are also distributed to departments based on gross pay plus fringe benefits.

# KERR-TAR REGIONAL COUNCIL OF GOVERNMENTS

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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### Note 1—Summary of significant accounting policies (continued)

#### **Assets, Liabilities, Deferred Inflow of Resources, and Fund Equity**

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

State law [G.S. 159-30 (c)] authorizes the Council 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 Council, 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 Council investments are held primarily in securities of the NCCMT Cash Portfolio, an SEC-registered (2a7) 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.

*Cash and Cash Equivalents* – The Council combines cash from program awards into one operating account to facilitate disbursements and investment and to maximize investment income. Therefore, all cash and investments are essentially demand deposits and are considered cash and cash equivalents.

*Prepaid Expenses* – Certain prepayments to vendors reflect costs applicable to future accounting periods and are classified as prepaid items in both government wide and fund financial statements.

*Accounts Receivable and Notes Receivable* – The Council considers all revenues available if they are collected within 90 days subsequent to year-end. Grant revenues which are unearned at year-end are recorded as deferred and unearned revenues.

The Council provides for losses on receivables on the allowance method. The allowance method is based on experience, third-party contracts, and other circumstances, which may affect the ability of debtors to meet their obligations. It is the Council's policy to charge off uncollectible receivables when management determines the receivable will not be collected. Receivables are shown net of an allowance for uncollectible accounts of \$383,234 at June 30, 2015.

*Capital Assets* – Purchased or constructed capital assets are reported at cost or estimate historical costs. Donated capital assets are recorded at their estimate fair value at the date of donation. Minimum capitalization costs are as follows: land, \$10,000; building and improvements, \$5,000; and furniture and equipment, \$5,000. 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 of the Council are depreciated on a straight-line basis over the following estimated useful lives: building and improvements, 50 years; computers, 5 years; and furniture and equipment, 5-10 years.

*Compensated Absences* – The vacation policy of the Council provides the accumulation of up to 30 days earned vacation leave time, with such leave being fully vested when earned. For the Council's government-wide financial statements, an expense and a liability for compensated absences and the salary-related payments are recorded as the leave is earned. In the Council's fund financial statements, presented on the budgetary basis, annual leave expense is recorded as it is earned as required for fringe benefit cost allocation. It is added back to fund balance so as to have fund balance reported in accordance with generally accepted accounting principles.

# KERR-TAR REGIONAL COUNCIL OF GOVERNMENTS

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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### Note 1—Summary of significant accounting policies (continued)

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

*Unearned Revenue* – Unearned revenue represents grant receipts/receivables not yet earned (not expended) and prepayments of certain other revenues.

*Deferred Inflows of Resources* – In addition to liabilities, the balance sheet also reports a separate section for deferred inflows of resources. This separate financial statement element, Deferred Inflows of Resources, represents assets that are recorded in the governmental funds financial statements for which the revenue was not considered available under the modified accrual basis of accounting. The Council has accounts receivable that have not been collected within 90 days and notes receivable for revolving loans that met this criterion.

*Deferred Outflow 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 Council has one item that meets this criterion, contributions made to the pension plan in the 2015 fiscal year.

*Net Position* – Net Position in the government-wide financial statements is classified as net investment in capital assets; restricted; and unrestricted. Restricted net position represents constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through State Statute.

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

The governmental fund types classify fund balances as follows:

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

*Prepaid Expenses* – portion of fund balance that is not an available resource because it represents amounts that have been prepaid.

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

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

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

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

# KERR-TAR REGIONAL COUNCIL OF GOVERNMENTS

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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### Note 1—Summary of significant accounting policies (continued)

*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 Council's employer contributions are recognized when due and the Council 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 2—Deposits and investments

*Deposits* – All of the Council's deposits are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits exceeding the federal depository insurance coverage level are collateralized with securities held by the Council's agents in the Council'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 Council, these deposits are considered to be held by the agent in the Council'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 Council or with the escrow agent. Because of the inability to measure the exact amount of collateral pledged for the Council under the Pooling Method, the potential exists for under-collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method.

The State Treasurer enforces standards of minimum capitalization for all Pooling Method financial institutions. The Council relies on the State Treasurer to monitor those financial institutions. The Council analyzes the financial soundness of any other financial institution used by the Council. The Council complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured. The Council does not have policies regarding custodial credit risk for deposits. At June 30, 2015, the Council's deposits had a carrying amount of \$657,195 and a bank balance of \$1,005,091. Of the bank balance, \$260,016 was covered by FDIC and \$745,075 was covered by collateral held under the Pooling Method.

NC G.S. 159-30.1 allows the Council to establish an Other Post Employment Benefit (OPEB) Trust to be operated in accordance with State laws and regulations. The Council on December 28, 2010, established an Irrevocable OPEB Trust. The Trust agreement specifies that any assets of the Trust are to be invested in those investments authorized by the N.C.G.S. 159-30 and no others. It is not registered with the SEC.

*Investments* – At June 30, 2015, the Council's investments consisted of \$249,240 in the North Carolina Capital Management Trust's Cash Portfolio, which carried a credit rating of AAA by Standard and Poor's.

*Interest Rate Risk* – The Council does not have a formal policy to limit interest rate risk.

*Credit Risk* – The Council limits investments to the provisions of G.S. 159-30 and restricts the purchase of securities to the highest possible ratings whenever particular types of securities are rated. State law limits investments in commercial paper to the top rating issued by nationally recognized statistical rating organizations (NRSROs); however, the Council has no formal policy on credit risk.

*Custodial Credit Risk* – For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the Council will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Council has no policy on custodial risk.



**KERR-TAR REGIONAL COUNCIL OF GOVERNMENTS**  
**NOTES TO FINANCIAL STATEMENTS**

JUNE 30, 2015

**Note 2—Deposits and investments (continued)**

*Concentration of Credit Risk* – The Council places no limit on the amount that the Council may invest in any one issuer.

**Note 3—Receivables**

The amount due from other governments and other receivables that is owed to the Council consists of the following:

	<u>Notes</u>	<u>Accounts Receivable</u>	<u>Total</u>
Governmental Activities:			
General	\$ -	\$ 364,429	\$ 364,429
Aging	-	198,447	198,447
Workforce investment act	-	87,876	87,876
Revolving loan	240,321	1,443	241,764
Other governmental	116,276	-	116,276
Total receivables	<u>\$ 356,597</u>	<u>\$ 652,195</u>	<u>\$ 1,008,792</u>

**Note 4—Capital assets**

The capital assets activity of the Council for the year ended June 30, 2015 was as follows:

Governmental Type:	<b>June 30, 2014</b>			<b>June 30, 2015</b>
Capital assets being depreciated:	<u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u>
General Equipment	<u>\$ 18,587</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 18,587</u>
	18,587	-	-	18,587
Less accumulated depreciation for:				
General Equipment	<u>18,587</u>	<u>-</u>	<u>-</u>	<u>18,587</u>
	<u>18,587</u>	<u>\$ -</u>	<u>\$ -</u>	<u>18,587</u>
Governmental Type:				
Capital assets, net of depreciation	<u>\$ -</u>			<u>\$ -</u>

Depreciation expense for the year ended June 30, 2015 was \$0.

**Note 5—Accounts payable**

Accounts payable at the government-wide level at June 30, 2015, were as follows:

	<u>Vendors</u>
Governmental Activities:	
General	\$ 79,145
Aging	198,447
Workforce investment act	115,794
Total accounts payable	<u>\$ 393,386</u>

# KERR-TAR REGIONAL COUNCIL OF GOVERNMENTS

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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### Note 6—Change in Accounting Principles/Restatement

The Council implemented GASB statement 68, *Accounting and Financial Reporting for Pensions (an amendment of GASB Statement No. 27)* and GASB statement 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date (an amendment of GASB Statement No. 68)*, in the fiscal year ending June 30, 2015. The implementation of the statements required the Council to record beginning net pension liability and the effects on net position of contributions made by the Council during the measurement period (fiscal year ending June 30, 2014) and after the measurement period (fiscal year ending June 30, 2015). As a result, beginning net position for the Council decreased by \$128,418.

The Council adopted an Alternative Accounting Principle for the accounting treatment and reporting of the long-term receivables effective July 1, 2014. As a result, beginning fund balance for the Council increased by \$629,863 for the revolving loan fund and \$116,276 for non-major funds.

### Note 7—Employee retirement systems and pension plans

#### Local Governmental Employees' Retirement System

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

*Benefits Provided* – LGERS provides retirement and survivor benefits. Retirement benefits are determined as 1.85% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. Plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. Plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service. 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 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.

*Contributions* – Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. Council employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Council's contractually required contribution rate for the year ended June 30, 2015, was 7.07% of compensation for general employees, 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 Council were \$56,464 for the year ended June 30, 2015.

**KERR-TAR REGIONAL COUNCIL OF GOVERNMENTS**  
**NOTES TO FINANCIAL STATEMENTS**

JUNE 30, 2015

**Note 7—Employee retirement systems and pension plans (continued)**

*Refunds of Contributions* – Council 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.

*Pension Liabilities, Pension Expense, and Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions* – At June 30, 2015, the Council reported an asset of \$76,431 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 Council’s proportion of the net pension asset was based on a projection of the Council’s long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2015, the Council’s proportion was .001%, which was a decrease of .002% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2015, the Council recognized pension expense of \$56,353. At June 30, 2015, the Council reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ -	\$ 8,351
Net difference between projected and actual earnings on pension plan investments	-	177,930
Changes in proportion and differences between Council contributions and proportionate share of contributions	-	18,679
Council contributions subsequent to the measurement date	56,464	-
Total	<u>\$ 56,464</u>	<u>\$ 204,960</u>

\$56,464 reported as deferred outflows of resources related to pensions resulting from Council contributions subsequent to the measurement date will be recognized as an increase of the net pension asset in the year ending June 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year Ending June 30,</b>	<b>Deferred Inflows of Resources</b>
2016	\$ (51,240)
2017	(51,240)
2018	(51,240)
2019	(51,240)
	<u>\$ (204,960)</u>

**KERR-TAR REGIONAL COUNCIL OF GOVERNMENTS**  
**NOTES TO FINANCIAL STATEMENTS**

JUNE 30, 2015

**Note 7—Employee retirement systems and pension plans (continued)**

*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%
Salary increases	4.25% to 8.55%, including inflation and productivity factor
Investment rate of return	7.25%, 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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Fixed Income	36.0%	2.5%
Global Equity	40.5%	6.1%
Real Estate	8.0%	5.7%
Alternatives	6.5%	10.5%
Credit	4.5%	6.8%
Inflation Protection	4.5%	3.7%
Total	100%	

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.

**KERR-TAR REGIONAL COUNCIL OF GOVERNMENTS**  
**NOTES TO FINANCIAL STATEMENTS**

JUNE 30, 2015

**Note 7—Employee retirement systems and pension plans (continued)**

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 City’s Proportionate Share of the Net Pension Asset to Changes in the Discount Rate* – The following presents the City’s proportionate share of the net pension asset calculated using the discount rate of 7.25%, as well as what the City’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%) or one percentage point higher (8.25%) than the current rate:

	<b>1% Decrease (6.25%)</b>	<b>Discount Rate (7.25%)</b>	<b>1% Increase (8.25%)</b>
Council's proportionate share of the net pension liability (asset)	<u>\$ 259,440</u>	<u>\$ (76,431)</u>	<u>\$ (359,224)</u>

*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 for the State of North Carolina.

*Funding Policy* – Plan members are required to contribute 6% of their annual covered salary. The Council is required to contribute at an actuarially determined rate. For the Council, the current rate for employees is 7.07% of annual covered payroll. The contribution requirements of members and of the Council are established and may be amended by the North Carolina General Assembly. The Council’s contributions to LGERS for the years ended June 30, 2015, 2014, and 2013 were \$56,464, \$49,106, and \$55,310, respectively. The contributions made by the Council equaled the required contributions for each year.

**Other Post-employment Benefits (OPEB)**

Healthcare Benefits

*Plan Description* – Under the terms of a Council resolution passed January 26, 1995, the Council provides healthcare benefits through the Healthcare Benefits Plan (“HCB Plan”) as a single employer defined benefit plan to cover retirees of the Council who participate in the North Carolina LGERS and meet the eligibility requirements set forth below.

**KERR-TAR REGIONAL COUNCIL OF GOVERNMENTS**  
**NOTES TO FINANCIAL STATEMENTS**

JUNE 30, 2015

**Note 7—Employee retirement systems and pension plans (continued)**

Membership of the HCB Plan consisted of the following at December 31, 2014, the date of the last actuarial valuation:

Retirees and dependents receiving benefits	7
Terminated plan members entitled to but not yet receiving benefits	0
Active plan members	<u>17</u>
Total	<u><u>24</u></u>

Funding Policy – The Council’s Board of Directors established the contribution requirements of plan members and these may be amended by the Board of Directors. The Council is required to contribute the projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined by the Board.

<u>Eligibility Requirements</u>	<u>Council of Government’s Contribution</u>
20 years and at least age 60	100%
20 years and at least 30 years in the NCLGERS	100%
15 years and at least age 60	75%
10 years and at least age 60	0%

Once a retiree becomes eligible for Medicare, the Council will pay the appropriate proportion of the cost of the Medicare Supplement.

The current ARC rate is 28.05% of annual covered payroll. The Council obtains healthcare coverage through private insurers.

For the current year, the Council contributed \$43,312 or 5.42% of annual covered payroll. There were no contributions by employees. The Council’s obligation to contribute to the HCB Plan is established and may be amended by the Board of Directors.

*Summary of Significant Accounting Policies* – Post-employment expenditures are made from the General Fund, which is maintained on the modified accrual basis of accounting. These expenditures are paid as they come due. No funds are set aside to pay benefits and administration costs unless specifically authorized by the Board of Directors. No funds were set aside for the year ended June 30, 2015.

*Annual OPEB Cost and Net OPEB Obligation* – The Council’s annual other post-employment benefit (“OPEB”) cost (expense) is calculated based on the annual required contribution of the employer (“ARC”). The Council has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement 45 for employers in plans with fewer than 100 total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

**KERR-TAR REGIONAL COUNCIL OF GOVERNMENTS**  
**NOTES TO FINANCIAL STATEMENTS**

JUNE 30, 2015

**Note 7—Employee retirement systems and pension plans (continued)**

The following table shows the components of the Council’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Council’s net OPEB obligation for the post-employment healthcare benefits:

Annual required contributions	\$ 75,260
Interest earned on net OPEB Obligation	11,899
Adjustment to annual required contribution	<u>(10,607)</u>
<b>Annual OPEB Cost (Expense)</b>	<b>76,552</b>
Contribution made in FY 2015	<u>(43,312)</u>
<b>Increase in Net OPEB Obligation</b>	<b>33,240</b>
Net OPEB Obligation, beginning of fiscal year	<u>297,460</u>
Net OPEB Obligation, end of fiscal year	<u><u>\$ 330,700</u></u>

<b>Fiscal Year</b>	<b>Three-Year Trend Information</b>		<b>Net OPEB</b>
	<b>Annual</b>	<b>Percentage of Annual</b>	
<b>Ended June 30,</b>	<b>OPEB Cost</b>	<b>OPEB Cost Contributed</b>	
2013	\$ 95,909	32.9%	\$246,454
2014	81,310	37.3%	297,460
2015	76,552	23.1%	330,700

*Funded Status and Funding Progress* – As of December 31, 2014, the most recent actuarial valuation date, the HCB Plan was funded in the amount of \$10,016. The actuarial accrued liability for benefits was \$1,605,502 and thus, the unfunded actuarial accrued liability (“UAAL”) was \$1,595,486. The covered payroll (annual payroll of active employees covered by the plan) was \$798,641, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 199.8%. The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to financial statements, presents information about the actuarial value of plan assets and the actuarial accrued liabilities for benefits.

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

The following simplifying assumptions were made:

*Retirement Age for Active Employees* – Based on the historical average retirement age for the covered group, active plan members were assumed to retire at age 65, or at the first subsequent year in which the member would qualify for benefits.

*Marital Status* – Marital status of members at the calculation date was assumed to continue throughout retirement.

# KERR-TAR REGIONAL COUNCIL OF GOVERNMENTS

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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### Note 7—Employee retirement systems and pension plans (continued)

*Mortality* – The 1994 Group Annuity Mortality Table Projection Schedule AA set forward three years for males and set forward two years for females were used.

*Turnover* – Non-group-specific age-based turnover data from GASB Statement 45 were used as the basis for assigning active members a probability of remaining employed until the assumed retirement age and for development of an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid.

*Healthcare Cost Trend Rate* – The expected rate of increase in healthcare insurance premiums was based on projections of the Office of the Actuary at the Centers for Medicare and Medicaid Services.

*Health Insurance Premiums* – 2013 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid.

*Inflation Rate* – The expected long-term inflation assumption of 3.75%.

*Payroll Growth Rate* – The expected long-term payroll growth rate was assumed to equal the rate of inflation.

Based on the historical and expected returns of the Council's short-term investment portfolio, a discount rate of 4% was used. In addition, a simplified version of the entry age actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2015 was 25 years.

### Other Employment Benefits

The Council has elected to provide death benefits to employees through the Death Benefit Plan for Members of the Local Governmental Employee's Retirement System (Death Benefit Plan), a multi-employer, State-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in the active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest month's salary in a row during the 24 months prior to the employee's death, but the benefit will be a minimum of \$25,000 and will not exceed \$50,000. All death payments are made from the Death Benefit Plan. The Council has no liability beyond the payment of monthly contributions. Contributions are determined as a percentage of monthly payroll, based upon rates established by the State. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. Because the benefit payments are made by the Death Benefit Plan and not by the Council, the Council does not determine the number of eligible participants. For the fiscal year ended June 30, 2015, the Council made contributions to the State for death benefits of \$0. The Council's required contributions for employees not engaged in law enforcement and for law enforcement officers represented .0% and 0% of covered payroll, respectively. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount.



**KERR-TAR REGIONAL COUNCIL OF GOVERNMENTS**  
**NOTES TO FINANCIAL STATEMENTS**

JUNE 30, 2015

**Note 8—Long-term obligations**

A summary of changes in long-term obligations for the year ended June 30, 2015:

	<b>June 30, 2014</b>	<b>Additions</b>	<b>Retirements</b>	<b>June 30, 2015</b>	<b>Due within One Year</b>
OPEB	\$ 297,460	\$ 76,552	\$ 43,312	\$ 330,700	\$ -
Compensated absences	50,961	51,837	51,837	50,961	-
	<u>\$ 348,421</u>	<u>\$ 128,389</u>	<u>\$ 95,149</u>	<u>\$ 381,661</u>	<u>\$ -</u>

*Operating Leases* – The Council leases copiers under operating leases. The Council leases property under an operating lease with a term through June 30, 2016. The following represents annual minimum lease payments under these noncancellable operating leases as of June 30, 2015:

<b><u>Year Ended June 30,</u></b>	
2016	\$ 59,971
2017	3,662
Total	<u>\$ 63,633</u>

A new lease had not been renegotiated through the date of this report; therefore, no future minimum rental payments are reported.

Rent expense under all leases was \$60,202 for the year ended June 30, 2015.

**Note 9—Risk management**

The Council 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 Council participates in two self-funded risk financing pools administered by the North Carolina Association of County Commissioners. Through these pools, the Council obtains property insurance of \$479,000 per occurrence, general liability of \$2 million per occurrence, blanket crime protection of \$2 million, and workers' compensation coverage up to statutory limits. The pools are reinsured through commercial companies for single occurrence losses in excess of \$1 million up to \$2 million limit for general liability coverage, single occurrence losses of \$1 million per workers' compensation. The Council carries commercial coverage for all other risks of loss. Claims have not exceeded coverage in any of the last three fiscal years.

In accordance with G.S. 159-29, the Council's employees that have access to \$100 or more of the Council's funds at any given time are performance bonded through a commercial surety bond. The Finance Officer is bonded for \$100,000. The remaining employees that have access to funds are bonded under a blanket bond for \$250,000.

The Council has not purchased flood insurance since the Council is not located in a flood plain and management does not view this as a significant risk.

**KERR-TAR REGIONAL COUNCIL OF GOVERNMENTS**  
**NOTES TO FINANCIAL STATEMENTS**

*JUNE 30, 2015*

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**Note 10—Transfers to/from other funds**

The Council had the following transfers to/from other funds at June 30, 2015:

From the Revolving Loan Fund to the General Fund to offset administrative costs	<u>\$ 15,399</u>
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**Note 11—Contingent liabilities**

The Council is the recipient of various State and federal awards for specific purposes that are subject to review and possibly final audit by the grantor agencies. Such audits could lead to requests by the grantor agencies for reimbursement of expenditures disallowed under the compliance terms of the grant. At June 30, 2015, no request for reimbursement by the grantor agencies existed for those grants which have been subjected to grantor audits.

**Note 12—Concentration of risk**

A material part of the Council's support is derived from grants from the North Carolina Department of Commerce – Division of Employment and Training and the North Carolina Department of Health and Human Services – Division of Aging. This support represented 28% and 38% of the Council's total revenue for the year ended June 30, 2015, respectively. The loss of this revenue would have an adverse effect on the Council's ability to continue to provide its workforce investment act and aging services.

**Note 13—Subsequent events**

The Council has evaluated subsequent events through November 30, 2015, in connection with the preparation of these basic financial statements, which is the date the basic financial statements were available to be issued.

**KERR-TAR REGIONAL COUNCIL OF GOVERNMENTS**  
**SCHEDULE 1 – OTHER POST-EMPLOYMENT BENEFITS – SCHEDULE OF EMPLOYER**  
**CONTRIBUTIONS**

*JUNE 30, 2015*

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Year Ending June 30,	Annual Required	
	Contribution (ARC)	Percentage Contributed
2013	\$ 94,904	33.9%
2014	79,950	37.9%
2015	75,260	57.5%

Notes to the Required Schedules:

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	12/31/2014
Actuarial cost method	Projected unit credit
Amortization method	Level percentage of pay, open
Remaining amortization period	25 years
Asset valuation method	Market Value of Assets
Actuarial assumptions	
Investment rate of return*	4.00%
Medical cost trend rate	7.50% - 5.00%
Year of ultimate trend rate	2018
*Includes inflation at	3.75%

**KERR-TAR REGIONAL COUNCIL OF GOVERNMENTS**  
**SCHEDULE 2 – OTHER POST-EMPLOYMENT BENEFITS – SCHEDULE OF FUNDING**  
**PROGRESS**

*JUNE 30, 2015*

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<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) Projected Unit Credit (b)</b>	<b>Unfunded AAL (UAAL) (b-a)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll (( b-a )/ c)</b>
12/31/2012	\$ 10,000	\$ 1,922,845	\$ 1,912,845	0.5%	\$ 999,882	191.3%
12/31/2013	10,000	1,612,323	1,602,323	0.6%	695,848	230.3%
12/31/2014	10,016	1,605,502	1,595,486	0.0%	798,641	199.8%

**KERR-TAR REGIONAL COUNCIL OF GOVERNMENTS**

**SCHEDULE 3 – SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION ASSET – LOCAL GOVERNMENT EMPLOYEES’ RETIREMENT SYSTEM**

*YEARS ENDED JUNE 30, 2015 AND 2014*

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**Schedule of Proportionate Share of Net Pension Asset  
Local Government Employees' Retirement System  
Last Two Fiscal Years June 30,**

	<u>2015</u>	<u>2014</u>
Council's proportion of the net pension liability (asset) (%)	0.013%	0.015%
Council's proportion of the net pension liability (asset) (\$)	\$ (76,431)	\$ 177,191
Council's covered-employee payroll	798,641	695,848
Council's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	-9.6%	25.5%
Plan fiduciary net position as a percentage of the total pension liability	102.64%	94.35%

**KERR-TAR REGIONAL COUNCIL OF GOVERNMENTS**  
**SCHEDULE 4 – SCHEDULE CONTRIBUTIONS — LOCAL GOVERNMENT EMPLOYEES’**  
**RETIREMENT SYSTEM**

*YEARS ENDED JUNE 30, 2015 AND 2014*

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**Schedule of Contributions**  
**Local Government Employees' Retirement System**  
**Last Two Fiscal Years June 30,**

	<b>2015</b>	<b>2014</b>
Contractually required contribution	\$ 56,464	\$ 48,773
Contributions in relation to the contractually required contribution	56,464	48,773
Contribution deficiency (excess)	\$ -	\$ -
Council's covered-employee payroll	\$ 798,641	\$ 695,848
Contributions as a percentage of covered-employee payroll	7.1%	7.0%

**KERR-TAR REGIONAL COUNCIL OF GOVERNMENTS**  
**SCHEDULE 5 – SCHEDULE OF RELEASED TIME AND FRINGE BENEFITS ALLOCATION**

YEAR ENDED JUNE 30, 2015

**Released Time and Fringe Benefits Allocable**

FICA tax	\$ 59,106
Group Insurance	121,740
Retirement	56,131
Retiree Benefits	43,312
Unemployment	12,932
	\$ 293,221

**Released Time and Fringe Benefits Allocated**

Council (allocable as indirect)	\$ 76,657
Kerr-Tar Regional Economic Development Corporation	7,966
Economic Development Administration	17,291
Revolving Loan Fund	142
CFAT	3,498
Mobility Manager	10,977
Bunn Zoning	291
Hazard MIT - Person Co.	1,168
Triangle North Healthcare	120
Bike Ped Planning	8,111
Rural Transportation Planning Organization	15,074
Aging - Planning and Administration	22,008
Aging - Ombudsman	16,250
Aging - Elder Abuse	646
Aging - LCA/CRC	4,983
Aging - Evidence Based	2,234
Aging - AAA	6,873
Aging - Medicare SHIIP	627
Aging - MIPPA	2,443
Aging - Caregiver Category I	13,522

**KERR-TAR REGIONAL COUNCIL OF GOVERNMENTS**  
**SCHEDULE 5 – SCHEDULE OF RELEASED TIME AND FRINGE BENEFITS ALLOCATION**  
**(CONTINUED)**

*YEAR ENDED JUNE 30, 2015*

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Workforce Development:	
WIA Adult - Program	\$ 29,118
WIA Youth - Program	13,882
WIA Dislocated Worker - Program	26,257
WIA Administration	8,417
Community Development Block Grant Administration:	
Granville County - Scattered Site	627
Vance County - Neighborhood Stabilization Program	1,262
Warren County Scattered Site	1,338
Person County Scattered Site	1,439
	<u>\$ 293,221</u>
<b><u>Calculation of Fringe Benefit Rate</u></b>	
Chargeable Salaries	<u>\$ 798,646</u>

**Rate**

Released time and fringe benefits divided by chargeable salaries

$$\$ 293,221 \div \$ 798,646 = 36.7\%$$



**KERR-TAR REGIONAL COUNCIL OF GOVERNMENTS**

**SCHEDULE 6 – SCHEDULE OF INDIRECT EXPENSE AND PROGRAM EXPENSE ALLOCATION  
– GENERAL FUND**

YEAR ENDED JUNE 30, 2015

	<u>Indirect Expenses</u>	<u>Program Costs</u>
<b><u>Council - Allocable Expenses</u></b>		
Salaries	\$ 208,958	\$ -
Professional services	34,353	-
Released time and fringe benefits	76,718	-
Travel	6,975	-
Dues and subscriptions	10,666	-
Insurance and bonds	22,141	-
Board expenses	6,893	-
Advertising	1,226	-
Bank service charges	4,550	-
Software	10,111	-
Telephone and postage	-	16,427
Printing	-	1,322
Utilities	-	3,317
Maintenance and repairs - equipment	-	40,842
Contracted Utilities and cleaning - Vance County Schools	-	31,980
Office supplies	-	6,784
Office space	-	52,364
	<u>\$ 382,591</u>	<u>\$ 153,036</u>
<b><u>Allocated Expenses</u></b>		
Kerr-Tar Regional Economic Development Corporation	\$ 14,085	\$ 5,627
Economic Development Administration - Planning Assistance	30,529	12,213
Revolving Loan Fund	251	100
Bike Ped Planning	14,334	5,733
CFTA	6,208	2,482
Rural Transportation Planning Organization	26,630	10,659
Mobility Manager	19,398	7,759
Bunn Zoning	515.00	206.00
Hazard MIT- Person Co	2,065.00	826.00
Triangle North Healthcare	212	85
Aging - Planning and Administration	47,663	19,099.00
Aging - Ombudsman	28,769	11,509
Aging - Elder Abuse	1,142	457
Aging - LCA/CRC	4,260	1,740
Aging - Evidence Based	3,948	1,579
Aging - AAA	12,145	4,858
Aging - Medicare SHIIP	1,144	387
Aging - MIPPA	1	-
Aging - Caregiver Category I	23,895	9,558

**KERR-TAR REGIONAL COUNCIL OF GOVERNMENTS**

**SCHEDULE 6 – SCHEDULE OF INDIRECT EXPENSE AND PROGRAM EXPENSE ALLOCATION  
– GENERAL FUND (CONTINUED)**

YEAR ENDED JUNE 30, 2015

	<u>Indirect Expenses</u>	<u>Program Costs</u>
<b><u>Council - Allocable Expenses</u></b>		
Workforce Development:		
WIA-Administrative	\$ 14,873	\$ 5,949
WIA-Adult Program	51,348	20,538
WIA-Youth Program	24,531	9,812
WIA-Dislocated Workers Program	46,402	18,561
Community Development Block Grant Administration:		
Granville County-Scattered Site	1,108	443
Vance County-Neighborhood Stabilization Program	2,230	892
Warren County Scattered Site	2,364	946
Person County Scattered Site	2,541	1,018
	<u>\$ 382,591</u>	<u>\$ 153,036</u>

**Calculation of Rates**

Direct chargeable salaries	\$ 589,688
Released time and fringe benefits	293,221
	<u>\$ 882,909</u>

Indirect expense and Program cost rates are determined using the same chargeable salaries base.

**Rates**

Indirect costs subject to rate divided by adjusted chargeable salaries.

$$\text{\$ } 382,591 \div \text{\$ } 882,909 = 43.3\%$$

Program costs subject to rate divided by adjusted chargeable salaries.

$$\text{\$ } 153,036 \div \text{\$ } 882,909 = 17.3\%$$

**KERR-TAR REGIONAL COUNCIL OF GOVERNMENTS**  
**SCHEDULE 7 – SCHEDULE OF DEPRECIATION AND ACCRUED LEAVE**

YEAR ENDED JUNE 30, 2015

<b>General Fund</b>	<b>Depreciation</b>	<b>Accrued Leave</b>
Kerr-Tar Regional Economic Development Corporation	\$ -	\$ 32
Economic Development Administration-Planning Assistance	-	68
Revolving Loan Fund	-	1
Rural Transportation Planning Organization	-	59
Bike Ped Plan	-	32
CFAT	-	14
Mobility Manager	-	43
Aging - Planning and Administration	-	85
Aging - Ombudsman	-	64
Aging - Elder Abuse	-	3
Aging - Evidence Based	-	9
Aging - AAA	-	27
Aging - Medicare SHIP	-	3
Aging - MIPPA	-	10
Aging - Caregiver Category I	-	53
Aging - LCA/CRC	-	21
WIA Administration	-	303
CDBG - Granville County SS	-	2
CDBG - Vance County NSP	-	5
CDBG - Warren County SS	-	5
CDBG - Person County SS	-	6
	<u>\$ -</u>	<u>\$ 845</u>

The above amounts are not included in expenditures in Exhibit D.

**KERR-TAR REGIONAL COUNCIL OF GOVERNMENTS**

**SCHEDULE 8 – COMBINING BALANCE SHEET – NON-MAJOR GOVERNMENTAL FUNDS**

*JUNE 30, 2015*

	<b>Special Revenue Funds</b>		
	<b>Micro-Enterprise Loan Fund</b>	<b>Revolving Loan Fund - Green Jobs</b>	<b>Total Non-major Governmental Funds</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 91,633	\$ 5,583	\$ 97,216
Notes receivable, net of allowance for bad debts	1,276	115,000	116,276
<b>Total Assets</b>	<b>\$ 92,909</b>	<b>\$ 120,583</b>	<b>\$ 213,492</b>
<b>LIABILITIES AND FUND BALANCES</b>			
Fund Balances:			
Nonexpendable			
Notes receivable	\$ 1,276	\$ 115,000	\$ 116,276
Assigned	91,633	5,583	97,216
<b>Total Fund Balances</b>	<b>92,909</b>	<b>120,583</b>	<b>213,492</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<b>\$ 92,909</b>	<b>\$ 120,583</b>	<b>\$ 213,492</b>

**KERR-TAR REGIONAL COUNCIL OF GOVERNMENTS**

**SCHEDULE 9 – COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES – NON-MAJOR GOVERNMENTAL FUNDS**

*YEAR ENDED JUNE 30, 2015*

	<b>Micro-Enterprise Loan Fund</b>	<b>Revolving Loan Fund - Green Jobs</b>	<b>Total Non-major Governmental Funds</b>
Revenues			
Interest on loans	\$ 22	\$ -	\$ 22
Total Revenues	<u>22</u>	<u>-</u>	<u>22</u>
Expenditures			
Legal	-	1,043	1,043
Total Expenditures	<u>-</u>	<u>1,043</u>	<u>1,043</u>
Excess of revenues over expenditures	22	(1,043)	(1,021)
Other Financing Sources (Uses):			
Tranfers in (out)		(1)	(1)
Excess of revenues and other financing sources over (under) expenditures and other financing uses and net change in fund balance	<u>22</u>	<u>(1,044)</u>	<u>(1,022)</u>
Fund Balance-Beginning of the Year	91,161	6,627	97,788
Prior Period Restatement	1,726	115,000	116,726
Fund Balance-Beginning of the Year-Restated	<u>92,887</u>	<u>121,627</u>	<u>214,514</u>
Fund Balance-End of the Year	<u>\$ 92,909</u>	<u>\$ 120,583</u>	<u>\$ 213,492</u>

**KERR-TAR REGIONAL COUNCIL OF GOVERNMENTS**

**SCHEDULE 10 – SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – MICRO-ENTERPRISE LOAN FUND**

*YEAR ENDED JUNE 30, 2015*

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final - Positive (Negative)</u>
Revenues				
Interest	\$ -	\$ -	\$ 22	\$ 22
Total Revenues	<u>-</u>	<u>-</u>	<u>22</u>	<u>22</u>
Revenues Over Expenditures	<u>-</u>	<u>-</u>	<u>22</u>	<u>22</u>
Other Financing Sources (Uses):				
Fund Balance Appropriated	-	384	-	(384)
Transfers out	-	(384)	-	384
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	<u>\$ -</u>	<u>\$ -</u>	22	<u>\$ 22</u>
Fund Balance-Beginning of the Year			91,161	
Prior Period Restatement			<u>1,726</u>	
Fund Balance-Beginning of the Year-Restated			<u>92,887</u>	
Fund Balance-End of the Year			<u>\$ 92,909</u>	

**KERR-TAR REGIONAL COUNCIL OF GOVERNMENTS**

**SCHEDULE 11 – SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – REVOLVING LOAN FUND – GREEN JOBS**

*YEAR ENDED JUNE 30, 2015*

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Final - Positive (Negative)</u>
Expenditures				
Loans	\$ -	\$ 2,325	\$ -	\$ 2,325
Legal	-	-	1,044	(1,044)
Total Expenditures	<u>-</u>	<u>2,325</u>	<u>1,044</u>	<u>1,281</u>
Revenues Over (Under) Expenditures	<u>\$ -</u>	<u>\$ (2,325)</u>	<u>\$ (1,044)</u>	<u>\$ 1,281</u>
Other Financing Sources (Uses):				
Fund Balance Appropriated	\$ -	\$ 2,325	\$ -	\$ (2,325)
Total Other Financing Sources (Uses)	<u>-</u>	<u>2,325</u>	<u>-</u>	<u>(2,325)</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	<u>\$ -</u>	<u>\$ -</u>	(1,044)	<u>\$ (1,044)</u>
Fund Balance-Beginning of the Year			6,627	
Prior Period Restatement			115,000	
Fund Balance-Beginning of the Year-Restated			<u>121,627</u>	
Fund Balance-End of the Year			<u>\$ 120,583</u>	

**Report of Independent Auditor on Internal Control over Financial Reporting  
And on Compliance and Other Matters Based on an Audit of Financial Statements  
Performed In Accordance With *Government Auditing Standards***

Board of Directors  
Kerr-Tar Regional Council of Governments  
Henderson, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the Kerr-Tar Regional Council of Governments (the "Council"), as of and for the year ended June 30, 2015, and the related notes to financial statements, which collectively comprises the Council's basic financial statements, and have issued our report thereon dated November 30, 2015. Our report includes a reference to other auditors who audited the financial statements of the Region K Community Assistance Corporation (the "Corporation"), as described in our report on the Council's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported separately by those auditors.

**Internal Control over Financial Reporting**

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

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 Council's financial statements will not be prevented, or detected and corrected on a timely basis. 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that were not identified. We did identify significant deficiency in internal control, described in the accompanying schedule of finding and questionable costs as 2015-001.



### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Council's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Response to Finding**

The Council's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Council's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Council's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Council's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Handwritten signature in black ink that reads "Cherry Roubert LLP". The signature is written in a cursive style.

Raleigh, North Carolina  
November 30, 2015

**Report of Independent Auditor on Compliance with Requirements  
that Could Have a Direct and Material Effect on Each Major Federal Program and  
on Internal Control over Compliance in Accordance with OMB Circular A-133 and  
the State Single Audit Implementation Act**

Board of Directors  
Kerr-Tar Regional Council of Governments  
Henderson, North Carolina

**Report on Compliance for Each Major Federal Program**

We have audited the Kerr-Tar Regional Council of Governments (the "Council"), compliance with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of the Council's major federal programs for the year ended June 30, 2015. The Council's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the Council's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and the State Single Audit Implementation Act. Those standards, OMB Circular A-133, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Council's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Council's compliance.

**Opinion on Each Major Federal Program**

In our opinion, the Council complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

## Report on Internal Control over Compliance

Management of the Council is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Council's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Council's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph in this section and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Handwritten signature in cursive script that reads "Cherry Roubert LLP".

Raleigh, North Carolina  
November 30, 2015

**Report of Independent Auditor on Compliance for Each Major  
State Program and Internal Control over Compliance in Accordance  
with OMB Circular A-133 and the State Single Audit Implementation Act**

Board of Directors  
Kerr-Tar Regional Council of Governments  
Henderson, North Carolina

**Report on Compliance for Each Major State Program**

We have audited the Kerr-Tar Regional Council of Governments (the "Council"), compliance with the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission that could have a direct and material effect on each of the Council's major State programs for the year ended June 30, 2015. The Council's major state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its state programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the Council's major state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; Applicable Sections of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and the State Single Audit Implementation Act. Those standards, OMB Circular A-133, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about the Council's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major state program. However, our audit does not provide a legal determination of the Council's compliance.

**Opinion on Each Major State Program**

In our opinion, the Council complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended June 30, 2015.

## Report on Internal Control over Compliance

Management of the Council is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Council's internal control over compliance with the types of requirements that could have a direct and material effect on a major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major state program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Council's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a state program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph in this section and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Cherry Roubert LLP*

Raleigh, North Carolina  
November 30, 2015

**KERR-TAR REGIONAL COUNCIL OF GOVERNMENTS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS**

YEAR ENDED JUNE 30, 2015

<u>Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Fed. (Direct &amp; Pass-through) Expenditures</u>	<u>State Expenditures</u>
<b>Federal Awards:</b>			
<u>U.S. Department of Commerce</u>			
<u>Economic Development Administration</u>			
Direct Program			
Economic Adjustment Assistance	11.307	\$ 1,063,624	\$ 354,541
<u>U.S. Department of Agriculture</u>			
Passed-through N.C. Department of Health and Human Services:			
Rural Business Enterprise Grants - ARRA	10.783	115,000	-
<u>U.S. Department of Health and Human Services</u>			
<u>Administration on Aging</u>			
Passed-through N.C. Dept. of Health and Human Services:			
Division of Aging and Adult Services			
Special Programs for the Aging - Title VII, Chapter 3			
Programs for Prevention of Elder Abuse, Neglect and Exploitation	93.041	3,559	628
Special Programs for the Aging - Title III F			
Disease Prevention and Health Promotion Services	93.043	15,675	2,766
Nutrition Services Incentive Program	93.053	84,224	-
<u>Aging Cluster:</u>			
Special Programs for the Aging - Title III B			
Grants for Supportive Services and Senior Centers			
-Ombudsman	93.044	77,319	13,645
-Planning and Administration	93.044	64,768	8,961
-Legal Services	93.044	8,694	1,534
-Access	93.044	149,619	26,403
Special Programs for the Aging - Title III C			
Nutrition Services			
-Planning and Administration	93.045	165,807	55,269
-Congregate Nutrition	93.045	188,679	33,296
-Home Delivered Meals	93.045	317,065	55,953
-In Home Support	93.045	794,930	264,977
Total Aging Cluster		1,766,881	460,038
National Family Caregiver Support	93.052	135,855	9,057
Passed-through N.C. Dept. of Insurance			
Medicare SHIIP	93.048	4,794	-
Total U.S. Department of Health and Human Services		2,010,988	472,489

**KERR-TAR REGIONAL COUNCIL OF GOVERNMENTS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS (CONTINUED)**

YEAR ENDED JUNE 30, 2015

<u>Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Pass-through) Expenditures</u>	<u>State Expenditures</u>
<u>U.S. Department of Labor</u>			
<u>Employment and Training Administration</u>			
Passed-through the N.C. Department of Commerce:			
Division of Employment and Training			
Workforce Investment Act Cluster			
Workforce Investment Act-Adult Program	17.258	\$ 590,686	\$ -
Workforce Investment Act-Youth Activities	17.259	619,668	-
Workforce Investment Act-Dislocated Workers - PY 2010 Funds	17.278	586,763	-
Total Workforce Investment Act Cluster		<u>1,797,117</u>	<u>-</u>
National Emergency Grants	17.277	53,644	-
Total U.S. Department of Labor		<u>1,850,761</u>	<u>-</u>
<u>U.S. Department of Housing and Urban Development</u>			
<u>Community Planning and Development</u>			
Passed-through N.C. Department of Commerce			
Community Development Block Grant - State's Program			
Passed through member units of government for technical support services			
Granville County SS	14.228	7,079	-
Person County SS	14.228	13,433	-
Warren County SS	14.228	11,812	-
Vance County NSP	14.264	15,702	-
Total Community Development Block Grant		<u>48,026</u>	<u>-</u>
Community Development Block Grant/Small Cities Program	14.219	24,323	-
Total N.C. Department of Commerce		<u>72,349</u>	<u>-</u>
Passed-through N.C. Housing Finance Agency			
Single Family Rehabilitation			
Granville County SFR	14.239	274	-
Vance County SFR	14.239	218	-
		<u>492</u>	<u>-</u>
Total U.S. Dept. of Housing and Urban Development		<u>72,841</u>	<u>-</u>
<u>U.S. Department of Transportation</u>			
<u>Community Planning and Development</u>			
<u>Federal Transit Administration Cluster</u>			
Highway Planning and Construction			
Kerr-Tar Rural Planning Organization	20.205	82,945	-
Mobility Manager	20.513	69,387	8,576
NCDOT Aging Project	20.513	347,632	42,966
Total U.S. Department of Transportation		<u>499,964</u>	<u>51,542</u>
U.S Department of Homeland Security			
Passed through N.C Division of Emergency Management			
Hazard Mitigation	97.039	7,516	-

**KERR-TAR REGIONAL COUNCIL OF GOVERNMENTS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS (CONTINUED)**

*YEAR ENDED JUNE 30, 2015*

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<u>Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Pass-through) Expenditures</u>	<u>State Expenditures</u>
<b>State Awards:</b>			
<u>N.C. Department of Transportation</u>			
Bike Ped Plan		\$ -	\$ 71,045
<b>Total Federal and State Awards</b>		<u>\$ 5,620,694</u>	<u>\$ 949,617</u>



**KERR-TAR REGIONAL COUNCIL OF GOVERNMENTS**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS**

YEAR ENDED JUNE 30, 2015

1. Basis of Presentation

The accompanying schedule of expenditures of federal and State awards includes the federal and state grant activity of Kerr-Tar Regional Council of Governments and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and the State Single Audit Implementation Act. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

2. Economic Development Administration

The Economic Development Administration expenditures for Economic Adjustment Assistance are calculated using following method: The expenditures for the Kerr-Tar EDC and the NC Tomorrow projects plus the cash for the Loan Fund, the amount paid by the Revolving Loan Fund for administration, and the reserve for outstanding loans receivable from the General Fund. The expenditures are allocated between Federal and State expenditures at a 75% federal and 25% State.

3. Community Development Block Grants Funds

The Community Development Block Grant expenditures shown in the accompanying schedule of expenditures of State awards represent administrative costs (ie. salaries and related costs) which are reimbursed by member units government for technical support services for administration of individual CDBG grants awarded to them.

4. Subrecipients

Of the federal and State expenditures presented in the schedule, Kerr-Tar Regional Council of Governments federal and State awards to subrecipients as follows:

<u>Program Title</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>	<u>State Expenditures</u>
Special Programs for the Aging:			
Title III B	93.044	\$ 291,706	\$ 49,009
Title III C	93.045	1,466,481	409,495
Title III E	93.052	135,855	9,057
Workforce Investment Act-Adult Program	17.258	590,686	-
Workforce Investment Act-Youth Activities	17.259	619,668	-
Workforce Investment Act-Dislocated Workers	17.278	586,763	-
Totals		<u>\$ 3,691,159</u>	<u>\$ 467,561</u>

**KERR-TAR REGIONAL COUNCIL OF GOVERNMENTS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

YEAR ENDED JUNE 30, 2015

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**Section I – Summary of Auditor’s Results**

**Financial Statements**

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified?  yes  no
- Significant deficiency(ies) identified that are not considered to be material weaknesses  yes  none reported
- Noncompliance material to financial statements noted  yes  no

**Federal Awards**

Internal control over major federal programs:

- Material weakness(es) identified?  yes  no
- Significant deficiency(ies) identified that are not considered to be material weaknesses  yes  none reported
- Noncompliance material to federal awards  yes  no

Type of auditor’s report issued on compliance for major federal program: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133  yes  no

Identification of major federal programs:

<u>CFDA#</u>	<u>Program Name</u>
93.044	Aging Cluster:
93.045	Special Programs for Aging – Title III B
	Special Programs for Aging – Title III C
	Workforce Investment Act (WIA) Cluster:
17.258	Adult Programs
17.259	Youth Activities
17.278	Dislocated Worker Program
	Transit Services Program Cluster:
20.205	Rural Planning
20.513	Mobility Manager
20.513	North Carolina Dept. of Transportation Aging Project

Dollar threshold used to distinguish between Type A and Type B Programs \$ 300,000

Auditee qualified as low-risk auditee  yes  no



**KERR-TAR REGIONAL COUNCIL OF GOVERNMENTS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**

*YEAR ENDED JUNE 30, 2015*

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**Section II – Financial Statement Findings**

**Finding 2015-001**

**Significant Deficiency**

Criteria:	Management is responsible for presenting materially correct financial statements.
Condition:	During the course of the audit, we noted that due to the small size of the Council, there is a lack of segregation of duties within the Finance Department, as all journal entries and bank reconciliations are initiated and completed by one individual with no review completed by another individual.
Effect:	Transactions could be mishandled.
Cause:	There are a limited number of personnel for certain functions.
Recommendation:	The duties should be separated when possible so that one individual is preparing the bank reconciliation or journal entry and another individual is reviewing it.
Management Response:	Management agrees with this finding.

**KERR-TAR REGIONAL COUNCIL OF GOVERNMENTS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**

*YEAR ENDED JUNE 30, 2015*

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**Section III – Federal Awards Findings and Questioned Costs**

None reported.

**Section IV – State Award Findings and Questioned Costs**

None reported.

**KERR-TAR REGIONAL COUNCIL OF GOVERNMENTS  
CORRECTIVE ACTION PLAN**

*YEAR ENDED JUNE 30, 2015*

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**II - Financial Statement Findings**

**Finding 2015-001**

Name of contact person: Diane Cox, Director

Corrective action: Management agrees with this finding.

Proposed completion date: Work in progress.

**III – Federal Award Findings and Questioned Costs**

None.

**IV – State Award Findings and Questioned Costs**

None.

**KERR-TAR REGIONAL COUNCIL OF GOVERNMENTS  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

*YEAR ENDED JUNE 30, 2015*

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**Section V – Summary Schedule of Prior Audit Findings**

**II - Financial Statement Findings**

**Finding 2014-001  
Material Weakness**

Status: Corrected.

**Finding 2014-002  
Significant Deficiency**

Status: See current year-end finding 2015-001.

**III – Federal Award Findings and Questioned Costs**

**Finding 2014-003  
Material Weakness, Non-Material Non-Compliance**

Status: Corrected.

**IV – State Award Findings and Questioned Costs**

None.