

**TOWN OF SELMA, NORTH CAROLINA**

**ANNUAL FINANCIAL REPORT**

**FOR THE YEAR ENDED JUNE 30, 2016**

**Prepared by:  
Finance Department**

**Submitted by:  
Jon Barlow  
Town Manager**

# TOWN OF SELMA, NORTH CAROLINA

## ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2016

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**TOWN OF SELMA, NORTH CAROLINA**

**ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED JUNE 30, 2016**

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## INTRODUCTORY SECTION

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# TOWN OF SELMA, NORTH CAROLINA

## TOWN COUNCIL AND OFFICIALS

JUNE 30, 2016

### TOWN COUNCIL

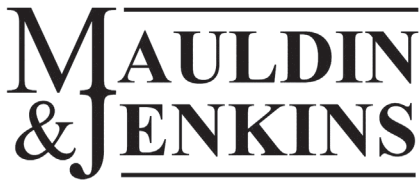
Cheryl L. Oliver.....Mayor  
Jacqueline J. Lacey.....Council Member  
William E. Overby.....Council Member  
Tommy Holmes.....Council Member  
Mark Peterson.....Council Member

### TOWN OFFICIALS

Jonathan R. Barlow.....Town Manager  
Karen Johnson.....Finance Officer  
Brenda Thorne.....Town Clerk  
Susan Silt.....Human Resource Director  
Alan B. Hewett.....Town Attorney  
Richard A. Cooper.....Police Chief  
Phillip W. McDaniel.....Fire Chief  
Donald W. Baker.....Utilities Director  
Alexander K. Fuller.....Public Works / Cemetery / Water & Sewer Director  
Joseph L. Carter.....Recreation and Library Services Director  
Julie A. Maybee.....Planning/Economic Development Director

## FINANCIAL SECTION

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## INDEPENDENT AUDITOR'S REPORT

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**Honorable Mayor and Members  
of Town Council  
Town of Selma, North Carolina**

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **Town of Selma, North Carolina (the "Town")**, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Selma, North Carolina as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters******Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion & Analysis, Law Enforcement Officers' Special Separation Allowance Schedule of Funding Progress, Other Postemployment Benefits Schedule of Funding Progress, the Town of Selma's Proportionate Share of Net Pension Liability (Asset), and the Schedule of the Town of Selma's Contributions on pages 4-12, 61, 62, 63, and 64, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The introductory section and the combining and individual nonmajor fund statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.



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

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 2016 on our consideration of the Town’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 Town’s internal control over financial reporting and compliance.



Atlanta, Georgia  
November 26, 2016

TOWN OF SELMA, NORTH CAROLINA  
MANAGEMENT'S DISCUSSION AND ANALYSIS

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

***Financial Highlights***

- The assets and deferred outflows of resources of the Town of Selma exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$18,469,158 (net position).
- The government's total net position decreased by \$851,637 due to decreases predominantly in the business-type activities' net position.
- As of close of the current fiscal year, the Town of Selma's governmental funds reported combined ending fund balances of \$3,919,145 with a net increase of \$282,724 in fund balance in comparison with the prior year. Approximately 47.01% of this total amount, or \$1,842,479, is available for spending at the government's discretion (unassigned fund balance). The remaining balance of \$2,076,666 (52.99%) is non-spendable, restricted, or committed.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$1,842,703, which represents 33.76% of total general fund expenditures for the fiscal year.
- The Town of Selma's total debt increased by \$1,590,235 (22.98%) during the current fiscal year. The key factors in this increase was the issuance of installment notes totaling \$1,147,000 for the renovation of Town Hall (\$400,000), the acquisition of land (\$60,000), and the installation of sewer improvements (\$687,000).

***Overview of the Financial Statements***

This discussion and analysis is intended to serve as an introduction to the Town of Selma's basic financial statements. The Town's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The basic financial statements present two different views of the Town through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the Town of Selma.

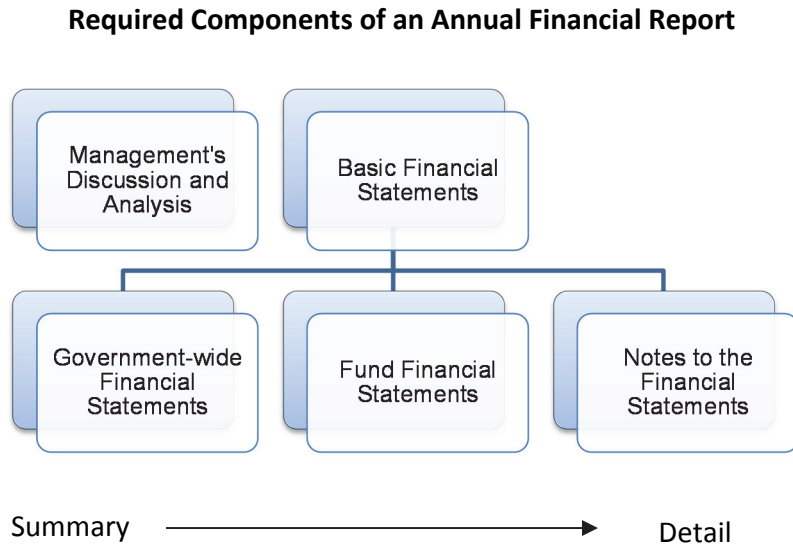
***Basic Financial Statements***

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

The next statements are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the Town's government. These statements provide more detail than the government-wide statements. There are three parts to the Fund Financial Statements: 1) the governmental funds statement; 2) the budgetary comparison statements; and 3) the proprietary fund statements.

TOWN OF SELMA, NORTH CAROLINA  
MANAGEMENT'S DISCUSSION AND ANALYSIS

Figure 1



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

***Government-wide Financial Statements***

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

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

The government-wide statements are divided into two categories: 1) governmental activities; and 2) business-type activities. The governmental activities include most of the Town's basic services such as public safety, parks and recreation, streets, cemetery and general administration. Property taxes and State and Federal grant funds finance most of these activities. The business-type activities are those that the Town charges customers to provide. These include the water, sewer and electric services offered by the Town of Selma.

The government-wide financial statements are found on pages 13 and 14 of this report.

TOWN OF SELMA, NORTH CAROLINA  
MANAGEMENT'S DISCUSSION AND ANALYSIS

***Fund Financial Statements***

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

*Governmental Funds* – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the Town's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting*, which provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the Town's programs. The relationship between 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 Town of Selma adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the Town, the management of the Town, and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the Town to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the Town complied with the budget ordinance and whether or not the Town succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the board; 2) the final budget as amended by the board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges.

*Proprietary Funds* – The Town of Selma has only one kind of proprietary fund. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town of Selma uses enterprise funds to account for its water and sewer activity and for its electric operations. These funds are the same as those functions shown in the business-type activities in the Statement of Net Position and the Statement of Activities.

*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.

TOWN OF SELMA, NORTH CAROLINA  
MANAGEMENT'S DISCUSSION AND ANALYSIS

*Other Information* – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the Town of Selma's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 61 of this report.

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

**Government-Wide Financial Analysis**

*Figure 2*  
Town of Selma, North Carolina  
Condensed Statement of Net Position  
June 30, 2016 and 2015

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 4,181,143	\$ 3,987,325	\$ 5,428,130	\$ 4,976,980	\$ 9,609,273	\$ 8,964,305
Capital assets	9,071,247	9,076,964	10,030,619	10,581,774	19,101,866	19,658,738
Deferred outflows of resources	127,942	127,500	77,559	72,281	205,501	199,781
Total assets and deferred outflows of resources	<u>13,380,332</u>	<u>13,191,789</u>	<u>15,536,308</u>	<u>15,631,035</u>	<u>28,916,640</u>	<u>28,822,824</u>
Current and other assets	252,383	165,861	1,494,772	1,377,035	1,747,155	1,542,896
Capital assets	3,579,875	2,896,896	4,983,594	4,344,284	8,563,469	7,241,180
Deferred outflows of resources	87,343	448,999	49,515	268,954	136,858	717,953
Total liabilities and deferred inflows of resources	<u>3,919,601</u>	<u>3,511,756</u>	<u>6,527,881</u>	<u>5,990,273</u>	<u>10,447,482</u>	<u>9,502,029</u>
Net Position						
Current and other assets	7,206,496	7,502,471	6,207,150	6,860,482	13,413,646	14,362,953
Capital assets	1,799,044	1,558,162	59,718	10,278	1,858,762	1,568,440
Deferred outflows of resources	455,191	619,400	2,741,559	2,770,002	3,196,750	3,389,402
Total net position	<u>\$ 9,460,731</u>	<u>\$ 9,680,033</u>	<u>\$ 9,008,427</u>	<u>\$ 9,640,762</u>	<u>\$ 18,469,158</u>	<u>\$ 19,320,795</u>

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets and deferred outflows of the Town of Selma exceed liabilities and deferred inflows of resources by \$18,469,158 as of June 30, 2016. The Town's net position decreased by \$851,637 for the fiscal year ended June 30, 2016. The largest portion (72.6%) reflects the Town's net investment in capital assets (e.g. land, buildings, machinery, equipment, and construction in progress) less any related debt still outstanding that was issued to acquire those items. The Town of Selma uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Selma's net investment in capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of

TOWN OF SELMA, NORTH CAROLINA  
MANAGEMENT'S DISCUSSION AND ANALYSIS

the Town of Selma's net position, \$1,858,762, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$3,196,750 is unrestricted.

*Figure 3*  
Town of Selma, North Carolina  
Condensed Statement of Revenue, Expenses, and Changes in Net Position  
For the Fiscal Years Ended June 30, 2016 and 2015

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$ 919,585	\$ 936,747	\$ 10,972,603	\$ 11,315,693	\$ 11,892,188	\$ 12,252,440
Operating grants & cont.	58,816	43,021	-	-	58,816	43,021
Capital grants & cont.	205,355	463,985	-	-	205,355	463,985
General revenues:						
Property taxes	2,432,480	2,271,258	-	-	2,432,480	2,271,258
Other taxes	867,970	776,417	-	-	867,970	776,417
Unrestricted interest	10,174	8,297	7,660	8,182	17,834	16,479
Unrestricted intergovernmental	584,324	619,033	-	-	584,324	619,033
Miscellaneous	109,025	46,715	-	-	109,025	46,715
<b>Total revenues</b>	<b>5,187,729</b>	<b>5,165,473</b>	<b>10,980,263</b>	<b>11,323,875</b>	<b>16,167,992</b>	<b>16,489,348</b>
<b>Expenses:</b>						
General government	990,233	915,060	-	-	990,233	915,060
Public safety	2,416,276	2,346,249	-	-	2,416,276	2,346,249
Transportation	1,256,377	1,347,631	-	-	1,256,377	1,347,631
Cemetery	170,891	207,905	-	-	170,891	207,905
Culture and recreation	591,129	583,920	-	-	591,129	583,920
Economic development	86,990	106,313	-	-	86,990	106,313
Interest on long-term debt	70,135	65,072	-	-	70,135	65,072
Water	-	-	1,392,138	1,320,531	1,392,138	1,320,531
Sewer	-	-	2,451,459	2,301,099	2,451,459	2,301,099
Electric	-	-	7,594,001	8,669,119	7,594,001	8,669,119
<b>Total expenses</b>	<b>5,582,031</b>	<b>5,572,150</b>	<b>11,437,598</b>	<b>12,290,749</b>	<b>17,019,629</b>	<b>17,862,899</b>
Increase in net position						
before transfers	(394,302)	(406,677)	(457,335)	(966,874)	(851,637)	(1,373,551)
Transfers	175,000	-	(175,000)	-	-	-
Change in net position	(219,302)	(406,677)	(632,335)	(966,874)	(851,637)	(1,373,551)
Net position, beginning	9,680,033	10,305,351	9,557,987	10,666,107	19,238,020	20,971,458
Restatement - unrecorded capital assets	-	(218,641)	82,775	(141,246)	82,775	(359,887)
Net position, ending	<b>\$ 9,460,731</b>	<b>\$ 9,680,033</b>	<b>\$ 9,008,427</b>	<b>\$ 9,557,987</b>	<b>\$ 18,469,158</b>	<b>\$ 19,238,020</b>

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

- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 99.66%. The statewide average in fiscal year 2015 was 98.87%.
- Increased sales tax revenues of approximately \$97,690 due to economic growth in the Town.

TOWN OF SELMA, NORTH CAROLINA  
MANAGEMENT'S DISCUSSION AND ANALYSIS

***Governmental activities***

Governmental activities reported a decrease in the Town's net position by (\$219,302). The Town has made a concerted effort to control costs and manage expenditures to minimize the impact of the recession on its citizens. Town management reduced non-essential programs to a minimum and implemented cost saving strategies across Town departments. Certain nonrecurring expenses were either postponed or renegotiated in an attempt to maintain a healthy net position. Management believes healthy investment in the Town will result in additional revenues, and in that vein added to the Town's net position by investing in capital assets which were largely funded by installment notes. Increased efforts to maximize tax collections also contributed to the favorable net position. During the current year, property tax values increased by 5% and tax revenues increased by 4.7%. The Town maintained the tax rate at \$0.51 per \$100 of assessed property value.

Assessed valuation of all taxable property in the Town is \$416,737,446.

***Business-type activities***

Business-type activities decreased the Town of Selma's net position by \$632,335. This decrease included a transfer of \$175,000 from the Electric Fund to the General Fund in the current fiscal year. The Town's enterprise operations consist of water, sewer and electric utilities. Revenues in the Sewer Fund increased primarily due to increases in sewer rates. However, revenues in the Electric Fund declined by approximately 10%, while expenses in the Electric Fund decreased by 13% from the previous fiscal year. The Town sold a portion of its electric capacity to Duke Energy Progress which reduced the Town's wholesale cost of electric power purchased from Duke. Therefore, the Town's was able to lower the retail rates charged to the Town's electric customers.

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

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

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

The General Fund is the chief operating fund of the Town of Selma. At the end of the current fiscal year, the Town of Selma's fund balance unassigned in the General Fund was \$1,842,703, while total fund balance was \$3,874,054. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents approximately 33.77% of total General Fund expenditures, while total fund balance represents approximately 70.99% of that same amount.

TOWN OF SELMA, NORTH CAROLINA  
MANAGEMENT'S DISCUSSION AND ANALYSIS

At June 30, 2016, the governmental funds of the Town of Selma reported a combined fund balance of \$3,919,145 with a net increase in fund balance of \$282,724. Included in this change in fund balance is a decrease of \$87,058 in fund balance of other governmental funds. Fund balance in the General Fund increased by \$369,782.

*General Fund Budgetary Highlights:* During the fiscal year, the Town made various revisions to its original budget. These changes are shown in the Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as federal and state grants; and 3) increases in appropriations that become necessary to maintain services. Actual revenues exceeded amounts budgeted by \$362,817. Total expenditures in the General Fund were less than amounts approved in the final budget by \$482,228.

*Proprietary Funds:* The Town of Selma's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the Water, Sewer and Electric Funds at the end of the fiscal year amounted to \$2,407,821, (\$459,896), and \$793,934, respectively. The change in net position for the Water, Sewer and Electric Funds were (\$162,204), (\$131,437), and (\$338,694), resulting in a total combined decrease in net position of (\$632,335) for the Town's proprietary funds.

***Capital Asset and Debt Administration***

*Capital Assets:* The Town of Selma's investment in capital assets for its governmental and business-type activities as of June 30, 2016 totals \$19,101,866 (net of accumulated depreciation). These assets include buildings, land, machinery and equipment, park facilities, vehicles, streets and infrastructure and construction in progress.

Major capital asset transactions during the year include the following:

- \$60,000 for the acquisition of land and buildings
- \$420,340 for renovations to Town Hall
- \$83,321 for the purchase of vehicles and equipment
- \$461,566 for rehabilitation of sewer lines
- \$48,025 for the purchase of building improvements and equipment in the Electric Fund



TOWN OF SELMA, NORTH CAROLINA  
MANAGEMENT'S DISCUSSION AND ANALYSIS

*Figure 4*  
Town of Selma, North Carolina  
Condensed Statement of Capital Assets (net of depreciation)  
June 30, 2016 and 2015

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land	\$ 2,657,588	\$ 2,657,588	\$ 311,804	\$ 324,455	\$ 2,969,392	\$ 2,982,043
Construction in progress	-	529,197	544,341	89,541	544,341	618,738
Buildings and Improvements	3,460,086	2,582,089	338,172	400,844	3,798,258	2,982,933
Other improvements	2,458,787	2,672,087	-	-	2,458,787	2,672,087
Distribution system	-	-	7,381,829	7,827,076	7,381,829	7,827,076
Equipment	288,086	349,667	1,310,654	1,775,193	1,598,740	2,124,860
Vehicles	206,700	286,336	143,819	164,665	350,519	451,001
Total	\$ 9,071,247	\$ 9,076,964	\$ 10,030,619	\$ 10,581,774	\$ 19,101,866	\$ 19,658,738

Additional information on the Town's capital assets can be found in Note 6 of the Notes to the Financial Statements.

**Long-term Debt and Obligations:** As of June 30, 2016, the Town of Selma had total bonded debt outstanding of \$1,835,000, all of which belongs to business-type activities. All of this debt represents bonds secured by specified revenue sources (e.g. revenue bonds).

The Town also has outstanding installment notes payable totaling \$4,164,766. Of this amount, \$2,285,709 is applicable to the Town's business-type activities. The remaining \$1,879,057 is applicable to the Town's governmental activities.

The Town of Selma's total debt and obligations increased by \$1,590,235 during the past fiscal year, primarily due to issuance of \$460,000 of installment notes for the acquisition of land and building and the renovation of Town Hall and \$687,000 for the installation of sewer improvements. Additionally, the Town's Net Pension Liability and net OPEB obligation increased by \$486,998 and \$387,511, respectively.

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8% of the total assessed value of taxable property located within the government's boundaries. The legal debt margin for the Town of Selma is \$31,459,939.

Additional information regarding the Town of Selma's long-term debt can be found in Note 7 of this report.

TOWN OF SELMA, NORTH CAROLINA  
MANAGEMENT'S DISCUSSION AND ANALYSIS

*Figure 5*  
Town of Selma, North Carolina  
Condensed Statement of Outstanding Debt  
June 30, 2016 and 2015

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Installment notes	\$ 1,879,057	\$ 1,574,493	\$ 2,285,709	\$ 1,855,292	\$ 4,164,766	\$ 3,429,785
Revenue bonds	-	-	1,835,000	1,866,000	1,835,000	1,866,000
Compensated absences	163,894	153,270	90,352	85,194	254,246	238,464
Net pension liability (asset)	136,164	(171,132)	77,193	(102,509)	213,357	(273,641)
Law enforcement officers' SSA pension obligation	127,592	131,629	-	-	127,592	131,629
Net OPEB obligation	1,220,978	991,009	695,340	537,798	1,916,318	1,528,807
Total	\$ 3,527,685	\$ 2,679,269	\$ 4,983,594	\$ 4,241,775	\$ 8,511,279	\$ 6,921,044

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

The following key economic indicators reflect the growth and prosperity of the Town.

- The Town of Selma has a population of 6,180.
- The Town's tax collection rates for property excluding motor vehicles and registered motor vehicles are 99.66% and 100.00%, respectively.
- Sales tax revenues for the current year increased by \$97,690 (12.68%) over the previous year.
- Johnston County's unemployment rate was 4.6% for the month of June, 2016 compared to the average unemployment for the State of North Carolina of 5.2%.

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

**Governmental Activities:** The property tax rate will remain at \$0.51 per \$100 of assessed property value. Total budgeted expenditures in the General Fund are expected to be \$5,676,155. Town employees will receive a 3% cost of living adjustment in compensation.

**Business-type Activities:** The water, sewer and electric rates in the Town will increase by 5%, 5% and 5%, respectively for fiscal year 2017.

***Requests for Information***

This report is designed to provide an overview of the Town's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Town Manager, Town of Selma, North Carolina, 114 North Raiford Street, Selma, NC 27576-2833. One can also call (919) 965-9841 or visit our website <http://www.selma-nc.com> for more information.

**TOWN OF SELMA, NORTH CAROLINA**

**STATEMENT OF NET POSITION**

**JUNE 30, 2016**

	Primary Government		
	Governmental	Business-type	Total
	Activities	Activities	
<b>ASSETS</b>			
Cash and cash equivalents	\$ 2,463,595	\$ 3,627,111	\$ 6,090,706
Receivables, net of allowance for uncollectibles	430,502	1,041,083	1,471,585
Taxes receivable	51,894	-	51,894
Inventories	84,138	402,978	487,116
Prepaid items	277	-	277
Restricted cash and cash equivalents	1,150,737	356,958	1,507,695
Capital assets:			
Non-depreciable	2,657,588	856,145	3,513,733
Depreciable, net of accumulated depreciation	6,413,659	9,174,474	15,588,133
Total assets	<u>13,252,390</u>	<u>15,458,749</u>	<u>28,711,139</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pension plan contributions made subsequent to the measurement date	127,942	77,559	205,501
Total deferred outflows of resources	<u>127,942</u>	<u>77,559</u>	<u>205,501</u>
<b>LIABILITIES</b>			
Accounts payable	104,119	784,424	888,543
Accrued liabilities	148,264	266,939	415,203
Customer deposits	-	399,181	399,181
Interest payable	52,190	44,228	96,418
Net pension obligation, due in more than one year	127,592	-	127,592
Installment notes, due within one year	184,779	983,145	1,167,924
Installment notes, due in more than one year	1,694,278	1,302,564	2,996,842
Bonds payable, due within one year	-	33,000	33,000
Bonds payable, due in more than one year	-	1,802,000	1,802,000
Compensated absences, due within one year	77,030	42,465	119,495
Compensated absences, due in more than one year	86,864	47,887	134,751
Net pension liability, due in more than one year	136,164	77,193	213,357
Net OPEB obligation, due in more than one year	1,220,978	695,340	1,916,318
Total liabilities	<u>3,832,258</u>	<u>6,478,366</u>	<u>10,310,624</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Difference between expected and actual experience - pension	32,006	18,144	50,150
Net difference between projected and actual investment earnings on pension plan investments	38,765	21,976	60,741
Changes in proportion and differences between employer contributions and proportionate share of contributions related to pensions	16,572	9,395	25,967
Total deferred inflows of resources	<u>87,343</u>	<u>49,515</u>	<u>136,858</u>
<b>NET POSITION</b>			
Net investment in capital assets	7,206,496	6,207,150	13,413,646
Restricted for:			
Stabilization by State Statute	631,150	-	631,150
Streets - Powell Bill	709,083	-	709,083
Cemetery perpetual care	413,496	-	413,496
Debt service	-	59,718	59,718
Economic development	45,315	-	45,315
Unrestricted	455,191	2,741,559	3,196,750
Total net position	<u>\$ 9,460,731</u>	<u>\$ 9,008,427</u>	<u>\$ 18,469,158</u>

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

**TOWN OF SELMA, NORTH CAROLINA**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2016**

Functions/Programs	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Governmental activities:</b>						
General government	\$ 990,233	\$ 41,987	\$ -	\$ (948,246)	\$ -	\$ (948,246)
Public safety	2,416,276	8,270	38,601	(2,330,741)	-	(2,330,741)
Transportation	1,256,377	666,782	3,926	(418,978)	-	(418,978)
Cemetery	170,891	136,542	3,195	(31,154)	-	(31,154)
Economic development	86,990	90	-	(86,900)	-	(86,900)
Culture and recreation	591,129	65,914	13,094	(512,121)	-	(512,121)
Interest on long-term debt	70,135	-	-	(70,135)	-	(70,135)
Total governmental activities	5,582,031	919,585	205,355	(4,398,275)	-	(4,398,275)
<b>Business-type activities:</b>						
Water	1,392,138	1,225,920	-	-	(166,218)	(166,218)
Sewer	2,451,459	2,318,913	-	-	(132,546)	(132,546)
Electric	7,594,001	7,427,770	-	-	(166,231)	(166,231)
Total business-type activities	11,437,598	10,972,603	-	-	(464,995)	(464,995)
Total primary government	\$ 17,019,629	\$ 11,892,188	\$ 205,355	\$ (4,398,275)	\$ (464,995)	\$ (4,863,270)
<b>General revenues:</b>						
Property taxes, levied for general purposes				2,282,798	-	2,282,798
Property taxes, levied for fire districts				149,682	-	149,682
Other taxes				867,970	-	867,970
Unrestricted investment earnings				10,174	7,660	17,834
Unrestricted intergovernmental				584,324	-	584,324
Miscellaneous				109,025	-	109,025
Transfers				175,000	(175,000)	-
Total general revenues and transfers				4,178,973	(167,340)	4,011,633
Change in net position				(219,302)	(632,335)	(851,637)
Net position, beginning of year, restated				9,680,033	9,640,762	19,320,795
Net position, end of year				\$ 9,460,731	\$ 9,008,427	\$ 18,469,158

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

**TOWN OF SELMA, NORTH CAROLINA**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2016**

	General Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>			
Cash	\$ 2,463,595	\$ -	\$ 2,463,595
Taxes receivable, net	51,894	-	51,894
Accounts receivable, net	408,654	21,848	430,502
Restricted cash and cash equivalents	1,127,270	23,467	1,150,737
Inventory	84,138	-	84,138
Prepaid expenditures	277	-	277
Due from other funds	217	-	217
Total assets	\$ 4,136,045	\$ 45,315	\$ 4,181,360
<b>LIABILITIES</b>			
Accounts payable	\$ 104,112	\$ 7	\$ 104,119
Due to other funds	-	217	217
Accrued liabilities	148,264	-	148,264
Total liabilities	252,376	224	252,600
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable revenue - cemetery lot sales	9,615	-	9,615
Total deferred inflows of resources	9,615	-	9,615
<b>FUND BALANCES</b>			
Nonspendable:			
Prepaid items	277	-	277
Inventories	84,138	-	84,138
Restricted:			
Stabilization by State Statute	631,150	-	631,150
Streets - Powell Bill	709,083	-	709,083
Cemetery perpetual care	403,881	-	403,881
Economic development	-	45,315	45,315
Committed - Library Trust	202,822	-	202,822
Unassigned	1,842,703	(224)	1,842,479
Total fund balances	3,874,054	45,091	3,919,145
Total liabilities, deferred inflows of resources, and fund balances	\$ 4,136,045	\$ 45,315	

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

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds.	9,071,247
Some receivables are not available to pay for current-period expenditures and, therefore, are reported as unavailable revenue in the funds.	9,615
Net pension liability for the LGERS is not recorded on the fund financial statements.	(136,164)
Net pension obligation for the Special Separation Allowance LEO is not recorded on the fund financial statements.	(127,592)
Contributions to the pension plan in the current fiscal year are deferred outflows of resources on the Statement of Net Position as they were made after the measurement period.	127,942
Deferred outflows and inflows of resources related to pensions which are not current financial resources and, therefore, not reported in the funds.	(87,343)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	(3,316,119)
Net position of governmental activities	\$ 9,460,731

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

# TOWN OF SELMA, NORTH CAROLINA

## STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2016

	General Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>			
Ad valorem taxes	\$ 2,282,798	\$ -	\$ 2,282,798
Other taxes	867,970	-	867,970
Unrestricted intergovernmental	734,006	-	734,006
Restricted intergovernmental	209,281	-	209,281
Permits and fees	29,150	-	29,150
Sales and services	894,641	90	894,731
Investment earnings	10,108	66	10,174
Miscellaneous	163,915	-	163,915
Total revenues	5,191,869	156	5,192,025
<b>Expenditures</b>			
Current:			
General government	1,430,764	-	1,430,764
Public safety	2,134,581	-	2,134,581
Transportation	1,001,297	-	1,001,297
Cemetery	121,939	-	121,939
Culture and recreation	548,630	-	548,630
Economic development	-	86,990	86,990
Capital outlay	-	224	224
Debt service:			
Principal retirements	155,436	-	155,436
Interest	64,440	-	64,440
Total expenditures	5,457,087	87,214	5,544,301
Deficiency of revenues over expenditures	(265,218)	(87,058)	(352,276)
<b>Other financing sources</b>			
Transfers in	175,000	-	175,000
Proceeds from note payable	460,000	-	460,000
Total other financing sources	635,000	-	635,000
Net change in fund balances	369,782	(87,058)	282,724
<b>Fund balances, beginning of year</b>	3,504,272	132,149	3,636,421
<b>Fund balances, end of year</b>	\$ 3,874,054	\$ 45,091	\$ 3,919,145

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

## TOWN OF SELMA, NORTH CAROLINA

### RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2016

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

Net change in fund balances - total governmental funds	\$	282,724
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.		(5,717)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(4,296)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. This amount represents the net of the issuance of new installment notes and repayments of the principal of long-term debt.		(304,564)
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.		<u>(187,449)</u>
Change in net position - governmental activities	\$	<u>(219,302)</u>

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

**TOWN OF SELMA, NORTH CAROLINA**

**GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES - BUDGET TO ACTUAL (NON-GAAP BASIS)  
FOR THE YEAR ENDED JUNE 30, 2016**

	Budget		Actual Amounts	Variance with Actual and Final Budget
	Original	Final		Positive (Negative)
<b>Revenues</b>				
Ad valorem taxes	\$ 2,159,078	\$ 2,219,078	\$ 2,282,798	\$ 63,720
Other taxes	700,025	700,025	867,970	167,945
Unrestricted intergovernmental	658,000	672,000	734,006	62,006
Restricted intergovernmental	186,000	186,097	209,281	23,184
Permits and fees	13,500	15,850	29,150	13,300
Sales and services	881,687	885,380	894,641	9,261
Investment earnings	8,100	8,110	9,982	1,872
Miscellaneous	22,600	105,385	126,914	21,529
Total revenues	<u>4,628,990</u>	<u>4,791,925</u>	<u>5,154,742</u>	<u>362,817</u>
<b>Expenditures</b>				
Current:				
General government	1,349,756	1,481,828	1,430,764	51,064
Public safety	2,217,829	2,231,031	2,128,123	102,908
Transportation	1,244,935	1,266,168	1,001,297	264,871
Cemetery	144,088	145,444	121,939	23,505
Culture and recreation	526,556	608,331	548,630	59,701
Debt service:				
Principal retirements	135,610	134,026	155,436	(21,410)
Interest	64,444	66,029	64,440	1,589
Total expenditures	<u>5,683,218</u>	<u>5,932,857</u>	<u>5,450,629</u>	<u>482,228</u>
Excess (deficiency) of revenues over expenditures	<u>(1,054,228)</u>	<u>(1,140,932)</u>	<u>(295,887)</u>	<u>845,045</u>
<b>Other financing sources:</b>				
Fund balance appropriation	311,378	398,082	-	(398,082)
Transfers in	342,850	342,850	175,000	(167,850)
Proceeds from note payable	400,000	400,000	460,000	60,000
Total other financing sources	<u>1,054,228</u>	<u>1,140,932</u>	<u>635,000</u>	<u>(505,932)</u>
Net change in fund balances	-	-	339,113	339,113
<b>Fund balances, beginning of year</b>	<u>3,415,229</u>	<u>3,415,229</u>	<u>3,415,229</u>	<u>-</u>
<b>Fund balances, end of year</b>	<u>\$ 3,415,229</u>	<u>\$ 3,415,229</u>	<u>3,754,342</u>	<u>\$ 339,113</u>

Reconciliation to the General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance:

Fire Protection - Selma Petroleum Terminals Fund:		
Fund balance, beginning of year		89,043
Investment earnings		126
Other revenues		37,001
Public safety expenditures		(6,458)
Fund balance, end of year		<u>\$ 3,874,054</u>

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



**TOWN OF SELMA, NORTH CAROLINA**

**STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
JUNE 30, 2016**

ASSETS	Water Fund	Sewer Fund	Electric Fund	Totals
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	\$ 1,871,336	\$ 497,259	\$ 1,258,516	\$ 3,627,111
Restricted cash	44,496	312,462	-	356,958
Accounts receivable, net of allowances	137,271	256,485	647,327	1,041,083
Inventories	53,169	7,992	341,817	402,978
Total current assets	2,106,272	1,074,198	2,247,660	5,428,130
<b>NONCURRENT ASSETS</b>				
Advances to other funds	750,000	-	-	750,000
<b>CAPITAL ASSETS</b>				
Nondepreciable	182,438	544,341	129,366	856,145
Depreciable, net of accumulated depreciation	3,503,113	4,320,125	1,351,236	9,174,474
Total noncurrent assets	4,435,551	4,864,466	1,480,602	10,780,619
Total assets	6,541,823	5,938,664	3,728,262	16,208,749
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred outflows - pension contributions made subsequent to measurement date	26,977	16,156	34,426	77,559
Total deferred outflows of resources	26,977	16,156	34,426	77,559
<b>LIABILITIES</b>				
<b>CURRENT LIABILITIES</b>				
Accounts payable	35,555	121,210	627,659	784,424
Accrued liabilities	8,359	114,497	188,311	311,167
Customer deposits	76,693	68,618	253,870	399,181
Installment contracts, current	10,732	691,186	281,227	983,145
Bonds payable, current	10,000	23,000	-	33,000
Compensated absences payable, current	13,610	6,897	21,958	42,465
Total current liabilities	154,949	1,025,408	1,373,025	2,553,382
<b>NONCURRENT LIABILITIES</b>				
Installments contracts	98,184	-	1,204,380	1,302,564
Bonds payable	570,000	1,232,000	-	1,802,000
Advance from other funds	-	750,000	-	750,000
Compensated absences payable	15,348	7,778	24,761	47,887
Net pension liability	26,019	14,726	36,448	77,193
Net OPEB obligation	238,659	144,616	312,065	695,340
Total noncurrent liabilities	948,210	2,149,120	1,577,654	4,674,984
Total liabilities	1,103,159	3,174,528	2,950,679	7,228,366
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Difference between expected and actual experience - pension	6,116	3,461	8,567	18,144
Net difference between projected and actual investment earnings on pension plan investments	7,407	4,192	10,377	21,976
Changes in proportion and differences between employer contributions and proportionate share of contributions	3,166	1,793	4,436	9,395
Total deferred inflows of resources	16,689	9,446	23,380	49,515
<b>NET POSITION</b>				
Net investment in capital assets	2,996,635	3,215,520	(5,005)	6,207,150
Restricted for:				
Debt service	44,496	15,222	-	59,718
Unrestricted	2,407,821	(459,896)	793,634	2,741,559
Total net position	\$ 5,448,952	\$ 2,770,846	\$ 788,629	\$ 9,008,427

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

**TOWN OF SELMA, NORTH CAROLINA**

**STATEMENT OF REVENUES, EXPENSES, AND  
CHANGES IN NET POSITION  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2016**

	Water Fund	Sewer Fund	Electric Fund	Totals
<b>OPERATING REVENUES</b>				
Charges for sales and services	\$ 1,205,825	\$ 2,318,913	\$ 7,393,589	\$ 10,918,327
Other operating income	20,095	-	34,181	54,276
<b>Total operating revenues</b>	<b>1,225,920</b>	<b>2,318,913</b>	<b>7,427,770</b>	<b>10,972,603</b>
<b>OPERATING EXPENSES</b>				
Salaries and benefits	622,727	380,681	772,597	1,776,005
General operating expenses	385,421	243,235	403,178	1,031,834
Depreciation	260,903	285,158	500,402	1,046,463
Electric purchases	-	-	5,864,206	5,864,206
Water & sewer purchases	91,060	1,498,174	-	1,589,234
<b>Total operating expenses</b>	<b>1,360,111</b>	<b>2,407,248</b>	<b>7,540,383</b>	<b>11,307,742</b>
Operating loss	(134,191)	(88,335)	(112,613)	(335,139)
<b>NON-OPERATING REVENUES (EXPENSES)</b>				
Interest income	4,014	1,109	2,537	7,660
Loss on disposal of capital assets	(6,766)	(12,651)	-	(19,417)
Interest and fiscal charges	(25,261)	(31,560)	(53,618)	(110,439)
<b>Total non-operating revenue (expenses)</b>	<b>(28,013)</b>	<b>(43,102)</b>	<b>(51,081)</b>	<b>(122,196)</b>
Loss before transfers	(162,204)	(131,437)	(163,694)	(457,335)
Transfers out	-	-	(175,000)	(175,000)
Change in net position	(162,204)	(131,437)	(338,694)	(632,335)
<b>Net position, beginning of year, restated</b>	<b>5,611,156</b>	<b>2,902,283</b>	<b>1,127,323</b>	<b>9,640,762</b>
<b>Net position, end of year</b>	<b>\$ 5,448,952</b>	<b>\$ 2,770,846</b>	<b>\$ 788,629</b>	<b>\$ 9,008,427</b>

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

**TOWN OF SELMA, NORTH CAROLINA**

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2016**

	Water Fund	Sewer Fund	Electric Fund	Totals
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers and users	\$ 1,225,766	\$ 2,328,689	\$ 7,623,982	\$ 11,178,437
Payments to suppliers	(450,508)	(1,713,816)	(6,266,535)	(8,430,859)
Payments to employees	(591,689)	(237,564)	(707,349)	(1,536,602)
Net cash provided by operating activities	<u>183,569</u>	<u>377,309</u>	<u>650,098</u>	<u>1,210,976</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>				
Repayment of advances from other funds	-	(100,000)	-	(100,000)
Receipt of advances to other funds	100,000	-	-	100,000
Transfers to other funds	-	-	(175,000)	(175,000)
Net cash provided by (used in) non-capital financing activities	<u>100,000</u>	<u>(100,000)</u>	<u>(175,000)</u>	<u>(175,000)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Purchase of capital assets	(823)	(465,877)	(48,025)	(514,725)
Proceeds from issuance of installment note payable	-	687,000	-	687,000
Principal payments	(19,731)	(26,185)	(241,667)	(287,583)
Interest paid	(25,261)	(27,364)	(53,618)	(106,243)
Net cash provided by (used in) capital and related financing activities	<u>(45,815)</u>	<u>167,574</u>	<u>(343,310)</u>	<u>(221,551)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest received	4,014	1,109	2,537	7,660
Net cash provided by investing activities	<u>4,014</u>	<u>1,109</u>	<u>2,537</u>	<u>7,660</u>
Net increase in cash and cash equivalents	241,768	445,992	134,325	822,085
Cash and cash equivalents, beginning of year	<u>1,674,064</u>	<u>363,729</u>	<u>1,124,191</u>	<u>3,161,984</u>
Cash and cash equivalents, end of year	<u>\$ 1,915,832</u>	<u>\$ 809,721</u>	<u>\$ 1,258,516</u>	<u>\$ 3,984,069</u>
<b>CASH AS REPORTED ON STATEMENT OF NET POSITION</b>				
Cash and cash equivalents	\$ 1,871,336	\$ 497,259	\$ 1,258,516	\$ 3,627,111
Restricted cash and cash equivalents	44,496	312,462	-	356,958
Total cash and cash equivalents	<u>\$ 1,915,832</u>	<u>\$ 809,721</u>	<u>\$ 1,258,516</u>	<u>\$ 3,984,069</u>

*continued*

**TOWN OF SELMA, NORTH CAROLINA**

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Electric Fund</u>	<u>Totals</u>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>				
Operating loss	\$ (134,191)	\$ (88,335)	\$ (112,613)	\$ (335,139)
Adjustments to reconcile operating loss to net cash provided by operating activities:				
Depreciation expense	260,903	285,158	500,402	1,046,463
Change in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:				
(Increase) decrease in accounts receivable	(154)	9,776	196,212	205,834
Decrease in inventories	7,533	5,255	49,804	62,592
Decrease in net pension asset	35,513	21,288	45,708	102,509
Increase in deferred outflows of resources	(2,614)	(2,367)	(297)	(5,278)
Increase (decrease) in accounts payable	10,540	16,488	(17,179)	9,849
Increase (decrease) in accrued liabilities	(1,172)	102,236	20,654	121,718
Increase (decrease) in customer deposits	7,900	5,850	(31,776)	(18,026)
Increase in compensated absences payable	2,948	703	1,507	5,158
Increase in deferred inflows for difference between expected and actual experience - pension	2,236	1,135	3,573	6,944
Increase in net pension liability	26,019	14,726	36,448	77,193
Decrease in deferred inflows for net difference between projected and actual investment earnings on pension plan investments	(75,267)	(45,366)	(96,031)	(216,664)
Decrease in deferred inflows for changes in proportion and differences between employer contributions and proportionate share of contributions	(3,456)	(2,177)	(4,086)	(9,719)
Increase (decrease) in net OPEB obligation	46,831	52,939	57,772	157,542
Net cash provided by operating activities	<u>\$ 183,569</u>	<u>\$ 377,309</u>	<u>\$ 650,098</u>	<u>\$ 1,210,976</u>

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

**TOWN OF SELMA, NORTH CAROLINA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

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**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Reporting Entity**

Incorporated in 1873, under the laws of the State of North Carolina, the Town of Selma, North Carolina is governed by an elected mayor and a four-member council. The government provides such services as police protection, cultural and recreational activities, public works, water, sewer, and electric services.

**B. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The statement of net position includes non-current assets and non-current liabilities. In addition, the government-wide statement of activities reflects depreciation expense on the Town’s capital assets.

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

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers most revenues to be available if they are collected within 90 days of the end of the current fiscal period, except for property taxes which use a 60 day period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to other long-term liabilities, such as compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, sales taxes, franchise taxes, licenses, intergovernmental grants, and investment income associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Town.

In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions*, the corresponding assets (receivables) in non-exchange transactions are recognized in the period in which the underlying exchange occurs, when an enforceable legal claim has arisen, when all eligibility requirements have been met, or when resources are received, depending on the revenue source.

In accordance with GASB Statement No. 34, individual major funds are reported as separate columns in the fund financial statements.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

The Town reports the following major governmental fund:

The **General Fund** is the Town's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Town reports the following major enterprise funds:

The **Water Fund** accounts for the operation, maintenance and development of the Town's water system and services.

The **Sewer Fund** accounts for the operation, maintenance and development of the Town's sewer system and services.

The **Electric Fund** accounts for the operation, maintenance and development of the Town's electric system and services.

Additionally, the Town reports the following fund types:

The **special revenue funds** are used to account for specific revenues, such as various grants and contributions, which are legally restricted or committed to expenditures for particular purposes.

The **capital projects fund** accounts for financial resources to be used for the acquisition and construction of major capital projects

In accounting and reporting for its proprietary operations, the government applies all GASB pronouncements. GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* incorporated into the GASB's authoritative literature certain accounting and financial reporting guidance issued on or before November 30, 1989 which did not conflict with or contradict GASB pronouncements.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. However, any inter-fund services provided and used are not eliminated as this process would distort the direct costs and program revenues reported in the various functions.

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

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds include the cost of these goods and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

#### D. Budgets

Annual appropriated budgets are adopted for all funds, with the exception of the ESA solar farm interconnection fund for which a project length budget was adopted. The Town did not adopt a budget for the CDBG Project Fund during the fiscal year ended June 30, 2016. In accordance with state law, the budgets adopted for the enterprise funds are adopted on the modified accrual basis of accounting, and a reconciliation is provided along with the budget schedule to reconcile from the modified accrual basis to the accrual basis. The enterprise fund capital project funds are consolidated with their respective operating fund for reporting purposes. The governmental funds' budgets are adopted on a basis other than accounting principles generally accepted in the United States of America. Budgets are adopted to show use of fund balance as an other financing source for both governmental and proprietary funds, as well as the proprietary funds are budgeted on the modified accrual basis of accounting. Annual operating budgets are adopted each fiscal year through passage of an annual budget ordinance and amended as required for the General fund, special revenue funds, and the enterprise funds. During the fiscal year ended June 30, 2016, the original budget was amended through supplemental appropriations. These changes are reflected in the budgetary comparison schedules.

All budget appropriations lapse at the end of each year.



## NOTES TO FINANCIAL STATEMENTS

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### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### E. Deposits

Cash includes amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the Town. The Town pools cash resources of its various funds in order to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balance in the pooled cash accounts is available to meet current operating requirements. Any deposit in excess of the federal depository insured amounts must be collateralized by an equivalent amount of state or U.S. obligations. For purposes of the statement of cash flows, all highly liquid investments with an original maturity of less than 90 days are considered to be cash equivalents.

State law [G.S. 159-30(c)] authorizes the Town to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States, obligations of the state of North Carolina, bonds and notes of any North Carolina local government or public authority, obligations of certain non-guaranteed federal agencies, certain high quality issues of commercial paper and bankers' acceptances, and the North Carolina Capital Management Trust (NCCMT). The NCCMT- Cash Portfolio, a SEC-registered (2a-7) external investment pool, is measured at net asset value per share calculated at amortized cost.

#### F. Restricted cash and cash equivalents

The Town has restricted cash and cash equivalents related to the Powell Bill because they can be expended only for the purposes of maintaining, repairing, constructing, reconstructing or widening of local streets per G.S. 136-41.1 through 136-41.4. The Town also reports restricted cash accounts in the Water and Sewer funds for the established sinking funds, required under the Town's bond covenants. Additionally, funds of the Small Business Revolving Loan Fund and the ESA Solar Farm Interconnection Fund are restricted by outside parties as to the purpose of the funds.

#### G. Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. In accordance with state law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad valorem taxes on property other than motor vehicles on July 1st, the beginning of the fiscal year. The taxes are due on September 1st (lien date); however, interest does not accrue until the following January 6th. These taxes are based on the assessed values as of January 1, 2015.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### H. Allowances

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

#### I. Interfund Receivables and Payables

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year as well as all other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, represent long-term borrowing arrangements with established repayment schedules, and are offset by non-spendable fund balance in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

#### J. Inventories and Prepaid Items

All inventories are valued at average cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Payments made to vendors for services that will benefit periods beyond June 30, 2016, are recorded as prepaid items in both government-wide and fund financial statements.

#### K. Capital Assets

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), and intangible assets are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Town as assets with an initial, individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets received prior to July 1, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after July 1, 2015 are recorded at estimated acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical cost. In accordance with GASB 34, infrastructure assets acquired prior to July 1, 2003 have been capitalized. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### K. Capital Assets (Continued)

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

Infrastructure	20 years
Buildings and improvements	30 years
Electric distribution system	7-45 years
Water and sewer plant and distribution system	20-50 years
Vehicles and equipment	5-10 years

#### L. Deferred Outflows / Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflow of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Town reports one type of deferred outflow of resources related to the reporting of the net pension liability. The deferred outflow of resources being recognized is a deferred outflow of resources for the Town's actual contributions to the pension plan during the fiscal year ended June 30, 2016, which was subsequent to the measurement date of the net pension liability. The deferred outflows will be applied to future measurement periods.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Town has three (3) items that qualify for reporting in this category which occurs in the governmental activities and in the individual proprietary funds. The Town reports deferred inflows of resources for the: (1) difference between expected and actual experience of the pension plan, (2) net difference between projected and actual investment earnings on the pension plan assets, and (3) changes in proportion and the difference between the Town's actual contributions towards the pension plan and the Town's proportionate share of contributions. The net difference between projected and actual investment earnings on the pension plan assets are amortized over five (5) years, while the remaining deferred inflows of resources will be amortized over the remaining service period of plan members. Additionally, the Town reports one (1) item which is reported as a deferred inflow of resources which arises only under a modified accrual basis of accounting. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from the sales of cemetery plots which are sold on payment plans and the receipts are not collected within the Town's revenue recognition window and these amounts are deferred and will be recognized as an inflow of resources in the period in which the amounts become available.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### M. Compensated Absences

It is the Town's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for non-vesting accumulated rights to receive sick pay benefits since the Town does not have a policy to pay any amounts when employees separate from service with the Town. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for those amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

#### N. Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are accrued and amortized over the term of the bonds using the effective interest method. Bonds payable are reported net of the applicable discount or premium. Bond issuance costs are expensed in the year of issuance.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

#### O. Fund Equity

Fund equity at the governmental fund financial reporting level is classified as "fund balance." Fund equity for all other reporting is classified as "net position."

**Fund Balance** – Generally, fund balance represents the difference between the assets and liabilities and deferred inflows of resources under the current financial resources management focus of accounting. In the fund financial statements, governmental funds report fund balance classifications that comprise a hierarchy based primarily on the extent to which the Town is bound to honor constraints on the specific purpose for which amounts in those funds can be spent.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### O. Fund Equity (Continued)

Fund balances are classified as follows:

*Nonspendable* – Fund balances are reported as nonspendable when amounts cannot be spent because they are either: (a) not in spendable form (i.e., items that are not expected to be converted to cash), or (b) legally or contractually required to be maintained intact.

*Restricted* – Fund balances are reported as restricted when there are limitations imposed on their use either through enabling legislation adopted by the Town or through external restrictions imposed by creditors, grantors, laws or regulations of other governments. One component of the restricted fund balance of the General Fund relates to the Stabilization by State Statute (*G.S. 159-8(a)*) which requires total fund balance less the fund balance available for appropriation equals the total amount that must be restricted.

*Committed* – Fund balances are reported as committed when they can be used only for specific purposes pursuant to constraints imposed by the Town Council. Approval of a resolution after a formal vote of the Town Council is required to establish a commitment of fund balance. Similarly, the Town Council may only modify or rescind the commitment by formal vote and adoption of a subsequent resolution.

*Assigned* – Fund balances are reported as assigned when amounts are constrained by the Town's intent to be used for specific purposes, but are neither restricted nor committed. The Town Council, through Town Ordinance, has expressly delegated to the Town Manager or his/her designee, the authority to assign funds for particular purposes.

*Unassigned* – Fund balances are reported as unassigned as the residual amount when the balances do not meet any of the above criterion. The Town reports positive unassigned fund balance only in the General Fund. The Town, by resolution, has created a minimum fund balance policy to be no less than 32% of the next fiscal year's budgeted expenditures and outgoing transfers, in order to maintain adequate reserves to cover unforeseen revenue shortfalls and to maintain a budget stabilization commitment.

**Flow Assumptions** – When both restricted and unrestricted amounts of fund balance are available for use for expenditures incurred, it is the Town's policy to use restricted amounts first and then unrestricted amounts as they are needed. For unrestricted amounts of fund balance, it is the Town's policy to use fund balance in the following order: (1) Committed, (2) Assigned, and (3) Unassigned.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### O. Fund Equity (Continued)

**Net Position** – Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources, in reporting which utilizes the economic resources measurement focus. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used (i.e., the amount that the Town has spent) for the acquisition, construction or improvement of those assets.

Net position is reported as restricted using the same definition as used for restricted fund balance as described in the section above. All other net position is reported as unrestricted.

The Town applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

#### P. Pensions

For purposes of measuring the net pension liability (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, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

#### Q. Management Estimates

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

## NOTES TO FINANCIAL STATEMENTS

### NOTE 2. RECONCILIATION OF GOVERNMENT-WIDE FINANCIAL STATEMENTS AND FUND FINANCIAL STATEMENTS

#### A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-wide Statement of Net Position

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds and net position – governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains that “long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.” The details of this \$3,316,119 difference are as follows:

Installment notes	\$ (1,879,057)
Accrued interest payable	(52,190)
Compensated absences (i.e., vacation)	(163,894)
Net OPEB obligation	<u>(1,220,978)</u>
Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net position - governmental activities</i>	<u>\$ (3,316,119)</u>

Another element of the reconciliation between *fund balance – total governmental funds and net position – governmental activities* as reported in the government-wide statement of net position explains “deferred inflows of resources related to pensions which are not current financial resources and, therefore, not reported in the funds.” The details of this \$87,343 difference are as follows:

Difference between expected and actual experience - pension	\$ (32,006)
Net difference between projected and actual investments earnings on pension plan investments	(38,765)
Changes in proportion and differences between employer contributions and proportionate share of contributions related to pensions	<u>(16,572)</u>
Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net position - governmental activities</i>	<u>\$ (87,343)</u>

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 2. RECONCILIATION OF GOVERNMENT-WIDE FINANCIAL STATEMENTS AND FUND FINANCIAL STATEMENTS (CONTINUED)

#### B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net change in fund balances – total governmental funds* and *changes in net position of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.” The details of this \$5,717 difference are as follows:

Capital outlay	\$	627,607
Depreciation expense		<u>(633,324)</u>
Net adjustment to decrease <i>net change in fund balances - total governmental funds</i> to arrive at <i>change in net position - governmental activities</i>		
	\$	<u><u>(5,717)</u></u>

Another element of the reconciliation states that “the issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. This amount represents the net of the issuance of new installment notes and repayments of the principal of long-term debt.” The details of this \$304,564 difference are as follows:

Issuance of installment note	\$	(460,000)
Repayment of principal on long-term debt		<u>155,436</u>
Net adjustment to decrease <i>net change in fund balances - total governmental funds</i> to arrive at <i>change in net position - governmental activities</i>		
	\$	<u><u>(304,564)</u></u>



## NOTES TO FINANCIAL STATEMENTS

### NOTE 2. RECONCILIATION OF GOVERNMENT-WIDE FINANCIAL STATEMENTS AND FUND FINANCIAL STATEMENTS (CONTINUED)

#### B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities (Continued)

Another element of the reconciliation states that “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.” The details of this \$187,449 difference are as follows:

Compensated absences (i.e., vacation)	\$	(10,624)
Change in accrued interest		(5,695)
Net pension liability (asset) - LGERS and related deferred outflows and inflows of resources		54,802
Net pension obligation - Special Separation Allowance LEO		4,037
Net OPEB obligation		<u>(229,969)</u>
Net adjustment to decrease <i>net change in fund balances - total governmental funds</i> to arrive at <i>change in net position - governmental activities</i>	\$	<u>(187,449)</u>

### NOTE 3. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

**Contractual Violations.** During the fiscal year ended June 30, 2016 the Town had not complied with the sinking fund requirements of the Water Fund and Sewer Fund Revenue Bonds. In accordance with the bond documents the Town is required to establish sinking fund accounts which increase annually. As of June 30, 2016 the sinking fund accounts for the Water Fund and Sewer Fund were underfunded by \$41,091 and \$10,302, respectively. The Town has available cash in unrestricted accounts to cover the shortages.

**Deficit Fund Balance.** The CDBG Project Fund has a deficit fund balance of \$224 as of June 30, 2016. This deficit will be resolved through future transfers from the General Fund.

**Expenditures in Excess of Appropriations.** The budget is officially adopted by the governing body prior to the beginning of its fiscal year, or a resolution authorizing the continuation of necessary and essential expenditures to operate the Town will be adopted. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level, within the fund. Transfers of appropriations within a department budget or within a non-departmental expenditure category require only the approval of the Town Manager. Increases in appropriations in a departmental budget or in a non-departmental expenditure category, require approval of the governing body in the form of amendments to the budget resolution.

## NOTES TO FINANCIAL STATEMENTS

### NOTE 3. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONTINUED)

The following is a list of the funds and departments which reported expenditures in excess of approved budgets:

General Fund:	
Salaries and employee benefits - Finance	\$ 90
Department supplies - Public Buildings	463
Capital outlay - Public Buildings	40,010
Salaries and employee benefits - Planning and Economic Development	889
Professional services - Fire Department	451
Debt service - principal	21,410
Small Business Revolving Loan Fund	15,000
Water Fund:	
Maintenance and repairs - operations	49,965
Purchase for resale - operations	7,060
Sewer Fund:	
Other operating expenditures	460,769
Debt service - interest	4,349
Electric Fund - Maintenance and repairs - operations	165,449

The over expended departments were funded through greater than anticipated revenues and other savings noted in other departments within the funds.

### NOTE 4. DEPOSITS AND INVESTMENTS

Total deposits as of June 30, 2016 are summarized as follows:

Statement of Net Position:	
Cash and cash equivalents	\$ 6,090,706
Restricted cash and cash equivalents	1,507,965
	<u>\$ 7,598,671</u>
Cash deposited with financial institutions	\$ 5,706,323
Certificate of deposit	28,404
Cash deposited with NCCMT	1,863,944
	<u>\$ 7,598,671</u>

## NOTES TO FINANCIAL STATEMENTS

### NOTE 4. DEPOSITS AND INVESTMENTS (CONTINUED)

**Credit risk.** State statutes and the Town's policies authorize the Town to invest in obligations of the state of North Carolina or other states; obligations issued by the U.S. government; obligations fully insured or guaranteed by the U.S. government or by a government agency of the United States; obligations of any corporation of the U.S. government; prime bankers' acceptances; the North Carolina Capital Management Trust (NCCMT); and obligations of other political subdivisions of the state of North Carolina. The Town does not have a credit rating policy which provides restrictions or limitations on credit ratings for the Town's investments.

As of June 30, 2016 the Town had \$1,863,944 invested in the NCCMT's cash portfolio which carried a credit rating of AAAM by Standard and Poor's. The Town has no policy regarding credit risk.

**Interest rate risk:** The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**Custodial credit risk – deposits:** Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. State statutes (G.S. 159-31) require all deposits and investments (other than federal or state government instruments) to be collateralized by depository insurance, obligations of the U.S. government, or bonds of public authorities, counties, or municipalities. As of June 30, 2016, the Town's deposits are insured or collateralized as required by state law.

### NOTE 5. RECEIVABLES

Receivables at June 30, 2016, for the Town's individual major funds and aggregate nonmajor funds, including any applicable allowances for uncollectible accounts are as follows:

	General	Water	Sewer	Electric	Other Governmental
Receivables:					
Taxes	\$ 77,142	\$ -	\$ -	\$ -	\$ -
Accounts	491,309	161,904	304,289	799,786	56,848
Less allowance					
for uncollectible	107,903	24,633	47,804	152,459	35,000
Net total receivable	\$ 460,548	\$ 137,271	\$ 256,485	\$ 647,327	\$ 21,848

## NOTES TO FINANCIAL STATEMENTS

### NOTE 6. CAPITAL ASSETS

Capital asset activity for the Town for the year ended June 30, 2016 is as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
<b>Governmental Activities:</b>					
Nondepreciable capital assets:					
Land	\$ 2,657,588	\$ -	\$ -	\$ -	\$ 2,657,588
Construction in progress	529,197	-	-	(529,197)	-
Total	<u>3,186,785</u>	<u>-</u>	<u>-</u>	<u>(529,197)</u>	<u>2,657,588</u>
Capital assets, being depreciated:					
Buildings	4,510,920	544,286	-	529,197	5,584,403
Other improvements	5,574,196	-	-	-	5,574,196
Equipment and furniture	845,283	18,100	-	-	863,383
Vehicles and motorized equipment	2,629,565	65,221	-	-	2,694,786
Total being depreciated	<u>13,559,964</u>	<u>627,607</u>	<u>-</u>	<u>529,197</u>	<u>14,716,768</u>
Less accumulated depreciation for:					
Buildings	(1,928,831)	(195,486)	-	-	(2,124,317)
Other improvements	(2,902,109)	(213,300)	-	-	(3,115,409)
Equipment and furniture	(495,616)	(79,681)	-	-	(575,297)
Vehicles and motorized equipment	(2,343,229)	(144,857)	-	-	(2,488,086)
Total	<u>(7,669,785)</u>	<u>(633,324)</u>	<u>-</u>	<u>-</u>	<u>(8,303,109)</u>
Total capital assets, being depreciated, net	<u>5,890,179</u>	<u>(5,717)</u>	<u>-</u>	<u>529,197</u>	<u>6,413,659</u>
Governmental activities capital assets, net	<u>\$ 9,076,964</u>	<u>\$ (5,717)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,071,247</u>

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 6. CAPITAL ASSETS (CONTINUED)**

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Water Fund:</b>				
Nondepreciable capital assets:				
Land	\$ 182,438	\$ -	\$ -	\$ 182,438
Construction in progress	6,766	-	(6,766)	-
Total	<u>189,204</u>	<u>-</u>	<u>(6,766)</u>	<u>182,438</u>
Capital assets, being depreciated:				
Buildings and improvements	981,757	-	-	981,757
Distribution system	7,675,523	-	-	7,675,523
Equipment	463,223	823	-	464,046
Vehicles and motorized equipment	95,790	-	-	95,790
Total	<u>9,216,293</u>	<u>823</u>	<u>-</u>	<u>9,217,116</u>
Less accumulated depreciation for:				
Buildings and improvements	(765,333)	(47,613)	-	(812,946)
Distribution system	(4,224,231)	(191,826)	-	(4,416,057)
Equipment	(369,003)	(20,778)	-	(389,781)
Vehicles and motorized equipment	(94,533)	(686)	-	(95,219)
Total	<u>(5,453,100)</u>	<u>(260,903)</u>	<u>-</u>	<u>(5,714,003)</u>
Total capital assets being depreciated, net	<u>3,763,193</u>	<u>(260,080)</u>	<u>-</u>	<u>3,503,113</u>
Water Fund capital assets, net	<u>\$ 3,952,397</u>	<u>\$ (260,080)</u>	<u>\$ (6,766)</u>	<u>\$ 3,685,551</u>

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 6. CAPITAL ASSETS (CONTINUED)**

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Sewer Fund:</b>				
Nondepreciable capital assets:				
Land	\$ 12,651	\$ -	\$ (12,651)	\$ -
Construction in progress	82,775	461,566	-	544,341
Total	<u>95,426</u>	<u>461,566</u>	<u>(12,651)</u>	<u>544,341</u>
Capital assets, being depreciated:				
Buildings and improvements	149,072	-	-	149,072
Distribution system	7,950,686	-	-	7,950,686
Equipment	315,210	4,311	-	319,521
Vehicles and motorized equipment	102,849	-	-	102,849
Total	<u>8,517,817</u>	<u>4,311</u>	<u>-</u>	<u>8,522,128</u>
Less accumulated depreciation for:				
Buildings and improvements	(43,859)	(11,124)	-	(54,983)
Distribution system	(3,574,902)	(253,421)	-	(3,828,323)
Equipment	(196,493)	(19,927)	-	(216,420)
Vehicles and motorized equipment	(101,591)	(686)	-	(102,277)
Total	<u>(3,916,845)</u>	<u>(285,158)</u>	<u>-</u>	<u>(4,202,003)</u>
Total capital assets being depreciated, net	<u>4,600,972</u>	<u>(280,847)</u>	<u>-</u>	<u>4,320,125</u>
Sewer Fund capital assets, net	<u>\$ 4,696,398</u>	<u>\$ 180,719</u>	<u>\$ (12,651)</u>	<u>\$ 4,864,466</u>

A restatement of \$82,775 was required to correctly report the beginning balances for construction in progress for costs which were incurred prior to June 30, 2015 for project engineering costs and incorrectly expensed.

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 6. CAPITAL ASSETS (CONTINUED)**

	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
<b>Electric Fund:</b>				
Nondepreciable capital assets:				
Land	\$ 129,366	\$ -	\$ -	\$ 129,366
Total	129,366	-	-	129,366
Capital assets, being depreciated:				
Buildings and improvements	194,777	9,025	-	203,802
Equipment	6,782,819	39,000	-	6,821,819
Vehicles and motorized equipment	760,532	-	-	760,532
Total	7,738,128	48,025	-	7,786,153
Less accumulated depreciation for:				
Buildings and improvements	(115,570)	(12,960)	-	(128,530)
Equipment	(5,220,563)	(467,968)	-	(5,688,531)
Vehicles and motorized equipment	(598,382)	(19,474)	-	(617,856)
Total	(5,934,515)	(500,402)	-	(6,434,917)
Total capital assets being depreciated, net	1,803,613	(452,377)	-	1,351,236
Electric Fund capital assets, net	\$ 1,932,979	\$ (452,377)	\$ -	\$ 1,480,602

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

Governmental activities:	
General government	\$ 23,703
Public safety	193,352
Transportation	270,566
Cemetery	43,216
Culture and recreation	102,487
Total depreciation expense - governmental activities	\$ 633,324
Business-type activities	
Water	\$ 260,903
Sewer	285,158
Electric	500,402
Total depreciation expense - business-type activities	\$ 1,046,463

## NOTES TO FINANCIAL STATEMENTS

### NOTE 7. LONG-TERM DEBT

Long-term liability activity for the year ended June 30, 2016 is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Governmental activities:</b>					
Installment notes	\$ 1,574,493	\$ 460,000	\$ (155,436)	\$ 1,879,057	\$ 184,779
Compensated absences	153,270	62,512	(51,888)	163,894	77,030
Net pension liability (asset)	(171,132)	451,086	(143,790)	136,164	-
Law enforcement officers' SSA pension obligation	131,629	63,225	(67,262)	127,592	-
Net OPEB obligation	991,009	366,529	(136,560)	1,220,978	-
Governmental activity Long-term liabilities	<u>\$ 2,679,269</u>	<u>\$ 1,403,352</u>	<u>\$ (554,936)</u>	<u>\$ 3,527,685</u>	<u>\$ 261,809</u>
<b>Business-type activities:</b>					
Installment notes	1,855,292	687,000	(256,583)	2,285,709	983,145
Revenue bonds payable	1,866,000	-	(31,000)	1,835,000	33,000
Net pension liability (asset)	(102,509)	255,946	(76,244)	77,193	-
Compensated absences	85,194	46,147	(40,989)	90,352	42,465
Net OPEB obligation	537,798	181,086	(23,544)	695,340	-
Business-type activity Long-term liabilities	<u>\$ 4,241,775</u>	<u>\$ 1,170,179</u>	<u>\$ (428,360)</u>	<u>\$ 4,983,594</u>	<u>\$ 1,058,610</u>

For governmental funds, compensated absences are liquidated by the General Fund. The net pension liability and OPEB obligation are liquidated by the General Fund.

### Installment Notes

The Town has various installment notes outstanding for buildings, equipment, and vehicle financing arrangements. The outstanding balances for the notes as of June 30, 2016 are as follows:

<b>Governmental activities</b>	<u>Balance as of June 30, 2016</u>
A note issued by RBC Bank for \$525,000 was issued on July 23, 2010 with annual payments of \$52,500 for the purchase of real property. The note bears an interest rate of 5.25% and matures in 2020.	\$ 262,500
A note issued by US Department of Agriculture for \$550,000 was issued on December 6, 2010 with annual payments of \$30,850 for the purchase of real property. The note bears an interest rate of 3.75% and matures in 2040.	494,896
A note issued by US Department of Agriculture for \$375,000 was issued on September 21, 2011 with annual payments of \$22,350 for the purchase of real property. The note bears an interest rate of 4.25% and matures in 2041.	347,670
	<i>continued</i>



**NOTES TO FINANCIAL STATEMENTS**

**NOTE 7. LONG-TERM DEBT (CONTINUED)**

**Installment Notes (Continued)**

	<u>Balance as of June 30, 2016</u>
<b><i>Governmental activities (continued)</i></b>	
A note issued by US Department of Agriculture for \$210,000 was issued on September 14, 2010 with annual payments of \$18,890 for the purchase of a fire truck. The note bears an interest rate of 4.00% and matures in 2025.	153,183
A note issued by US Department of Agriculture for \$31,900 was issued on March 21, 2012 with annual payments of \$1,790 for the purchase of real property. The note bears an interest rate of 3.75% and matures in 2042.	29,389
A note issued by First Citizens Bank for \$109,806 was issued on August 23, 2012 with annual payments of \$28,810 for the purchase of mowing equipment. The note bears an interest rate of 1.96% and matures in 2017.	28,270
A note issued by BB&T Bank for \$27,183 was issued on July 13, 2011 with annual payments of \$5,883 for the purchase of financial software. The note bears an interest rate of 2.69% and matures in 2017.	4,297
A note issued by US Department of Agriculture for \$110,000 was issued on March 21, 2012 with annual payments of \$6,170 for the purchase of real property. The note bears an interest rate of 3.75% and matures in 2042.	101,349
A note issued by BB&T Bank for \$82,242 was issued on July 13, 2011 with annual payments of \$17,799 for the purchase of a dump truck. The note bears an interest rate of 2.69% and matures in 2017.	17,333
A note issued by BB&T Bank for \$400,000 was issued on August 25, 2015 with annual payments of \$26,667, plus interest, for Town Hall renovations. The note bears an interest rate of 2.69% and matures in 2030.	400,000
The Town entered into an agreement with a local landowner to purchase a facility and land for \$60,000 with annual payments of \$20,000. The agreement was dated November 10, 2015 and matures in 2018. The note is non-interest bearing.	<u>40,170</u>
Total outstanding installment notes payable	<u><u>\$ 1,879,057</u></u>

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 7. LONG-TERM DEBT (CONTINUED)**

**Installment Notes (Continued)**

The debt service to maturity on the installment notes is as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year Ending June 30,			
2017	\$ 184,779	\$ 71,480	\$ 256,259
2018	136,425	65,201	201,626
2019	117,719	59,992	177,711
2020	119,241	54,936	174,177
2021	120,822	49,819	170,641
2022-2026	367,567	197,525	565,092
2027-2031	315,346	135,609	450,955
2032-2036	220,625	85,156	305,781
2037-2041	267,465	38,317	305,782
2042	29,068	1,199	30,267
Total	<u>\$ 1,879,057</u>	<u>\$ 759,234</u>	<u>\$ 2,638,291</u>

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## NOTES TO FINANCIAL STATEMENTS

### NOTE 7. LONG-TERM DEBT (CONTINUED)

#### Installment Notes (Continued)

	<u>Balance as of June 30, 2016</u>
<b><i>Business-type activities</i></b>	
A note issued by RBC Bank for \$3,355,700 was issued on November 17, 2005 with annual payments of \$294,476 for the purchase of electric utility improvements. The note bears an interest rate of 3.65% and matures in 2020.	\$ 1,323,944
A note issued by BB&T Bank for \$27,183 was issued on July 13, 2011 with annual payments of \$5,883 for the purchase of financial software. The note bears an interest rate of 2.69% and matures in 2016.	4,407
A note issued by BB&T Bank for \$157,256 was issued on June 29, 2015 with annual payments of \$32,624 for the purchase of an electric utility truck. The note bears an interest rate of 1.24% and matures in 2020.	157,256
A note issued by North Carolina Drinking Water State Revolving Fund for \$130,913 was issued on January 31, 2013 with annual payments of \$6,545 for the refinancing of water system improvements. The note is a non-interest bearing note and matures in May 2032.	104,730
A note issued by BB&T Bank for \$27,183 was issued on July 13, 2011 with annual payments of \$5,883 for the purchase of financial software. The note bears an interest rate of 2.69% and matures in 2017.	4,186
A note issued by BB&T Bank for \$27,183 was issued on July 13, 2011 with annual payments of \$5,883 for the purchase of financial software. The note bears an interest rate of 2.69% and matures in 2017.	4,186
A note issued by BB&T Bank for \$687,000 was issued on January 29, 2016 with a maturity of March 2017 for the installation of sewer improvements. The note bears an interest rate of 1.27% and matures in 2017.	687,000
Total outstanding installment notes payable	<u>\$ 2,285,709</u>

The debt service to maturity on the installment notes is as follows:

	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
Year Ending June 30,			
2017	\$ 983,145	\$ 60,747	\$ 1,043,892
2018	292,746	40,909	333,655
2019	302,444	31,211	333,655
2020	312,487	21,169	333,656
2021	322,885	10,775	333,660
2022-2026	32,728	-	32,728
2027-2031	32,728	-	32,728
2032	6,546	-	6,546
Total	<u>\$ 2,285,709</u>	<u>\$ 164,811</u>	<u>\$ 2,450,520</u>

## NOTES TO FINANCIAL STATEMENTS

### NOTE 7. LONG-TERM DEBT (CONTINUED)

#### Revenue Bonds

In July 2007, the Town issued \$643,000 of Water and Sewer Revenue Bonds, Series 2007 for water system improvements. Principal installments are due annually on June 1 with semiannual interest payments due on December 1 and June 1. The bonds bear an interest rate of 4.25%. At June 30, 2016, \$580,000 of the bonds were outstanding. The bonds mature in 2047.

In June 2013, the Town issued \$1,320,000 of Water and Sewer Revenue Bonds, Series 2013 for wastewater system improvements. Principal installments are due annually on June 1 with semiannual interest payments due on December 1 and June 1. The bonds bear an interest rate of 2.125%. At June 30, 2016, \$1,255,000 of the bonds were outstanding. The bonds mature in 2053.

The debt service to maturity on the installment notes is as follows:

	Principal	Interest	Total
Year Ending June 30,			
2017	\$ 33,000	\$ 51,319	\$ 84,319
2018	33,000	50,405	83,405
2019	34,000	49,491	83,491
2020	35,000	48,556	83,556
2021	36,000	47,579	83,579
2022-2026	195,000	222,211	417,211
2027-2031	225,000	192,780	417,780
2032-2036	260,000	158,313	418,313
2037-2041	301,000	117,746	418,746
2042-2046	339,000	70,295	409,295
2047-2051	250,000	25,479	275,479
2052-2053	94,000	2,996	96,996
Total	\$ 1,835,000	\$ 1,037,170	\$ 2,872,170

The Town has pledged future water and sewer customer revenues, net of specified operating expenses, to repay \$643,000 and \$1,320,000 of Water & Sewer Revenue Bonds Series 2007 and 2013, respectively. The bonds are payable solely from water and sewer customer net revenues and are payable through 2047 and 2053, respectively. Annual principal and interest payments on the bonds are expected to require less than 20 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$2,872,170. Principal and interest paid for the current year and net customer revenues were \$83,098 and \$323,535, respectively.

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 7. LONG-TERM DEBT (CONTINUED)**

**Revenue Bonds (Continued)**

The Town of Selma’s Water & Sewer Revenue Bonds, Series 2007 and Series 2013 have covenant requirements (Article V, Section 5.01(c)(2)) which require 110% debt coverage ratio based on the income available for debt service as compared to the annual debt service requirement. The Town has been in compliance with the covenants as to rates and charges in the Water & Sewer Revenue Bonds, Series 2007 and 2013 since its adoption in 2007, except for fiscal years ended June 30, 2013 and June 30, 2014. Below is a calculation of the coverage ratio as of June 30, 2016:

Operating revenues	\$ 3,544,833
Non-operating revenues	5,123
Operating expenses	<u>(3,221,298)</u>
Income available for debt service	<u>\$ 328,658</u>
Annual debt service (Revenue Bonds only)	\$ 83,098
Debt service coverage ratio	395.5%

Per loan covenants, operating expenses do not include depreciation expense.

**NOTE 8. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

The composition of interfund balances as of June 30, 2016 is as follows:

Due to/from other funds:

<b>Receivable Fund</b>	<b>Payable Fund</b>	<b>Amount</b>
General Fund	Other Governmental Funds	\$ 217

These balances relate to the timing of short-term cash loans between the funds.

Advances to/from other funds:

<b>Receivable Fund</b>	<b>Payable Fund</b>	<b>Amount</b>
Water Fund	Sewer Fund	\$ 750,000

The Water Fund has loaned the Sewer Fund \$850,000 over the past few years; the Sewer Fund has increased charges to the customers so as to begin making annual installments of \$100,000 with the intention of repaying the advance in the year ending June 30, 2024.

Interfund transfers:

<b>Transfers In</b>	<b>Transfers Out</b>	<b>Amount</b>
General Fund	Electric Fund	\$ 175,000

Transfers are used to move revenues from the Electric Fund to the General Fund for operating purposes.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 9. PENSION PLANS

#### A. Local Governmental Employees' Retirement System

**Plan Description.** The Town of Selma 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 (age 55 for firefighters). Survivor benefits are available to eligible beneficiaries of members who die while in active service or within 180 days of their last day of service and who have either completed 20 years of creditable service regardless of age (15 years of creditable service for firefighters and rescue squad members who are killed in the line of duty) or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic postretirement benefit increases. Increases are contingent upon actuarial gains of the plan.

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

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 9. PENSION PLANS (CONTINUED)

#### A. Local Governmental Employees' Retirement System (Continued)

**Contributions.** Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. The Town of Selma employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Town of Selma's contractually required contribution rate for the year ended June 30, 2016, was 7.15% of compensation for law enforcement officers and 6.67% for general employees and firefighters, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Town of Selma were \$205,501 for the year ended June 30, 2016.

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

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

At June 30, 2016, the Town reported a liability of \$213,357 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2014. The total pension liability was then rolled forward to the measurement date of June 30, 2015 utilizing update procedures incorporating the actuarial assumptions. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2015, the Town's proportion was 0.04754%, which was an increase of 0.0011% from its proportion measured as of June 30, 2014.

## NOTES TO FINANCIAL STATEMENTS

### NOTE 9. PENSION PLANS (CONTINUED)

#### A. Local Governmental Employees' Retirement System (Continued)

For the year ended June 30, 2016, the Town recognized pension expense of \$87,834. At June 30, 2016, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 50,150
Net difference between projected and actual earnings on pension plan investments	-	60,741
Changes in proportion and differences between Town contributions and proportionate share of contributions	-	25,967
Town contributions subsequent to the measurement date	205,501	-
Total	\$ 205,501	\$ 136,858

Town contributions made subsequent to the measurement date of \$205,501 are reported as deferred outflows of resources and will be recognized as a decrease of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

#### Year ended June 30:

2017	\$ (80,350)
2018	(80,350)
2019	(80,148)
2020	103,990
	\$ (136,858)

**Actuarial Assumptions.** The total pension liability as of June 30, 2015 was determined by the December 31, 2014 actuarial valuation using the following actuarial assumptions, applied to all periods included in the measurement:

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



## NOTES TO FINANCIAL STATEMENTS

### NOTE 9. PENSION PLANS (CONTINUED)

#### A. Local Governmental Employees' Retirement System (Continued)

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

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

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	29.0%	2.5%
Global Equity	42.0%	5.8%
Real Estate	8.0%	5.2%
Alternatives	8.0%	9.8%
Credit	7.0%	6.8%
Inflation Protection	6.0%	3.4%
Total	<u>100%</u>	

## NOTES TO FINANCIAL STATEMENTS

### NOTE 9. PENSION PLANS (CONTINUED)

#### A. Local Governmental Employees' Retirement System (Continued)

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

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

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

	1% Decrease (6.25%)	Discount Rate (7.25%)	1% Increase (8.25%)
Town's proportionate share of the net pension liability (asset)	\$ 1,487,766	\$ 213,357	\$ (860,305)

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

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 9. PENSION PLANS (CONTINUED)

#### B. Law Enforcement Officers Special Separation Allowance

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

All full time law enforcement officers of the Town are covered by the Separation Allowance. At December 31, 2015, the date of the most recent actuarial valuation the Separation Allowance's membership consisted of:

Retirees receiving benefits	5
Active plan members	<u>23</u>
Total	<u><u>28</u></u>

**Basis of Accounting.** The Town has chosen to fund the Separation Allowance on a pay as you go basis. Pension expenditures are made from the General Fund, which is maintained on the modified accrual basis of accounting. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. The Separation Allowance has no assets accumulated in a trust that meets the following criteria which are outlined in GASB Statements 67 and 68:

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

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

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 9. PENSION PLANS (CONTINUED)**

**B. Law Enforcement Officers Special Separation Allowance (Continued)**

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

The annual required contribution for the current year was determined as part of the December 31, 2013 actuarial valuation using the projected unit credit actuarial cost method. The study is performed bi-annually. The actuarial assumptions included: (a) 5.0% investment rate of return (net of administrative expenses), and (b) projected salary increases of 4.25-7.85% per year. Both (a) and (b) included an inflation component of 3.0%. The assumptions did not include postemployment benefit increases. The unfunded liability is amortized using the level dollar (closed) method, with a remaining amortization period of 17 years.

**Annual Pension Cost and Net Pension Obligation.** The Town's annual pension cost and net pension obligation to the Separation Allowance for the current year were as follows:

	For The Plan Year Ending June 30, 2016
Annual required contribution	\$ 68,195
Interest on net pension obligation	6,561
Adjustments to annual required contribution	<u>(11,531)</u>
Annual pension cost	63,225
Contributions made	<u>(67,262)</u>
Increase in net pension obligation	(4,037)
Net pension obligation, beginning of year	131,629
Net pension obligation, end of year	<u><u>\$ 127,592</u></u>

Fiscal Year Ended June 30,	Annual Pension Cost (APC)	Actual Pension Contribution	Percentage of APC Contributed	Net Pension Obligation
2016	\$ 63,225	\$ 67,262	106.4 %	\$ 127,592
2015	64,362	55,662	86.5	131,629
2014	45,807	44,643	97.5	122,929

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 9. PENSION PLANS (CONTINUED)

#### B. Law Enforcement Officers Special Separation Allowance (Continued)

As of December 31, 2015, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and the unfunded actuarial accrued liability (UAAL) was \$724,106. The covered payroll (annual payroll of active employees covered by the plan) was \$1,030,492, and the ratio of the UAAL to the covered payroll was 70.27 percent.

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

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future. Actuarial calculations reflect a long-term perspective. Calculations are based on the substantive plan in effect as of December 31, 2015.

#### C. Supplemental Retirement Income Plan for Law Enforcement Officers

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

**Funding Policy.** Article 12E of G.S. Chapter 143 requires the Town to contribute, each month, an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2016 were \$57,305 which consisted of \$51,265 from the Town and \$6,040 from the law enforcement officers. As of June 30, 2016 there were twenty-five (25) participants in the plan.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 9. PENSION PLANS (CONTINUED)

#### D. Supplemental Retirement Income Plan for Employees Other than Law Enforcement Officers

All other permanent full-time employees of the Town (excluding law enforcement officers) also participate in the Supplemental Retirement income Plan, a defined contribution pension plan as described previously. The Plan is a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Town contributes each month an amount equal to 3% of each employee's salary, and all amounts contributed are vested immediately. Also, these employees may make voluntary contributions to the plan. Contributions for the year ended June 30, 2016 were \$66,476 which consisted of \$53,676 from the Town and \$12,800 from the employees. As of June 30, 2016 there were fifty (50) participants in the plan.

### NOTE 10. OTHER POSTEMPLOYMENT BENEFITS

#### Plan Description

Under the terms of a Town resolution, the Town administers a single-employer defined benefit Healthcare Benefits Plan (the "HCB Plan"). As of August 21, 2014, this plan provides postemployment healthcare benefits to retirees of the Town, provided they participate in the North Carolina Local Government Employees' Retirement System (LGERS) and have at least 20 years of creditable service with the Town. Prior to August 21, 2014, employees qualified for similar level benefits after a minimum of five years of creditable service with the Town. The Town pays the full cost of coverage for employees' benefits through private insurers and employees have the option of purchasing dependent coverage at the Town's group rates. Employees hired on or after August 21, 2014 who retire with a minimum of 20 years of creditable service also have the option of purchasing coverage for themselves and dependents at the Town's group rate. Employees hired on or after August 21, 2014 who retire with less than 20 years of service are not eligible for postemployment coverage. Retirees who qualify for coverage receive the same benefits as active employees. Coverage for all retirees who are eligible for Medicare will be transferred to a Medicare Supplemental plan after qualifying for Medicare. The Town Council established and may amend the benefit provisions. A separate report was not issued for the plan.

Membership of the HCB Plan consisted of the following at December 31, 2015, the date of the latest actuarial valuation:

Active participants	58
Retirees and beneficiaries currently receiving benefits	28
Total	<u>86</u>

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 10. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)**

The following is a schedule of funding progress:

Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b-a) Unfunded Actuarial Accrued Liability (UAAL)	(a/b) Funded Ratio	(c) Covered Payroll	[(b-a)/c] UAAL as a Percentage of Covered Payroll
12/31/15	\$ -	\$ 6,558,987	\$ 6,558,987	0%	\$ 2,248,111	291.8%

The above schedule of funding progress serves as a surrogate for the funded status and the funding progress of the Plan. See required supplementary information for a history of funding progress which presents a multi-year trend about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**Funding Policy**

The Town pays the full cost of coverage for the healthcare benefits paid to qualified retirees under a Town resolution that can be amended by Town Council. The Town's members can purchase additional dependent coverage, but the members pay the full cost of the dependent coverage. The Town has chosen to fund the healthcare benefits on a pay as you go basis.

The current annual required contribution (ARC) rate is 24.18% of annual covered payroll. For the current year, the Town contributed \$160,104 or 7.1% of annual covered payroll. The Town obtains healthcare coverage through private insurers. The Town's required contributions, under a Town resolution, for employees not engaged in law enforcement and for law enforcement officers represented 4.0% and 3.1% of covered payroll, respectively. The Town's contributions totaled \$75,925 in fiscal year 2015. The Town's obligation to contribute to HCB Plan is established and may be amended by the Town Council.

**Employer Contributions**

Fiscal Year Ended June 30,	Annual OPEB Cost (AOPEBC)	Actual OPEB Contribution	Percentage of AOPEBC Contributed	Net OPEB Obligation
2016	\$ 547,615	\$ 160,104	29.2 %	\$ 1,916,318
2015	417,970	75,925	18.2	1,528,807
2014	395,230	96,492	24.4	1,186,762

## NOTES TO FINANCIAL STATEMENTS

### NOTE 10. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

#### Annual OPEB Cost and Net OPEB Obligation

	For the Plan Year Ending June 30, 2016
Annual required contribution	\$ 571,473
Interest on net OPEB obligation	61,152
Adjustments to annual required contribution	(85,010)
Annual OPEB cost	547,615
Contribution made	(160,104)
Increase in net OPEB obligation	387,511
Net OPEB obligation, beginning of year	1,528,807
Net OPEB obligation, end of year	\$ 1,916,318

#### Assumptions

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future. Actuarial calculations reflect a long-term perspective. Calculations are based on the substantive plan in effect as of December 31, 2015. The assumptions used in the December 31, 2015 actuarial valuation are as follows:

Cost Method:	Projected Unit Credit
Discount Rate:	4%
Healthcare Cost Trend Rate:	7.75% - 5%, Ultimate Trend in 2022
Amortization Method:	Level Percentage of Pay, Open.
Remaining Amortization Period:	30 years.
Inflation Rate:	3%



## NOTES TO FINANCIAL STATEMENTS

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### **NOTE 11. RISK MANAGEMENT**

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

The Town carries commercial coverage for all other risks of loss. There have been no significant reductions in insurance coverage in the prior year, and settled claims have not exceeded coverage in any of the past three fiscal years. The Town does not carry flood insurance because flood plain maps show insignificant property values within flood plains.

In accordance with G.S. 159-29, the Town's employees that have access to \$100 or more at any given time of the Town's funds are performance bonded through a commercial surety bond. The finance officer and tax collector are each individually bonded for \$500,000 each. The remaining employees that have access to funds are bonded under a blanket bond for \$250,000.

### **NOTE 12. COMMITMENTS AND CONTINGENT LIABILITIES**

#### **Litigation:**

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

#### **Grant Contingencies:**

The Town has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to the disallowance of certain expenditures previously reimbursed by those agencies. Based upon prior experience, management of the Town believes such disallowances, if any, will not be significant.

## NOTES TO FINANCIAL STATEMENTS

### NOTE 12. COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

#### Construction Commitments:

The Town has entered into a construction commitment for sewer improvement projects with an outstanding construction commitment of \$539,518 as of June 30, 2016.

### NOTE 13. JOINTLY GOVERNED ORGANIZATIONS

The Town, in conjunction with thirty-one other local governments, is a member of the North Carolina Eastern Municipal Power Agency ("NCEMPA"). The NCEMPA was formed to enable municipalities that own electric distribution systems to finance, construct, own, operate, and maintain generation and transmission facilities. Each participating government appoints one commissioner to the NCEMPA's governing board. The thirty-one members, who receive power from the NCEMPA, have signed power sales agreements to purchase a specified share of the power generated by the NCEMPA. Except for the power sales purchase requirements, no local government participant has any obligation, entitlement, or residual interest. The Town's purchases of power for the fiscal year ended June 30, 2016 were \$5,864,206.

On July 31, 2015, the North Carolina Eastern Municipal Power Agency completed the sale of most of its electricity generating assets to Duke Energy. These proceeds were used to defease the NCEMPA's outstanding revenue bonds. The NCEMPA entered into contractual arrangements with its member cities and Duke Energy. Under these arrangements, the NCEMPA will supply wholesale power to its members and will purchase this power from Duke Energy. In addition to payments made for electric power, NCEMPA members will make payments for their share of the debt service on the NCEMPA's new revenue bonds.

### NOTE 14. RESTATEMENTS

The Town has determined that a restatement to beginning net position was required in the Town's Sewer Fund and Business-type activities to capitalize engineering costs for a sewer improvement project which were expensed in the prior year. The effect of the restatement resulted in a change to beginning net position of the Sewer Fund and Business-type activities as follows:

	Sewer Fund	Business-type Activities
Net position, as previously reported	\$ 2,819,508	\$ 9,557,987
Recognize capital assets previously expensed	82,775	82,775
Net position, as restated	\$ 2,902,283	\$ 9,640,762

**REQUIRED SUPPLEMENTARY INFORMATION**

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**TOWN OF SELMA, NORTH CAROLINA**

**REQUIRED SUPPLEMENTARY INFORMATION  
LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE  
SCHEDULE OF FUNDING PROGRESS**

<b>Actuarial Valuation Date</b>	<b>(a) Actuarial Value of Assets</b>	<b>(b) Actuarial Accrued Liability (AAL)</b>	<b>(b-a) Unfunded Actuarial Accrued Liability (UAAL)</b>	<b>(a/b) Funded Ratio</b>	<b>(c) Covered Payroll</b>	<b>[(b-a)/c] UAAL as a Percentage of Covered Payroll</b>
12/31/15	\$ -	\$ 724,106	\$ 724,106	0.0%	\$ 1,030,492	70.27%
12/31/13	-	561,630	561,630	0.0%	941,276	59.67%
12/31/11	-	493,311	493,311	0.0%	898,407	54.91%

Note: See assumptions used for the Schedule of Funding Progress in Note 9 to the financial statements.

**TOWN OF SELMA, NORTH CAROLINA**

**REQUIRED SUPPLEMENTARY INFORMATION  
OTHER POSTEMPLOYMENT BENEFITS  
SCHEDULE OF FUNDING PROGRESS**

<b>Actuarial Valuation Date</b>	<b>(a) Actuarial Value of Assets</b>	<b>(b) Actuarial Accrued Liability (AAL)</b>	<b>(b-a) Unfunded Actuarial Accrued Liability (UAAL)</b>	<b>(a/b) Funded Ratio</b>	<b>(c) Covered Payroll</b>	<b>[(b-a)/c] UAAL as a Percentage of Covered Payroll</b>
12/31/15	\$ -	\$ 6,558,987	\$ 6,558,987	0.0%	\$ 2,248,111	291.76%
12/31/12	-	4,145,737	4,145,737	0.0%	2,826,405	146.68%
12/31/09	-	3,677,044	3,677,044	0.0%	2,449,089	150.14%

Note: See assumptions used for the Schedule of Funding Progress in Note 10 to the financial statements.

**TOWN OF SELMA, NORTH CAROLINA**

**REQUIRED SUPPLEMENTARY INFORMATION  
TOWN OF SELMA'S PROPORTIONATE SHARE OF NET PENSION LIABILITY (ASSET)  
LAST THREE FISCAL YEARS\***

**LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Town's proportion of the net pension liability (asset) (%)	0.04754%	0.04640%	0.05280%
Town's proportion of the net pension liability (asset) (\$)	\$ 213,357	\$ (273,641)	\$ 636,444
Town's covered-employee payroll	\$ 2,774,964	\$ 2,723,487	\$ 2,796,230
Town's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	7.69%	( 10.05%)	22.76%
Plan fiduciary net position as a percentage of the total pension liability	98.09%	102.64%	94.35%

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

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

**TOWN OF SELMA, NORTH CAROLINA**

**REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF TOWN OF SELMA'S CONTRIBUTIONS  
LAST THREE FISCAL YEARS**

**LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM**

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	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 205,501	\$ 199,781	\$ 196,502
Contributions in relation to the contractually required contribution	205,501	199,781	196,502
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Town's covered-employee payroll	\$ 2,971,719	\$ 2,774,964	\$ 2,723,487
Contributions as a percentage of covered-employee payroll	6.92%	7.20%	7.22%

TOWN OF SELMA, NORTH CAROLINA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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**Method and assumptions used in calculations of actuarially determined contributions:** The actuarially determined contribution rates in the schedule of contributions are calculated as of December 31, one year prior to the end of the fiscal year in which contributions are reported. The following actuarial methods and assumptions were used to determine the contractually required contributions for year ended June 30, 2016 reported in that schedule:

Valuation date	December 31, 2014
Actuarial cost method	Frozen Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	9 years
Asset valuation method	20% of market value plus 80% of expected actuarial value (not greater than 120% of market value and not less than 80% of market value)
Inflation rate	3.00%
Salary increases	4.25 – 8.55%, including inflation
Investment rate of return	7.25%, net of pension plan investment expense, including inflation



## **NONMAJOR GOVERNMENTAL FUNDS**

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### **Special Revenue Funds**

**Small Business Revolving Loan Fund** – To account for the financial resources to be used for the initiation and collection of small business loans within the Town.

**ESA Solar Farm Interconnection Fund** – To account for the resources accumulated and payments made for the construction of a solar farm within the Town which is funded with contributions externally restricted for the project.

### **Capital Projects Fund**

**CDBG Project Fund** – To account for the financial resources to be used for improvements which are funded primarily through federal grants.

**TOWN OF SELMA, NORTH CAROLINA**

**COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2016**

<b>ASSETS</b>	<b>Special Revenue Funds</b>		<b>Capital Project Fund</b>	<b>Total Nonmajor Governmental Funds</b>
	<b>Small Business Revolving Loan Fund</b>	<b>ESA Solar Farm Interconnection Fund</b>	<b>CDBG Project Fund</b>	
Accounts receivable	\$ 21,842	\$ 6	\$ -	\$ 21,848
Restricted cash and cash equivalents	23,467	-	-	23,467
<b>Total assets</b>	<b>\$ 45,309</b>	<b>\$ 6</b>	<b>\$ -</b>	<b>\$ 45,315</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts payable	\$ -	\$ -	\$ 7	\$ 7
Due to other funds	-	-	217	217
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>224</b>	<b>224</b>
<b>FUND BALANCES</b>				
Restricted for economic development	45,309	6	-	45,315
Unassigned	-	-	(224)	(224)
<b>Total fund balances (deficit)</b>	<b>45,309</b>	<b>6</b>	<b>(224)</b>	<b>45,091</b>
<b>Total liabilities and fund balances</b>	<b>\$ 45,309</b>	<b>\$ 6</b>	<b>\$ -</b>	<b>\$ 45,315</b>

**TOWN OF SELMA, NORTH CAROLINA**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Special Revenue Funds</u>		<u>Capital Projects Fund</u>	<u>Total Nonmajor Governmental Funds</u>
	<u>Small Business Revolving Loan Fund</u>	<u>ESA Solar Farm Interconnection Fund</u>	<u>CDBG Project Fund</u>	
<b>REVENUES</b>				
Charges for services	\$ 90	\$ -	\$ -	\$ 90
Interest income	66	-	-	66
Total revenues	<u>156</u>	<u>-</u>	<u>-</u>	<u>156</u>
<b>EXPENDITURES</b>				
Current				
Economic development	35,000	51,990	-	86,990
Capital outlay	-	-	224	224
Total expenditures	<u>35,000</u>	<u>51,990</u>	<u>224</u>	<u>87,214</u>
Net change in fund balances	(34,844)	(51,990)	(224)	(87,058)
<b>FUND BALANCES, beginning of year</b>	<u>80,153</u>	<u>51,996</u>	<u>-</u>	<u>132,149</u>
<b>FUND BALANCES (DEFICIT), end of year</b>	<u>\$ 45,309</u>	<u>\$ 6</u>	<u>\$ (224)</u>	<u>\$ 45,091</u>

**TOWN OF SELMA, NORTH CAROLINA**

**GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES - BUDGET AND ACTUAL (BUDGETARY BASIS)  
FOR THE YEAR ENDED JUNE 30, 2016**

	Budget		Actual	Variance With Final Budget
	Original	Final		
<b>Revenues</b>				
Ad valorem taxes:				
Current year	\$ 2,144,078	\$ 2,204,078	\$ 2,268,274	\$ 64,196
Prior year	10,000	10,000	5,937	(4,063)
Penalties and interest	5,000	5,000	8,587	3,587
Total ad valorem taxes	2,159,078	2,219,078	2,282,798	63,720
Other taxes and licenses:				
Local option sales taxes	700,000	700,000	867,948	167,948
Animal licenses	25	25	22	(3)
Total other taxes and licenses	700,025	700,025	867,970	167,945
Unrestricted intergovernmental:				
Local occupancy taxes	85,000	99,000	104,413	5,413
Payments in lieu of taxes (external sources)	17,000	17,000	25,584	8,584
Telecommunications sales tax	58,000	58,000	36,972	(21,028)
Fire district tax	145,000	145,000	149,682	4,682
Utilities sales tax	260,000	260,000	356,730	96,730
Piped natural gas sales tax	9,000	9,000	(16,600)	(25,600)
Video franchise fee	34,000	34,000	19,347	(14,653)
Beer and wine tax	25,000	25,000	27,186	2,186
ABC profit distribution	25,000	25,000	30,692	5,692
Total unrestricted intergovernmental	658,000	672,000	734,006	62,006
Restricted intergovernmental:				
Powell Bill allocation	165,000	165,000	166,691	1,691
Controlled substance tax	-	97	33,109	33,012
On-behalf of payments - Fire and Rescue	-	-	261	261
Local grants	5,000	5,000	5,294	294
State grants	12,000	12,000	-	(12,000)
Solid waste disposal tax	4,000	4,000	3,926	(74)
Total restricted intergovernmental	186,000	186,097	209,281	23,184
Permits and fees:				
Building permits	3,000	3,000	19,330	16,330
Inspection fees	10,500	12,850	9,820	(3,030)
Total permits and fees	13,500	15,850	29,150	13,300
Sales and service:				
Cemetery fees	155,345	155,345	140,838	(14,507)
Recreation fees	55,500	59,193	65,914	6,721
Refuse charges	650,000	650,000	666,782	16,782
Rents	15,841	15,841	15,600	(241)
Other fees	5,001	5,001	5,507	506
Total sales and service	881,687	885,380	894,641	9,261
Investment earnings	8,100	8,110	9,982	1,872
Miscellaneous	22,600	105,385	126,914	21,529
Total revenues	4,628,990	4,791,925	5,154,742	362,817

*continued*

**TOWN OF SELMA, NORTH CAROLINA**

**GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES - BUDGET AND ACTUAL (BUDGETARY BASIS)  
FOR THE YEAR ENDED JUNE 30, 2016**

	Budget		Actual	Variance With Final Budget
	Original	Final		
<b>Expenditures</b>				
<b>Current:</b>				
<b>General government:</b>				
Governing body:				
Salaries and employee benefits	26,384	22,384	18,958	3,426
Professional services	7,500	10,400	9,605	795
Departmental supplies	1,500	2,130	1,927	203
Other operating expenditures	14,860	16,160	13,730	2,430
Total	50,244	51,074	44,220	6,854
Administration:				
Salaries and employee benefits	236,080	274,080	245,839	28,241
Professional services	14,000	13,200	9,505	3,695
Departmental supplies	12,800	12,800	9,765	3,035
Other operating expenditures	42,200	48,360	39,829	8,531
Repairs and maintenance	500	500	59	441
Total	305,580	348,940	304,997	43,943
Finance:				
Salaries and employee benefits	42,736	41,736	41,826	(90)
Professional services	66,250	79,220	75,501	3,719
Departmental supplies	3,000	1,970	1,935	35
Other operating expenditures	8,600	7,180	6,454	726
Total	120,586	130,106	125,716	4,390
Public Buildings:				
Professional services	56,000	64,500	56,328	8,172
Departmental supplies	1,000	1,000	1,463	(463)
Other operating expenditures	186,701	180,701	176,922	3,779
Capital outlay	400,000	440,330	480,340	(40,010)
Repairs and maintenance	3,500	5,922	5,370	552
Total	647,201	692,453	720,423	(27,970)
Nonprofit Organization Support:				
Other operating expenditures	8,925	8,925	5,204	3,721
Total	8,925	8,925	5,204	3,721
Planning and Economic Development:				
Salaries and employee benefits	69,920	73,570	74,459	(889)
Professional services	15,000	36,700	32,748	3,952
Departmental supplies	3,500	3,500	2,826	674
Other operating expenditures	127,300	135,060	120,149	14,911
Repairs and maintenance	1,500	1,500	22	1,478
Total	217,220	250,330	230,204	20,126
Total general government	1,349,756	1,481,828	1,430,764	51,064

*continued*

**TOWN OF SELMA, NORTH CAROLINA**

**GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES - BUDGET AND ACTUAL (BUDGETARY BASIS)  
FOR THE YEAR ENDED JUNE 30, 2016**

	Budget		Actual	Variance With Final Budget
	Original	Final		
<b>Public Safety:</b>				
Police:				
Salaries and employee benefits	1,550,833	1,550,833	1,527,274	23,559
Professional services	16,000	16,000	10,107	5,893
Departmental supplies	24,300	25,900	22,427	3,473
Other operating expenditures	89,400	90,300	71,205	19,095
Capital outlay	45,000	45,000	29,832	15,168
Repairs and maintenance	27,500	35,752	26,635	9,117
Total	1,753,033	1,763,785	1,687,480	76,305
Fire Department:				
Salaries and employee benefits	335,366	328,366	324,488	3,878
Professional services	5,400	6,400	6,851	(451)
Departmental supplies	55,000	56,650	42,029	14,621
Other operating expenditures	19,480	19,280	13,961	5,319
Repairs and maintenance	49,550	56,550	53,314	3,236
Total	464,796	467,246	440,643	26,603
Total public safety	2,217,829	2,231,031	2,128,123	102,908
<b>Transportation:</b>				
Powell Bill:				
Departmental supplies	5,000	5,000	3,948	1,052
Capital outlay	271,000	271,000	46,053	224,947
Repairs and maintenance	17,000	17,000	5,470	11,530
Total	293,000	293,000	55,471	237,529
Public Works:				
Salaries and employee benefits	287,110	297,110	292,260	4,850
Professional services	544,000	561,500	555,678	5,822
Departmental supplies	30,600	27,700	21,577	6,123
Other operating expenditures	39,725	30,156	22,262	7,894
Repairs and maintenance	24,000	29,550	26,897	2,653
Capital outlay	26,500	27,152	27,152	-
Total	951,935	973,168	945,826	27,342
Total transportation	1,244,935	1,266,168	1,001,297	264,871
<b>Cemetery:</b>				
Salaries and employee benefits	101,638	105,638	102,166	3,472
Professional services	4,000	9,079	8,490	589
Departmental supplies	11,400	11,100	7,070	4,030
Other operating expenditures	5,550	5,550	2,704	2,846
Capital outlay	17,500	10,077	-	10,077
Repairs and maintenance	4,000	4,000	1,509	2,491
Total	144,088	145,444	121,939	23,505
<b>Culture and Recreation:</b>				
Recreation:				
Salaries and employee benefits	209,470	207,770	192,582	15,188
Professional services	2,500	4,937	4,477	460
Departmental supplies	38,500	44,324	40,180	4,144
Other operating expenditures	74,250	77,749	54,135	23,614
Capital outlay	19,000	19,000	18,104	896
Repairs and maintenance	14,500	85,015	80,506	4,509
Total	358,220	438,795	389,984	48,811

*continued*

**TOWN OF SELMA, NORTH CAROLINA**

**GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES - BUDGET AND ACTUAL (BUDGETARY BASIS)  
FOR THE YEAR ENDED JUNE 30, 2016**

	Budget		Actual	Variance With Final Budget
	Original	Final		
Library:				
Salaries and employee benefits	118,836	118,836	112,956	5,880
Professional services	1,000	1,393	1,017	376
Departmental supplies	38,500	37,815	34,827	2,988
Other operating expenditures	6,000	5,700	4,054	1,646
Repairs and maintenance	4,000	5,792	5,792	-
Total	<u>168,336</u>	<u>169,536</u>	<u>158,646</u>	<u>10,890</u>
Total culture and recreation	<u>526,556</u>	<u>608,331</u>	<u>548,630</u>	<u>59,701</u>
<b>Debt Service:</b>				
Principal	135,610	134,026	155,436	(21,410)
Interest	64,444	66,029	64,440	1,589
Total expenditures	<u>5,683,218</u>	<u>5,932,857</u>	<u>5,450,629</u>	<u>482,228</u>
Excess (deficiency) of revenues over expenditures	<u>(1,054,228)</u>	<u>(1,140,932)</u>	<u>(295,887)</u>	<u>845,045</u>
<b>Other financing sources</b>				
Fund balance appropriation	311,378	398,082	-	(398,082)
Transfers in	342,850	342,850	175,000	(167,850)
Proceeds from note payable	400,000	400,000	460,000	60,000
Total other financing sources	<u>1,054,228</u>	<u>1,140,932</u>	<u>635,000</u>	<u>(505,932)</u>
Net change in fund balances	-	-	339,113	339,113
<b>Fund balance, beginning of year</b>	<u>3,415,229</u>	<u>3,415,229</u>	<u>3,415,229</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u>\$ 3,415,229</u>	<u>\$ 3,415,229</u>	<u>\$ 3,754,342</u>	<u>\$ 339,113</u>

**TOWN OF SELMA, NORTH CAROLINA**  
**FIRE PROTECTION - SELMA PETROLIUM TERMINALS FUND**

**SCHEDULE OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (NON-GAAP BASIS)**  
**FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Budget</u>		<u>Actual</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Interest	\$ 60	\$ 60	\$ 126	\$ 66
Miscellaneous	9,000	35,500	37,001	1,501
Total revenues	<u>9,060</u>	<u>35,560</u>	<u>37,127</u>	<u>1,567</u>
<b>EXPENDITURES</b>				
Public safety	<u>33,779</u>	<u>60,279</u>	<u>6,458</u>	<u>53,821</u>
Excess (deficiency) of revenues over expenditures	(24,719)	(24,719)	30,669	55,388
<b>OTHER FINANCING SOURCES</b>				
Fund balance appropriations	<u>24,719</u>	<u>24,719</u>	<u>-</u>	<u>(24,719)</u>
Net change in fund balances	-	-	30,669	30,669
<b>FUND BALANCE, beginning of year</b>	<u>89,043</u>	<u>89,043</u>	<u>89,043</u>	<u>-</u>
<b>FUND BALANCE, end of year</b>	<u><u>\$ 89,043</u></u>	<u><u>\$ 89,043</u></u>	<u><u>\$ 119,712</u></u>	<u><u>\$ 30,669</u></u>



**TOWN OF SELMA, NORTH CAROLINA  
SMALL BUSINESS REVOLVING LOAN FUND**

**SCHEDULE OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (NON-GAAP BASIS)  
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Budget</u>		<u>Actual</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Charges for services	\$ 4,030	\$ 4,030	\$ 90	\$ (3,940)
Interest	16	16	66	50
Total revenues	<u>4,046</u>	<u>4,046</u>	<u>156</u>	<u>(3,890)</u>
<b>EXPENDITURES</b>				
Economic development	<u>20,000</u>	<u>20,000</u>	<u>35,000</u>	<u>(15,000)</u>
Deficiency of revenues over expenditures	(15,954)	(15,954)	(34,844)	(18,890)
<b>OTHER FINANCING SOURCES</b>				
Fund balance appropriations	<u>15,954</u>	<u>15,954</u>	<u>-</u>	<u>(15,954)</u>
Net change in fund balances	-	-	(34,844)	(34,844)
<b>FUND BALANCE, beginning of year</b>	<u>80,153</u>	<u>80,153</u>	<u>80,153</u>	<u>-</u>
<b>FUND BALANCE, end of year</b>	<u>\$ 80,153</u>	<u>\$ 80,153</u>	<u>\$ 45,309</u>	<u>\$ (34,844)</u>

**TOWN OF SELMA, NORTH CAROLINA  
ESA SOLAR FARM INTERCONNECTION FUND**

**SCHEDULE OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (NON-GAAP BASIS)  
PROJECT LIFE AS OF JUNE 30, 2016**

	Project	Actual		
	Budget	Prior Years	Current Year	Total
<b>REVENUES</b>				
Contributions	\$ 158,309	\$ 158,309	\$ -	\$ 158,309
Total revenues	158,309	158,309	-	158,309
<b>EXPENDITURES</b>				
Economic development	158,309	106,313	51,990	158,303
Net change in fund balances	-	51,996	(51,990)	6
<b>FUND BALANCE, beginning of year</b>	-	-	51,996	-
<b>FUND BALANCE, end of year</b>	\$ -	\$ 51,996	\$ 6	\$ 6

**TOWN OF SELMA, NORTH CAROLINA  
WATER FUND**

**SCHEDULE OF REVENUES, EXPENDITURES,  
AND CHANGES IN NET POSITION - BUDGET AND ACTUAL (NON-GAAP BASIS)  
FOR THE YEAR ENDED JUNE 30, 2016**

	Budget		Actual	Variance With Final Budget
	Original	Final		
<b>REVENUES</b>				
Operating revenues				
Water charges	\$ 1,090,000	\$ 1,090,000	\$ 1,110,802	\$ 20,802
Penalties	85,000	85,000	76,284	(8,716)
Other operating revenues	110,418	110,668	38,834	(71,834)
Nonoperating revenues - interest	2,750	2,750	3,792	1,042
Total revenues	<u>1,288,168</u>	<u>1,288,418</u>	<u>1,229,712</u>	<u>(58,706)</u>
<b>EXPENDITURES</b>				
Water administration				
Salaries and benefits	299,080	299,080	257,654	41,426
Professional services	64,500	68,450	48,488	19,962
Utilities	62,000	62,650	59,158	3,492
Insurance	67,500	60,900	54,426	6,474
Other operating expenditures	18,400	47,050	26,921	20,129
Total water administration	<u>511,480</u>	<u>538,130</u>	<u>446,647</u>	<u>91,483</u>
Water operations				
Salaries and benefits	334,400	329,400	294,251	35,149
Department supplies	14,277	15,477	11,543	3,934
Chemicals	50,000	53,000	46,052	6,948
Maintenance and repairs	77,000	49,800	99,765	(49,965)
Contract services	62,500	62,500	60,271	2,229
Purchase for resale	78,000	84,000	91,060	(7,060)
Other operating expenditures	115,500	137,500	18,232	119,268
Total water operations	<u>731,677</u>	<u>731,677</u>	<u>621,174</u>	<u>110,503</u>

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**TOWN OF SELMA, NORTH CAROLINA  
WATER FUND**

**SCHEDULE OF REVENUES, EXPENDITURES,  
AND CHANGES IN NET POSITION - BUDGET AND ACTUAL (NON-GAAP BASIS)  
FOR THE YEAR ENDED JUNE 30, 2016**

	Budget		Actual	Variance With Final Budget
	Original	Final		
Debt service				
Principal	19,731	19,731	19,731	-
Interest	25,280	28,685	25,261	3,424
Total debt service	<u>45,011</u>	<u>48,416</u>	<u>44,992</u>	<u>3,424</u>
Total expenditures	<u>1,288,168</u>	<u>1,318,223</u>	<u>1,112,813</u>	<u>205,410</u>
Excess (deficiency) of revenues over expenditures	-	(29,805)	116,899	146,704
<b>OTHER FINANCING SOURCES</b>				
Budgeted use of net position	<u>-</u>	<u>179,805</u>	<u>-</u>	<u>(179,805)</u>
Net change in net position	<u>\$ -</u>	<u>\$ 150,000</u>	116,899	<u>\$ (33,101)</u>
Adjustments to full accrual:				
Capital outlays			823	
Payments of debt service - principal			19,731	
Increase in compensated absences			(2,948)	
Increase in OPEB obligation			(46,831)	
Decrease in net pension liability and related pension items			17,569	
Loss on disposal of capital assets			(6,766)	
Depreciation expense			(260,903)	
Water Capital Reserve Fund			222	
Change in net position			<u>\$ (162,204)</u>	

**TOWN OF SELMA, NORTH CAROLINA  
WATER CAPITAL RESERVE FUND**

**SCHEDULE OF REVENUES, EXPENDITURES,  
AND CHANGES IN NET POSITION - BUDGET AND ACTUAL (NON-GAAP BASIS)  
FOR THE YEAR ENDED JUNE 30, 2016**

	Budget		Actual	Variance With Final Budget
	Original	Final		
<b>REVENUES</b>				
Interest	\$ 166	\$ 272	\$ 222	\$ (50)
<b>OTHER FINANCING SOURCES (USES)</b>				
Increase to net position	(41,166)	(41,272)	-	41,272
Transfer in	41,000	41,000	-	(41,000)
Total other financing sources (uses)	(166)	(272)	-	272
Net change in net position	\$ -	\$ -	\$ 222	\$ 222

**TOWN OF SELMA, NORTH CAROLINA  
SEWER FUND**

**SCHEDULE OF REVENUES, EXPENDITURES,  
AND CHANGES IN NET POSITION - BUDGET AND ACTUAL (NON-GAAP BASIS)  
FOR THE YEAR ENDED JUNE 30, 2016**

	Budget		Actual	Variance With Final Budget
	Original	Final		
<b>REVENUES</b>				
Operating revenues				
Sewer charges	\$ 2,170,000	\$ 2,171,967	\$ 2,195,675	\$ 23,708
Penalties	85,000	85,000	68,447	(16,553)
Other operating revenues	52,000	52,300	54,791	2,491
Nonoperating revenues - interest	600	600	1,109	509
Total revenues	<u>2,307,600</u>	<u>2,309,867</u>	<u>2,320,022</u>	<u>10,155</u>
<b>EXPENDITURES</b>				
Sewer administration				
Salaries and benefits	238,562	239,178	202,651	36,527
Professional services	63,750	62,059	42,990	19,069
Utilities	54,000	61,000	58,130	2,870
Insurance	39,500	36,800	34,787	2,013
Maintenance and repairs	1,000	1,810	1,715	95
Other operating expenditures	22,573	24,574	485,343	(460,769)
Total sewer administration	<u>419,385</u>	<u>425,421</u>	<u>825,616</u>	<u>(400,195)</u>
Sewer operations				
Salaries and benefits	139,500	140,000	120,991	19,009
Department supplies	6,500	7,000	5,658	1,342
Maintenance and repairs	97,000	88,980	60,702	28,278
Transmission and treatment fees	1,400,000	1,550,000	1,498,174	51,826
Other operating expenditures	50,600	52,600	22,591	30,009
Total sewer operations	<u>1,693,600</u>	<u>1,838,580</u>	<u>1,708,116</u>	<u>130,464</u>

*continued*

**TOWN OF SELMA, NORTH CAROLINA  
SEWER FUND**

**SCHEDULE OF REVENUES, EXPENDITURES,  
AND CHANGES IN NET POSITION - BUDGET AND ACTUAL (NON-GAAP BASIS)  
FOR THE YEAR ENDED JUNE 30, 2016**

	Budget		Actual	Variance With Final Budget
	Original	Final		
Debt service				
Principal	122,000	122,000	26,185	95,815
Interest	31,615	31,615	35,964	(4,349)
Total debt service	<u>153,615</u>	<u>153,615</u>	<u>62,149</u>	<u>91,466</u>
Total expenditures	<u>2,266,600</u>	<u>2,417,616</u>	<u>2,595,881</u>	<u>(178,265)</u>
Excess (deficiency) of revenues over expenditures	41,000	(107,749)	(275,859)	(168,110)
<b>OTHER FINANCING SOURCES (USES)</b>				
Appropriation of net position	-	4,920	-	(4,920)
Transfers in	-	-	840,842	840,842
Transfers out	<u>(41,000)</u>	<u>(45,920)</u>	<u>-</u>	<u>45,920</u>
Net change in net position	<u>\$ -</u>	<u>\$ (148,749)</u>	564,983	<u>\$ 713,732</u>
Adjustments to full accrual:				
Capital outlays			465,877	
Issuance of installment note			(687,000)	
Payments of debt service - principal			26,185	
Increase in compensated absences			(703)	
Increase in accrued interest			4,405	
Decrease in OPEB obligation			(52,939)	
Decrease in net pension liability and related pension items			12,761	
Loss on disposal of capital assets			(12,651)	
Deprecation expense			(285,158)	
Wastewater System Improvements Capital Fund			<u>(167,197)</u>	
Change in net position			<u>\$ (131,437)</u>	

**TOWN OF SELMA, NORTH CAROLINA  
WASTERWATER SYSTEM IMPROVEMENT CAPITAL FUND**

**SCHEDULE OF REVENUES, EXPENDITURES,  
AND CHANGES IN NET POSITION - BUDGET AND ACTUAL (NON-GAAP BASIS)  
FOR THE YEAR ENDED JUNE 30, 2016**

	Budget		Actual	Variance With Final Budget
	Original	Final		
<b>REVENUES</b>				
Contributions	\$ 30,768	\$ -	\$ -	\$ -
<b>EXPENDITURES</b>				
Operations	-	174,060	-	174,060
Administrative	75,000	92,248	13,355	78,893
Total expenditures	75,000	266,308	13,355	252,953
Deficiency of revenues over expenditures	(44,232)	(266,308)	(13,355)	252,953
<b>OTHER FINANCING SOURCES</b>				
Proceeds from loan	44,232	235,540	687,000	451,460
Transfer in	-	30,768	-	(30,768)
Transfer out	-	-	(840,842)	(840,842)
Total other financing sources	44,232	266,308	(153,842)	(420,150)
Net change in net position	\$ -	\$ -	\$ (167,197)	\$ (167,197)



**TOWN OF SELMA, NORTH CAROLINA  
ELECTRIC FUND**

**SCHEDULE OF REVENUES, EXPENDITURES,  
AND CHANGES IN NET POSITION - BUDGET AND ACTUAL (NON-GAAP BASIS)  
FOR THE YEAR ENDED JUNE 30, 2016**

	Budget		Actual	Variance With Final Budget
	Original	Final		
<b>REVENUES</b>				
Operating revenues				
Electric charges	\$ 8,400,000	\$ 8,400,000	\$ 6,818,289	\$ (1,581,711)
Other operating revenues	688,800	689,050	609,481	(79,569)
Nonoperating revenues - interest	1,500	1,500	2,339	839
Total revenues	<u>9,090,300</u>	<u>9,090,550</u>	<u>7,430,109</u>	<u>(1,660,441)</u>
<b>EXPENDITURES</b>				
Electric administration				
Salaries and benefits	466,965	452,010	415,108	36,902
Contracted services	22,750	17,550	15,371	2,179
Utilities	7,000	7,500	7,236	264
Insurance	18,000	18,260	18,259	1
Other operating expenditures	106,116	136,311	100,418	35,893
Total electric administration	<u>620,831</u>	<u>631,631</u>	<u>556,392</u>	<u>75,239</u>
Electric operations				
Salaries and benefits	310,560	317,460	304,935	12,525
Department supplies	73,500	72,000	47,752	24,248
Maintenance and repairs	7,000	11,000	57,590	(46,590)
Purchases for inventory	129,000	129,000	118,859	10,141
Contracted services	64,000	64,000	37,293	26,707
Other operating expenditures	137,600	117,550	56,384	61,166
Total electric operations	<u>721,660</u>	<u>711,010</u>	<u>622,813</u>	<u>88,197</u>
Electric power purchases	<u>7,138,918</u>	<u>7,138,918</u>	<u>5,864,206</u>	<u>1,274,712</u>

*continued*

**TOWN OF SELMA, NORTH CAROLINA  
ELECTRIC FUND**

**SCHEDULE OF REVENUES, EXPENDITURES,  
AND CHANGES IN NET POSITION - BUDGET AND ACTUAL (NON-GAAP BASIS)  
FOR THE YEAR ENDED JUNE 30, 2016**

	Budget		Actual	Variance With Final Budget
	Original	Final		
Debt service				
Principal	241,669	241,893	241,668	225
Interest	57,222	56,998	53,618	3,380
Total debt service	<u>298,891</u>	<u>298,891</u>	<u>295,286</u>	<u>3,605</u>
Total expenditures	<u>8,780,300</u>	<u>8,780,450</u>	<u>7,338,697</u>	<u>1,441,753</u>
Excess (deficiency) of revenues over expenditures	310,000	310,100	91,412	(218,688)
<b>OTHER FINANCING USES</b>				
Transfers out	<u>(310,000)</u>	<u>(310,000)</u>	<u>(310,000)</u>	<u>-</u>
Total other financing uses	<u>(310,000)</u>	<u>(310,000)</u>	<u>(310,000)</u>	<u>-</u>
Net change in net position	<u>\$ -</u>	<u>\$ 100</u>	(218,588)	<u>\$ (218,688)</u>
Adjustments to full accrual:				
Capital outlays			48,025	
Payments of debt service - principal			241,667	
Increase in compensated absences			(1,507)	
Increase in OPEB obligation			(57,772)	
Decrease in net pension liability and related pension items			14,685	
Deprecation expense			(500,402)	
Wastewater System Improvements Capital Fund			<u>135,198</u>	
Change in net position			<u>\$ (338,694)</u>	

**TOWN OF SELMA, NORTH CAROLINA  
ELECTRIC CAPITAL RESERVE FUND**

**SCHEDULE OF REVENUES, EXPENDITURES,  
AND CHANGES IN NET POSITION - BUDGET AND ACTUAL (NON-GAAP BASIS)  
FOR THE YEAR ENDED JUNE 30, 2016**

	Budget		Actual	Variance With Final Budget
	Original	Final		
<b>REVENUES</b>				
Interest	\$ 155	\$ 235	\$ 198	\$ (37)
<b>OTHER FINANCING SOURCES (USES)</b>				
Reserve for capital projects	(135,155)	(135,235)	-	135,235
Transfer in	135,000	135,000	135,000	-
Total other financing sources (uses)	(155)	(235)	135,000	135,235
Net change in net position	\$ -	\$ -	\$ 135,198	\$ 135,198

**TOWN OF SELMA, NORTH CAROLINA**

**SCHEDULE OF AD VALOREM TAXES RECEIVABLE  
JUNE 30, 2016**

Fiscal Year	Uncollected Balance June 30, 2015	Additions	Collections And Credits	Uncollected Balance June 30, 2016
2015-2016	\$ -	\$ 2,274,233	\$ 2,266,976	\$ 7,257
2014-2015	7,877	-	5,826	2,051
2013-2014	2,705	-	395	2,310
2012-2013	3,311	-	197	3,114
2011-2012	3,645	-	382	3,263
2010-2011	3,116	-	180	2,936
2009-2010	4,541	-	195	4,346
2008-2009	3,933	-	60	3,873
2007-2008	302	-	-	302
2006-2007	294	-	-	294
2005-2006	263	-	-	263
	<u>\$ 29,987</u>	<u>\$ 2,274,233</u>	<u>\$ 2,274,211</u>	<u>30,009</u>
Less: allowance for uncollectible accounts:				
General Fund				<u>25,248</u>
Ad valorem taxes receivable - net				<u>\$ 4,761</u>
<u>Reconciliation to revenues:</u>				
Ad valorem taxes - General Fund				\$ 2,282,798
Reconciling items:				
Interest collected				<u>(8,587)</u>
Total collections and credits				<u>\$ 2,274,211</u>

**TOWN OF SELMA, NORTH CAROLINA**

**ANALYSIS OF CURRENT TAX LEVY  
TOWN-WIDE LEVY  
JUNE 30, 2016**

	Town - Wide			Total Levy	
	Property Valuation	Rate	Total Levy	Property excluding Registered Motor Vehicles	Registered Motor Vehicles
	Original levy:				
Property taxed at current rate	\$ 407,911,553	0.51	\$ 2,080,349	\$ 2,080,349	\$ 148,635
Penalties	-		1,619	-	-
Total	<u>407,911,553</u>		<u>2,081,968</u>	<u>2,080,349</u>	<u>148,635</u>
Discoveries:					
Current year taxes	442,805	0.51	2,163	2,163	-
Prior year taxes	9,061,757	0.51	46,547	46,547	-
Penalties	-		11,024	-	-
Total	<u>9,504,562</u>		<u>59,734</u>	<u>48,710</u>	<u>-</u>
Abatements	(678,669)		(3,461)	(3,461)	-
Total property valuation	<u>\$ 416,737,446</u>				
Net levy			2,274,233	2,125,598	148,635
Uncollected taxes at June 30, 2016			(7,257)	(7,257)	-
Current year's taxes collected			<u>\$ 2,266,976</u>	<u>\$ 2,118,341</u>	<u>\$ 148,635</u>
Current levy collection percentage			<u>99.68%</u>	<u>99.66%</u>	<u>100.00%</u>

## **COMPLIANCE SECTION**

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

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**To the Honorable Mayor and Members  
of Town Council  
Town of Selma, North Carolina**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Selma, North Carolina (the "Town") as of and for the year ended June 30, 2016, and the related notes to the financial statements which collectively comprise the Town's basic financial statements, and have issued our report thereon dated November 26, 2016.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Town'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 Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town'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 entity'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 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses, as items 2016-001, 2016-002, 2016-003, 2016-004, 2016-005, and 2016-006, that we consider to be material weaknesses.

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### **Compliance and Other Matters**

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

### **The Town of Selma, North Carolina's Responses to Findings**

The Town's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Town's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### **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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Atlanta, Georgia  
November 26, 2016



**TOWN OF SELMA, NORTH CAROLINA**

**SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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**SECTION I  
SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

Material weaknesses identified?

yes  no

Significant deficiencies identified?

yes  none reported

Noncompliance material to financial statements noted?

yes  no

**Federal Awards**

There was not an audit of major federal award programs for the year ended June 30, 2016 due to the total amount expended being less than \$750,000.

**State Awards**

There was not an audit of major state award programs for the year ended June 30, 2016 due to the total amount expended being less than \$500,000.

# TOWN OF SELMA, NORTH CAROLINA

## SCHEDULE OF FINDINGS AND RESPONSES FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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### SECTION II FINANCIAL STATEMENT FINDINGS AND RESPONSES

#### 2016-001 Revenue Recognition

**Criteria:** Internal controls should be in place to ensure that amounts reported as revenues and related balance sheet accounts are appropriate, are properly valued, and are recorded in the proper period in accordance with generally accepted accounting principles.

**Condition:** Internal controls were not sufficient to detect misstatements in the reporting of the Town's revenues and related balance sheet accounts.

**Context/Cause:** During our testing, audit adjustments were required to properly report the Town's revenues and related balance sheet accounts. The nature of these adjustments is as follows:

- An adjustment to the General Fund of approximately \$40,000 to remove transfer revenues for cash which was transferred between two of the Town's cash accounts. When cash is moved within the Town's bank accounts, revenues and expenditures should not be recognized.
- An adjustment to the General Fund of approximately \$219,000 to remove the prior year sales tax receivables and record the current year sales tax receivables from the State.
- Adjustments of approximately \$13,000 were needed to adjust the Water Fund's utility receivables and related allowance calculations to agree with the Town's subsidiary ledgers.
- Adjustments of approximately \$18,000 were needed to adjust the Sewer Fund's utility receivables and related allowance calculations to agree with the Town's subsidiary ledgers.
- Adjustments of approximately \$173,000 were needed to adjust the Electric Fund's utility receivables and related allowance calculations to agree with the Town's subsidiary ledgers.

**Effects:** Total misstatements related to revenue recognition and reporting of the related balance sheet accounts were approximately \$463,000 for the year ended June 30, 2016.

**Recommendation:** We recommend the Town carefully review all revenues to ensure they are reported in the proper reporting period and in accordance with generally accepted accounting principles.

**Auditee's Response:** We will take necessary steps in the future to ensure that revenues and related balance sheet accounts are properly recorded.

# TOWN OF SELMA, NORTH CAROLINA

## SCHEDULE OF FINDINGS AND RESPONSES FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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### SECTION II FINANCIAL STATEMENT FINDINGS AND RESPONSES (CONTINUED)

#### 2016-002 Expenditure/Expense Recognition

**Criteria:** Generally, expenditures/expenses should be recognized as soon as a liability is incurred, regardless of the timing of the related cash flows in accordance with generally accepted accounting principles.

**Condition:** Misstatements were detected in the reporting of the Town's expenditures/expenses and the related balance sheet accounts.

**Context/Cause:** During our testing, audit adjustments were required to properly report the Town's expenditures/expenses and related balance sheet accounts. The nature of these adjustments is as follows:

- During our testing of the accrued wages payable, an adjustment was required to adjust the balance which was originally unadjusted from the prior year. An adjustment to the General Fund of approximately \$29,000 was required to increase the liability and increase the fund expenditures.
- During our testing of the activity in the Small Business Revolving Loan Fund adjustments of \$20,000 and \$35,000 were required to report the receivable for current year loans which were originally expended in the fund, and to record an allowance for old receivable balances which the Town Council has deemed uncollectible. The net effect of the two entries was to increase the fund expenditures by \$15,000.
- During our testing of the accrued liability balances, adjustments of approximately \$105,000 and \$577,000 were required to accrue liabilities and the related expenses which were incurred prior to June 30, 2016. The adjustments were reported in the Sewer Fund and the Electric Fund, respectively.

**Effects:** Audit adjustments totaling approximately \$766,000 were needed to correct the Town's expenditures/expenses and related balance sheet accounts.

**Recommendation:** We recommend the Town ensure all expenditures/expenses are properly reported in accordance with generally accepted accounting principles.

**Auditee's Response:** We concur with the finding and are currently implementing controls to ensure these year-end adjustments are considered and reflected in the general ledger, as appropriate.

# TOWN OF SELMA, NORTH CAROLINA

## SCHEDULE OF FINDINGS AND RESPONSES FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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### SECTION II FINANCIAL STATEMENT FINDINGS AND RESPONSES (CONTINUED)

#### 2016-003 Capital Asset Reporting

**Criteria:** Internal controls should be in place to ensure the subsidiary ledgers for the Town's capital assets, both governmental and business-type activities, include all capital assets purchased or constructed during the fiscal year. Additionally, subsidiary ledgers should be maintained to track the capital assets by cost and calculate annual depreciation amounts for the capital assets.

**Condition:** Material misstatements were detected in the reporting of the current year additions to the Town's capital asset balances.

**Context/Cause:** During our testing of the Town's capital assets, we noted certain adjustments were required to correct the reporting of the Town's capital assets. The nature of these adjustments are as follows:

- Adjustments totaling approximately \$9,000 were required to record capital assets of the Electric Fund which were being expensed. The outlays were for capital purchases which met the Town's capitalization policy and should have been capitalized.
- Adjustments totaling approximately \$145,000 were required to record capital assets of the Sewer Fund which were being expensed. The outlays were for capital outlays related to a sewer improvement project which met the Town's capitalization policy and should have been capitalized.
- Adjustments totaling approximately \$513,000 were required to record capital assets of the Governmental Activities which were being expensed. The outlays were for capital purchases and the Town Hall renovations which met the Town's capitalization policy and should have been capitalized.

**Effects:** Audit adjustments of approximately \$667,000 were needed to correctly report capital asset balances for the Town's capital assets.

**Recommendation:** We recommend the Town carefully review expenditures/expenses which are reported during the fiscal year as well as throughout the fiscal year-end close-out process to ensure the capital assets are properly reported.

**Auditee's Response:** We concur with the finding. We will take necessary steps in the future to ensure capital assets are properly capitalized.

# TOWN OF SELMA, NORTH CAROLINA

## SCHEDULE OF FINDINGS AND RESPONSES FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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### SECTION II FINANCIAL STATEMENT FINDINGS AND RESPONSES (CONTINUED)

#### 2016-004 General Ledger Maintenance

**Criteria:** Internal controls should be in place to ensure that financial statements properly present the financial position and results of the Town in accordance with generally accepted accounting principles.

**Condition:** The Town's reviews and manual adjustments were not sufficient to detect, correct, and prevent errors in the reporting of several general ledger accounts.

**Context/Cause:** During our audit for the year ended June 30, 2016, several misstatements were identified which were generated from the operation of the Town's general ledger software. There were several adjustments required as a result of the audit to correct misstatements, and they are as follows:

- Adjustments were required in the General Fund to record the full amount of the proceeds from the installment notes entered into by the Town during the current year. Adjustments of approximately \$74,000 were required to report the proceeds and capital outlays or cash for the proceeds from financing arrangements entered into by the Town.
- An adjustment of approximately \$26,000 was required to remove a manual journal entry which was incorrectly entered as actual expenditures rather than an adjustment to the budget in the Water Fund.
- Adjustments were required in the Water Fund, the Sewer Fund, and the Electric Fund in order to account for the issuance and repayment of long-term liabilities and the purchase of capital assets in accordance with full accrual accounting principles. Adjustments of approximately \$21,000, \$851,000, and \$324,000, respectively, were needed to report the issuance and repayment of long-term liabilities on the balance sheets of the respective funds.

**Effects:** Audit adjustments of approximately \$1,296,000 were needed to correctly report general ledger balances in accordance with generally accepted accounting principles.

**Recommendation:** We recommend the Town carefully review the financial statements and the underlying transactions involved in the reporting of the Town's subsidiary ledgers, as well as the accruals of expenditures/expenses. The utility funds should be maintained on a full accrual basis of accounting in accordance with GAAP.

**Auditee's Response:** We will take necessary steps in the future to the financial statements properly present the financial position and results of the Town, in accordance with generally accepted accounting principles.

# TOWN OF SELMA, NORTH CAROLINA

## SCHEDULE OF FINDINGS AND RESPONSES FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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### SECTION II FINANCIAL STATEMENT FINDINGS AND RESPONSES (CONTINUED)

#### 2016-005 Cash Reporting

**Criteria:** Internal controls should be in place to ensure the Town's cash activity is reported in the proper period and cash cut-off should be effective at the end of each period.

**Condition:** Material misstatements were detected in the reporting of the current year cash balances.

**Context/Cause:** During our testing of the Town's cash accounts, we noted certain adjustments were required to correct the reporting of the Town's cash balances. The nature of these adjustments are as follows:

- An adjustment totaling approximately \$30,000 was required to increase cash for items noted on the June 30, 2016 bank reconciliation which occurred subsequent to June 30, 2016. The monthly reconciliations should be performed as of the end of each month (i.e., effective the last day of the month) and should not include as reconciling items activity which has occurred between the last day of the month and the date of the actual performance of the reconciliation.
- Adjustments totaling \$100,000 were required to reduce the cash in the Water Fund and increase cash in the Sewer Fund for manual entries which were posted directly into the respective funds to show the movement of the funds for the annual repayment of the advance between the two funds. However, as the repayment occurred within the pooled cash accounts, the manual entry duplicated the transfer and overstated the effect of the transfer.
- An adjustment of approximately \$297,000 was required in the Sewer Fund to report the construction cash account established by the Town through the issuance of the 2016 installment note with a local financial institution for the sewer improvement projects. The note proceeds and restricted cash account were not originally reported.

**Effects:** Audit adjustments of approximately \$427,000 were needed to correctly report cash balances as of June 30, 2016.

**Recommendation:** We recommend the Town carefully review all manual cash entries as well as all monthly reconciliations of the cash balances to ensure all cash accounts are properly reported at the end of each month.

**Auditee's Response:** We concur with the finding. We will take necessary steps in the future to ensure all cash is reported on the Town's books and the reconciliations are properly performed.

# TOWN OF SELMA, NORTH CAROLINA

## SCHEDULE OF FINDINGS AND RESPONSES FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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### SECTION II FINANCIAL STATEMENT FINDINGS AND RESPONSES (CONTINUED)

#### 2016-006 Segregation of Duties

**Criteria:** Segregation of employees' duties is a common practice in an effective internal control structure. Segregation of duties is achieved when specific employee functions related to important accounting areas are separated among different individuals to significantly reduce the risk that any one individual could intentionally or unintentionally misappropriate assets. Policies should be in place requiring the segregation of certain duties.

**Condition:** The limited number of employees and the resulting overlapping of duties causes segregation of duties to be difficult.

**Context/Cause:** During the course of our test work, we noted the following areas where the Town's control procedures were not sufficient to mitigate risks created due to insufficient oversight:

- During our discussion of the control inputs we noted the payroll clerk is responsible for entering in the hours worked for each employee, is responsible for entering in any earnings (hourly or salary) adjustments, as well as for creating new employees in the time keeper software. We would recommend the Town have someone independent of the payroll process periodically review changes to employee's earnings formulas and earnings information in order to mitigate the risk of having one employee responsible for the entire payroll process.
- During our review of the payroll period reconciliations, we noted the person who is entering the information into the system is also the person responsible for reviewing the period totals for any unusual or unexpected fluctuations. While the payroll clerk does keep a summary sheet which provides a brief explanation for any changes noted, we recommend a third party, independent of the payroll process, review the summary sheets each period and investigate any variances which they deem unusual and document their approval of the sheet.
- During our review of the bank reconciliation procedures, we noted there is no documented review and approval of the bank reconciliations. As the person preparing the bank reconciliations also has access to the cash and the general ledger, the Town should strongly consider having a separate review and approval of the bank account reconciliations.
- During our testing of the manual journal entries posted to the Town's general ledger we noted twenty-one (21) of our twenty-five (25) selected entries did not include documented review and approval by a person independent of the person who was preparing and posting the entry. Additionally, we identified six (6) of our twenty-five (25) selected entries which were not properly reported and required adjustment during the audit process. Finally, we identified one (1) of our twenty-five (25) selected entries which did not include supporting documentation to verify the basis of the entry.

# TOWN OF SELMA, NORTH CAROLINA

## SCHEDULE OF FINDINGS AND RESPONSES FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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### SECTION II FINANCIAL STATEMENT FINDINGS AND RESPONSES (CONTINUED)

2016-006    **Segregation of Duties (Continued)**

**Effects:** Without some segregation of duties within these functions, there is increased exposure that someone could intentionally or unintentionally misappropriate assets of the Town. Additionally, without additional internal controls related to financial reporting, errors could occur and not be detected.

**Recommendation:** We recommend that the Town review its processes and determine where it can effectively segregate duties to alleviate the segregation of duties issues as described above and strengthen internal controls.

**Auditee's Response:** We will review our operations to determine the most efficient and effective solutions to properly segregate duties and strengthen internal controls at the Town.



**TOWN OF SELMA, NORTH CAROLINA**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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The prior audit did not identify any findings related to Federal or State awards.