

TOWN OF SELMA, NORTH CAROLINA

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2017

**Prepared by:
Finance Department**

**Submitted by:
Town Manager**

TOWN OF SELMA, NORTH CAROLINA

ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2017

TABLE OF CONTENTS

	Page Number
INTRODUCTORY SECTION	
Town Council and Officials.....	i
FINANCIAL SECTION	
Independent Auditor’s Report	1-3
Management’s Discussion & Analysis	4-12
Basic Financial Statements:	
Government-wide Financial Statements	
Statement of Net Position	13
Statement of Activities.....	14
Fund Financial Statements	
Balance Sheet – Governmental Funds	15
Statement of Revenues, Expenditures, and Changes in Fund	
Balances – Governmental Funds	16
Reconciliation of the Statement of Revenues, Expenditures, and Changes in	
Fund Balances of Governmental Funds to the Statement of Activities.....	17
General Fund – Statement of Revenues, Expenditures, and Changes in	
Fund Balances – Budget and Actual	18
Statement of Net Position – Proprietary Funds.....	19
Statement of Revenues, Expenses, and Changes in Net	
Position – Proprietary Funds	20
Statement of Cash Flows – Proprietary Funds.....	21 and 22
Notes to Financial Statements.....	23-60
Required Supplementary Information:	
Other Postemployment Benefits Schedule of Funding Progress	61
Schedule of Changes in Total Pension Liability – Law Enforcement Officers’ Special	
Separation Allowance	62
Schedule of Total Pension Liability as a Percentage of Covered Payroll – Law Enforcement	
Officers’ Special Separation Allowance.....	63
Schedule of Town’s Proportionate Share of Net Pension Liability (Asset)	64
Schedule of Town of Selma’s Contributions	65
Notes to Required Supplementary Information	66
Combining and Individual Fund Statements and Schedules:	
Combining Balance Sheet – Nonmajor Governmental Funds	67
Combining Statement of Revenues, Expenditures, and Changes in Fund	
Balances – Nonmajor Governmental Funds	68

TOWN OF SELMA, NORTH CAROLINA

ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2017

TABLE OF CONTENTS

	Page Number
Combining and Individual Fund Statements and Schedules (Continued):	
General Fund – Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual (Budgetary Basis).....	69-72
Fire Protection – Selma Terminals Fund – Schedule of Revenues, Expenditures, and Changes in Balances – Budget and Actual (NON-GAAP).....	73
Small Business Revolving Loan Fund – Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual (NON-GAAP).....	74
ESA Solar Farm Interconnection Fund – Schedule of Revenues, Expenditures, and Changes in Balances – Budget and Actual (NON-GAAP).....	75
Water Fund – Schedule of Revenues, Expenditures, and Changes in Net Position – Budget and Actual (NON-GAAP).....	76 and 77
Water Capital Reserve Fund – Schedule of Revenues, Expenditures, and Changes in Net Position – Budget and Actual (NON-GAAP).....	78
Sewer Fund – Schedule of Revenues, Expenditures, and Changes in Net Position – Budget and Actual (NON-GAAP).....	79 and 80
Wastewater System Improvement Capital Fund – Schedule of Revenues, Expenditures, and Changes in Net Position – Budget and Actual (NON-GAAP).....	81
Electric Fund – Schedule of Revenues, Expenditures, and Changes in Net Position – Budget and Actual (NON-GAAP).....	82 and 83
Electric Capital Reserve Fund – Schedule of Revenues, Expenditures, and Changes in Net Position – Budget and Actual (NON-GAAP).....	84
Schedule of Ad Valorem Taxes Receivable	85
Analysis of Current Tax Levy.....	86
 COMPLIANCE SECTION	
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 <i>Government Auditing Standards</i>	87 and 88
Schedule of Findings and Responses	89-99

INTRODUCTORY SECTION

TOWN OF SELMA, NORTH CAROLINA

TOWN COUNCIL AND OFFICIALS

JUNE 30, 2017

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

Elton Daniels.....Town Manager

Karen Johnson.....Finance Officer

Brenda Thorne.....Town Clerk

Susan Sult.....Human Resource Director

Alan B. Hewett.....Town Attorney

Richard A. Cooper.....Police Chief

Phillip W. McDaniel.....Fire Chief

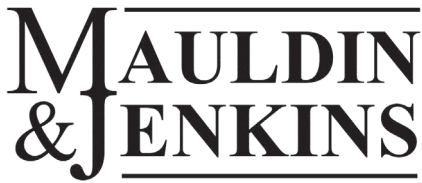
Donald W. Baker.....Utilities Director

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



INDEPENDENT AUDITOR'S REPORT

**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, 2017, 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.

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, 2017, 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.

Emphasis of Matter

As discussed in Notes 9 and 14, the Town implemented Governmental Accounting Standards Board (GASB) Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, as of July 1, 2016. This standard significantly changed the accounting for the Town's total pension liability and related disclosures for the Law Enforcement Officers' Special Separation Allowance. Our opinions are not modified with respect to this matter.

Other Matters***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion & Analysis, Other Postemployment Benefits Schedule of Funding Progress, the Schedule of Changes in Total Pension Liability – Law Enforcement Officers' Special Separation Allowance, the Schedule of Total Pension Liability as a Percentage of Covered Payroll - Law Enforcement Officers' Special Separation Allowance, 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, 64, and 65, 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 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.

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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 6, 2017 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 solely 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 the effectiveness of the Town's 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.

Mauldin & Jenkins, LLC

Atlanta, Georgia
November 6, 2017

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, 2017. 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 \$18,025,955 (net position).
- The government's total net position increased by \$119,882 due to increases predominantly in the business-type activities' net position. Included in governmental net position was a prior period adjustment totaling \$63,085 that primarily relates to reporting changes for the Town's Law Enforcement Officer's Special Separation Allowance (LEOSSA).
- As of close of the current fiscal year, the Town of Selma's governmental funds reported combined ending fund balances of \$3,914,759 with a net decrease of \$4,386 in fund balance in comparison with the prior year. Approximately 55.84% of this total amount, or \$2,185,986, is available for spending at the government's discretion (unassigned fund balance). The remaining balance of \$1,728,773 (44.18%) is non-spendable, restricted, or committed.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$2,186,199, which represents 38.09% of total General Fund expenditures for the fiscal year.
- The Town of Selma's total debt increased by \$791,967 (8.70%) during the current fiscal year. The key factors in this increase were the changes in the Local Government Employee Retirement plan obligation and the other postemployee benefits obligation offset by current year principal payments.

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

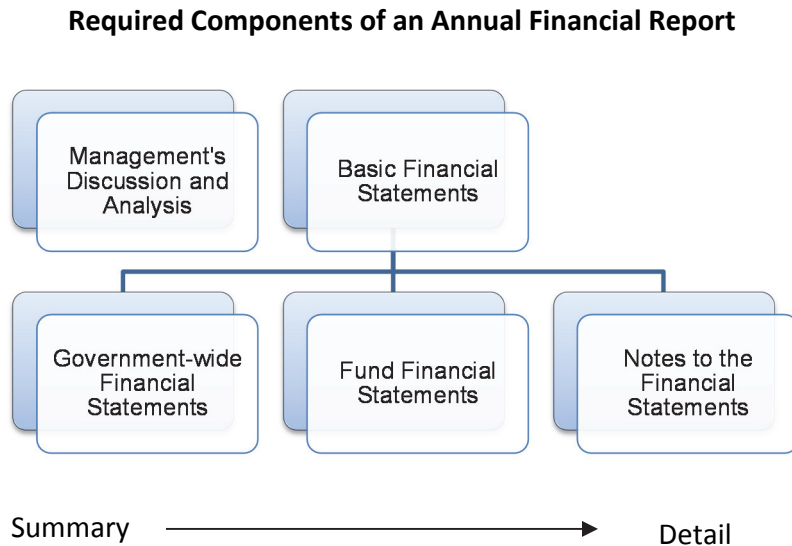
The first two statements in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the Town's financial status.

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

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

governmental funds statement; 2) the budgetary comparison statements; and 3) the proprietary fund statements.

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.

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

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

Fund Financial Statements

The fund financial statements (See Figure 1) provide a more detailed look at the Town's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of 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.

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

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.

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, 2017 and 2016

	Governmental Activities		Business-type Activities		Total	
	2017	2016-Restated	2017	2016	2017	2016-Restated
Current and other assets	\$ 4,400,894	\$ 4,181,143	\$ 5,860,663	\$ 5,428,130	\$ 10,261,557	\$ 9,609,273
Capital assets	8,874,535	9,071,247	9,800,104	10,030,619	18,674,639	19,101,866
Total assets	13,275,429	13,252,390	15,660,767	15,458,749	28,936,196	28,711,139
Deferred outflows of resources	609,326	127,942	342,386	77,559	951,712	205,501
Current and other liabilities	473,427	252,383	1,318,117	1,539,000	1,791,544	1,791,383
Noncurrent liabilities	4,913,049	4,142,960	5,084,372	4,939,366	9,997,421	9,082,326
Total liabilities and deferred	5,386,476	4,395,343	6,402,489	6,478,366	11,788,965	10,873,709
Deferred inflows of resources	49,468	87,343	23,520	49,515	72,988	136,858
Net Position						
Net investment in capital assets	7,066,664	7,206,496	6,041,570	6,207,150	13,108,234	13,413,646
Restricted	1,439,082	1,799,044	69,606	59,718	1,508,688	1,858,762
Unrestricted	(56,935)	(107,894)	3,465,968	2,741,559	3,409,033	2,633,665
Total net position	\$ 8,448,811	\$ 8,897,646	\$ 9,577,144	\$ 9,008,427	\$ 18,025,955	\$ 17,906,073

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 \$18,025,955 as of June 30, 2017. The Town's net position increased by \$119,882 for the fiscal year ended June 30, 2017. The largest portion (72.7%) 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

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

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 the Town of Selma's net position, \$1,508,688, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$3,409,955 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, 2017 and 2016

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues:						
Program revenues:						
Charges for services	\$ 955,976	\$ 919,585	\$ 11,390,440	\$ 10,972,603	\$ 12,346,416	\$ 11,892,188
Operating grants & cont.	128,975	58,816	-	-	128,975	58,816
Capital grants & cont.	325,948	205,355	461,853	-	787,801	205,355
General revenues:						
Property taxes	2,459,925	2,432,480	-	-	2,459,925	2,432,480
Other taxes	896,208	867,970	-	-	896,208	867,970
Unrestricted interest	11,096	10,174	11,169	7,660	22,265	17,834
Unrestricted intergovernmental	624,964	584,324	-	-	624,964	584,324
Miscellaneous	177,937	109,025	-	-	177,937	109,025
Total revenues	5,581,029	5,187,729	11,863,462	10,980,263	17,444,491	16,167,992
Expenses:						
General government	1,164,416	990,233	-	-	1,164,416	990,233
Public safety	2,612,116	2,416,276	-	-	2,612,116	2,416,276
Transportation	1,571,804	1,256,377	-	-	1,571,804	1,256,377
Cemetery	167,249	170,891	-	-	167,249	170,891
Culture and recreation	-	591,129	-	-	-	591,129
Economic development	612,438	86,990	-	-	612,438	86,990
Interest on long-term debt	76,841	70,135	-	-	76,841	70,135
Water	-	-	1,431,553	1,392,138	1,431,553	1,392,138
Sewer	-	-	2,198,549	2,451,459	2,198,549	2,451,459
Electric	-	-	7,489,643	7,594,001	7,489,643	7,594,001
Total expenses	6,204,864	5,582,031	11,119,745	11,437,598	17,324,609	17,019,629
Increase in net position before transfers	(623,835)	(394,302)	743,717	(457,335)	119,882	(851,637)
Transfers	175,000	175,000	(175,000)	(175,000)	-	-
Change in net position	(448,835)	(219,302)	568,717	(632,335)	119,882	(851,637)
Net position, beginning	9,460,731	9,680,033	9,008,427	9,557,987	18,469,158	19,238,020
Restatement - unrecorded capital assets	-	-	-	82,775	-	82,775
Restatement - LEOSA	(563,085)	-	-	-	(563,085)	-
Net position, ending	\$ 8,448,811	\$ 9,460,731	\$ 9,577,144	\$ 9,008,427	\$ 18,025,955	\$ 18,469,158

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 99.85%. The statewide average in fiscal year 2016 was 99.02%.
- Increased sales tax revenues of approximately \$28,238 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 (\$448,835). 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 .3% and tax revenues increased by 1.12%. 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 \$417,874,570.

Business-type activities

The Town's enterprise operations consist of water, sewer and electric utilities. Business-type activities increased the Town of Selma's net position by \$568,717. The majority of this increase is due to \$392,000 increase in Charges for services in the electric fund due to an increase in rates. The Town received a \$462,000 capital grant in the current year for the rehabilitation of the sewer lines that was completed in fiscal year 2017. The largest expense for the sewer fund, purchase of sewage treatment, decreased by approximately \$273,000 in the current year by as the result of improvements made to reduce the amount of inflow and infiltration into the sewer system.

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 \$2,186,199, while total fund balance was \$3,868,953. 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 38.09% of total General Fund expenditures, while total fund balance represents approximately 67.41% of that same amount.

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

At June 30, 2017, the governmental funds of the Town of Selma reported a combined fund balance of \$3,914,759 with a net decrease in fund balance of \$4,386. Included in this change in fund balance is an increase of \$715 in fund balance of other governmental funds. Fund balance in the General Fund decreased by \$5,101.

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 \$324,901. Total expenditures in the General Fund were less than amounts approved in the final budget by \$334,307.

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 \$2,428,095, \$45,369, and \$992,504, respectively. The change in net position for the Water, Sewer and Electric Funds were (\$157,668), \$599,101, and \$127,284, resulting in a total combined increase in net position of \$568,717 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, 2017 totals \$18,674,639 (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:

- \$283,000 for the purchase of vehicles and equipment for governmental activities
- \$103,000 for the purchase of vehicles and equipment in the Water and Sewer Fund
- \$592,000 for completion of the Noble Street Project Sewer Project
- \$163,000 for the purchase of a bucket truck 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, 2017 and 2016

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Land	\$ 2,657,588	\$ 2,657,588	\$ 311,804	\$ 311,804	\$ 2,969,392	\$ 2,969,392
Construction in progress	-	-	-	544,341	-	544,341
Buildings and Improvements	3,199,212	3,460,086	269,265	338,172	3,468,477	3,798,258
Other improvements	2,489,404	2,458,787	-	-	2,489,404	2,458,787
Distribution system	-	-	8,054,381	7,381,829	8,054,381	7,381,829
Equipment	329,188	288,086	999,340	1,310,654	1,328,528	1,598,740
Vehicles	199,143	206,700	165,315	143,819	364,458	350,519
Total	\$ 8,874,535	\$ 9,071,247	\$ 9,800,105	\$ 10,030,619	\$ 18,674,640	\$ 19,101,866

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, 2017, the Town of Selma had total bonded debt outstanding of \$1,802,000, 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 \$3,796,741. Of this amount, \$1,974,564 is applicable to the Town's business-type activities. The remaining \$1,822,177 is applicable to the Town's governmental activities.

The Town of Selma's total debt and obligations increased by \$791,967 during the past fiscal year, primarily due to issuance of \$139,000 of installment notes for the acquisition of a new knuckleboom truck and the Town's Net Pension Liability (LGERS) and net OPEB obligation increased by \$839,000 and \$337,000, respectively, offset by current year principal payments.

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 \$33,429,966.

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, 2017 and 2016

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Installment notes	\$ 1,822,177	\$ 1,879,057	\$ 1,974,564	\$ 2,285,709	\$ 3,796,741	\$ 4,164,766
Revenue bonds	-	-	1,802,000	1,835,000	1,802,000	1,835,000
Compensated absences	215,506	163,894	86,648	90,352	302,154	254,246
Net pension liability (asset)	655,121	136,164	397,134	77,193	1,052,255	213,357
Law enforcement officers' SSA pension obligation*	693,194	724,106	-	-	693,194	724,106
Net OPEB obligation	1,470,016	1,220,978	783,400	695,340	2,253,416	1,916,318
Total	<u>\$ 4,856,014</u>	<u>\$ 4,124,199</u>	<u>\$ 5,043,746</u>	<u>\$ 4,983,594</u>	<u>\$ 9,899,760</u>	<u>\$ 9,107,793</u>

* restated for prior period adjustment

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 6,589.
- The Town's tax collection rates for property excluding motor vehicles and registered motor vehicles are 99.84% and 100.00%, respectively.
- Sales tax revenues for the current year increased by \$28,238 (3.3%) over the previous year.
- Johnston County's unemployment rate was 3.8% for the month of April, 2017 compared to the average unemployment for the State of North Carolina of 4.7%.

Budget Highlights for the Fiscal Year Ending June 30, 2018

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 \$6,030,518.

Business-type Activities: The electric rates will decrease 2.5% for fiscal year 2017. A new Water Capital Reserve fee of \$.25/1,000 gallons will be implemented for fiscal year 2017. The sewer rate will remain the same 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, 2017

	Primary Government		
	Governmental	Business-type	Total
	Activities	Activities	
ASSETS			
Cash and cash equivalents	\$ 2,776,276	\$ 4,205,316	\$ 6,981,592
Receivables, net of allowance for uncollectibles	448,402	1,142,400	1,590,802
Intergovernmental receivables	74,702	-	74,702
Taxes receivable	57,285	-	57,285
Inventories	84,138	422,846	506,984
Prepaid items	14,632	2,465	17,097
Restricted cash and cash equivalents	945,459	87,636	1,033,095
Capital assets:			
Non-depreciable	2,657,588	311,804	2,969,392
Depreciable, net of accumulated depreciation	6,216,947	9,488,300	15,705,247
Total assets	13,275,429	15,660,767	28,936,196
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows - pension items	609,326	342,386	951,712
Total deferred outflows of resources	609,326	342,386	951,712
LIABILITIES			
Accounts payable	290,552	765,338	1,055,890
Accrued liabilities	182,875	175,305	358,180
Customer deposits	-	377,474	377,474
Interest payable	57,035	40,626	97,661
Total pension liability (LEOSSA), due in more than one year	693,194	-	693,194
Installment notes, due within one year	163,556	304,747	468,303
Installment notes, due in more than one year	1,658,621	1,669,817	3,328,438
Bonds payable, due within one year	-	33,000	33,000
Bonds payable, due in more than one year	-	1,769,000	1,769,000
Compensated absences, due within one year	101,288	40,724	142,012
Compensated absences, due in more than one year	114,218	45,924	160,142
Net pension liability (LGRS), due in more than one year	655,121	397,134	1,052,255
Net OPEB obligation, due in more than one year	1,470,016	783,400	2,253,416
Total liabilities	5,386,476	6,402,489	11,788,965
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows - pension items	49,468	23,520	72,988
Total deferred inflows of resources	49,468	23,520	72,988
NET POSITION			
Net investment in capital assets	7,066,664	6,041,570	13,108,234
Restricted for:			
Stabilization by State Statute	479,076	-	479,076
Streets - Powell Bill	537,273	-	537,273
Cemetery perpetual care	376,714	-	376,714
Debt service	-	69,606	69,606
Economic development	46,019	-	46,019
Unrestricted	(56,935)	3,465,968	3,409,033
Total net position	\$ 8,448,811	\$ 9,577,144	\$ 18,025,955

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, 2017

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
Governmental activities:						
General government	\$ 1,164,416	\$ -	\$ -	\$ (1,130,791)	\$ -	\$ (1,130,791)
Public safety	2,612,116	110,317	3,599	(2,493,681)	-	(2,493,681)
Transportation	1,571,804	4,175	322,349	(561,376)	-	(561,376)
Cemetery	167,249	2,064	-	(7,074)	-	(7,074)
Economic development	-	624	-	624	-	624
Culture and recreation	612,438	75,193	-	(524,826)	-	(524,826)
Interest on long-term debt	76,841	-	-	(76,841)	-	(76,841)
Total governmental activities	6,204,864	955,976	325,948	(4,793,965)	-	(4,793,965)
Business-type activities:						
Water	1,431,553	-	461,853	-	266,585	266,585
Sewer	2,198,549	-	-	-	167,449	167,449
Electric	7,489,643	-	-	-	298,514	298,514
Total business-type activities	11,119,745	-	461,853	-	732,548	732,548
Total primary government	\$ 17,324,609	\$ 128,975	\$ 787,801	\$ (4,793,965)	\$ 732,548	\$ (4,061,417)
General revenues:						
Property taxes, levied for general purposes				2,300,936	-	2,300,936
Property taxes, levied for fire districts				158,989	-	158,989
Other taxes				896,208	-	896,208
Unrestricted investment earnings				11,096	11,169	22,265
Unrestricted intergovernmental				624,964	-	624,964
Miscellaneous				177,937	-	177,937
Transfers				175,000	(175,000)	-
Total general revenues and transfers				4,345,130	(163,831)	4,181,299
Change in net position				(448,835)	568,717	119,882
Net position, beginning of year, restated				8,897,646	9,008,427	17,906,073
Net position, end of year				\$ 8,448,811	\$ 9,577,144	\$ 18,025,955

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

TOWN OF SELMA, NORTH CAROLINA

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2017**

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash	\$ 2,776,276	\$ -	\$ 2,776,276
Taxes receivable, net	57,285	-	57,285
Accounts receivable, net	432,257	16,145	448,402
Intergovernmental receivable	-	74,702	74,702
Restricted cash and cash equivalents	915,585	29,874	945,459
Inventory	84,138	-	84,138
Prepaid expenditures	14,632	-	14,632
Due from other funds	2,242	-	2,242
Total assets	\$ 4,282,415	\$ 120,721	\$ 4,403,136
LIABILITIES			
Accounts payable	\$ 217,879	\$ 72,673	\$ 290,552
Due to other funds	-	2,242	2,242
Accrued liabilities	182,875	-	182,875
Total liabilities	400,754	74,915	475,669
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - cemetery lot sales	12,708	-	12,708
Total deferred inflows of resources	12,708	-	12,708
FUND BALANCES			
Nonspendable:			
Prepaid items	14,632	-	14,632
Inventories	84,138	-	84,138
Restricted:			
Stabilization by State Statute	479,076	-	479,076
Streets - Powell Bill	537,273	-	537,273
Cemetery perpetual care	364,006	-	364,006
Economic development	-	46,019	46,019
Committed - Library Trust	203,629	-	203,629
Unassigned	2,186,199	(213)	2,185,986
Total fund balances	3,868,953	45,806	3,914,759
Total liabilities, deferred inflows of resources, and fund balances	\$ 4,282,415	\$ 120,721	

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.	8,874,535
Some receivables are not available to pay for current-period expenditures and, therefore, are reported as unavailable revenue in the funds.	12,708
Net pension liability for the LGERS is not recorded on the fund financial statements.	(655,121)
Total pension liability for the Special Separation Allowance LEO is not recorded on the fund financial statements.	(693,194)
Deferred outflows and inflows of resources related to pensions which are not current financial resources and, therefore, not reported in the funds.	559,858
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	(3,564,734)
Net position of governmental activities	\$ 8,448,811

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, 2017

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues			
Ad valorem taxes	\$ 2,300,936	\$ -	\$ 2,300,936
Other taxes	896,208	-	896,208
Unrestricted intergovernmental	783,953	-	783,953
Restricted intergovernmental	172,868	157,255	330,123
Permits and fees	17,291	-	17,291
Sales and services	934,968	624	935,592
Investment earnings	11,016	80	11,096
Miscellaneous	302,737	-	302,737
Total revenues	5,419,977	157,959	5,577,936
Expenditures			
Current:			
General government	1,103,474	-	1,103,474
Public safety	2,357,952	-	2,357,952
Transportation	1,423,333	-	1,423,333
Cemetery	114,292	-	114,292
Culture and recreation	472,151	-	472,151
Capital outlay	-	157,244	157,244
Debt service:			
Principal retirements	195,870	-	195,870
Interest	71,996	-	71,996
Total expenditures	5,739,068	157,244	5,896,312
Excess (deficiency) of revenues over expenditures	(319,091)	715	(318,376)
Other financing sources			
Transfers in	175,000	-	175,000
Issuance of note payable	138,990	-	138,990
Total other financing sources	313,990	-	313,990
Net change in fund balances	(5,101)	715	(4,386)
Fund balances, beginning of year	3,874,054	45,091	3,919,145
Fund balances, end of year	\$ 3,868,953	\$ 45,806	\$ 3,914,759

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, 2017**

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

Net change in fund balances - total governmental funds	\$	(4,386)
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.		(196,712)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		3,093
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.		56,880
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>(307,710)</u>
Change in net position - governmental activities	\$	<u>(448,835)</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, 2017**

	Budget		Actual Amounts	Variance with Actual and Final Budget
	Original	Final		Positive (Negative)
Revenues				
Ad valorem taxes	\$ 2,365,436	\$ 2,368,758	\$ 2,300,936	\$ (67,822)
Other taxes	675,025	675,025	896,208	221,183
Unrestricted intergovernmental	686,000	691,200	783,953	92,753
Restricted intergovernmental	181,250	187,250	172,868	(14,382)
Permits and fees	10,500	10,500	17,291	6,791
Sales and services	853,847	853,847	934,968	81,121
Investment earnings	8,674	8,675	10,626	1,951
Miscellaneous	158,650	181,453	184,759	3,306
Total revenues	<u>4,939,382</u>	<u>4,976,708</u>	<u>5,301,609</u>	<u>324,901</u>
Expenditures				
Current:				
General government	1,161,559	1,249,231	1,103,474	145,757
Public safety	2,253,774	2,394,577	2,272,787	121,790
Transportation	1,362,218	1,419,166	1,423,333	(4,167)
Cemetery	126,815	131,315	114,292	17,023
Culture and recreation	536,133	544,188	472,151	72,037
Debt service:				
Principal retirements	157,827	173,636	195,870	(22,234)
Interest	77,830	76,097	71,996	4,101
Total expenditures	<u>5,676,156</u>	<u>5,988,210</u>	<u>5,653,903</u>	<u>334,307</u>
Excess (deficiency) of revenues over expenditures	<u>(736,774)</u>	<u>(1,011,502)</u>	<u>(352,294)</u>	<u>659,208</u>
Other financing sources:				
Fund balance appropriation	411,774	686,663	-	(686,663)
Transfers in	175,000	175,000	175,000	-
Issuance of note payable	150,000	150,000	138,990	(11,010)
Total other financing sources	<u>736,774</u>	<u>1,011,663</u>	<u>313,990</u>	<u>(697,673)</u>
Net change in fund balances	-	161	(38,304)	(38,465)
Fund balances, beginning of year	<u>3,754,342</u>	<u>3,754,342</u>	<u>3,754,342</u>	<u>-</u>
Fund balances, end of year	<u>\$ 3,754,342</u>	<u>\$ 3,754,503</u>	<u>3,716,038</u>	<u>\$ (38,465)</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		119,712
Investment earnings		390
Other revenues		117,978
Public safety expenditures		(85,165)
Fund balance, end of year		<u>\$ 3,868,953</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, 2017**

ASSETS	Water Fund	Sewer Fund	Electric Fund	Totals
CURRENT ASSETS				
Cash and cash equivalents	\$ 2,014,616	\$ 801,563	\$ 1,389,137	\$ 4,205,316
Restricted cash	49,440	38,196	-	87,636
Accounts receivable, net of allowances	140,060	272,414	729,926	1,142,400
Prepaid insurance	629	560	1,276	2,465
Inventories	57,708	7,369	357,769	422,846
Total current assets	<u>2,262,453</u>	<u>1,120,102</u>	<u>2,478,108</u>	<u>5,860,663</u>
NONCURRENT ASSETS				
Advances to other funds	650,000	-	-	650,000
CAPITAL ASSETS				
Nondepreciable	182,438	-	129,366	311,804
Depreciable, net of accumulated depreciation	3,299,495	5,190,382	998,423	9,488,300
Total noncurrent assets	<u>4,131,933</u>	<u>5,190,382</u>	<u>1,127,789</u>	<u>10,450,104</u>
Total assets	<u>6,394,386</u>	<u>6,310,484</u>	<u>3,605,897</u>	<u>16,310,767</u>
DEFERRED OUTFLOWS OF RESOURCES				
Pension items	119,981	71,703	150,702	342,386
Total deferred outflows of resources	<u>119,981</u>	<u>71,703</u>	<u>150,702</u>	<u>342,386</u>
LIABILITIES				
CURRENT LIABILITIES				
Accounts payable	27,150	117,274	620,914	765,338
Accrued liabilities	9,807	7,643	198,481	215,931
Customer deposits	74,000	67,182	236,292	377,474
Installment contracts, current	6,546	12,000	286,201	304,747
Bonds payable, current	10,000	23,000	-	33,000
Compensated absences payable, current	13,201	7,172	20,351	40,724
Total current liabilities	<u>140,704</u>	<u>234,271</u>	<u>1,362,239</u>	<u>1,737,214</u>
NONCURRENT LIABILITIES				
Installments contracts	91,638	660,000	918,179	1,669,817
Bonds payable	560,000	1,209,000	-	1,769,000
Advance from other funds	-	650,000	-	650,000
Compensated absences payable	14,887	8,088	22,949	45,924
Net pension liability	138,133	82,726	176,275	397,134
Net OPEB obligation	269,540	163,256	350,604	783,400
Total noncurrent liabilities	<u>1,074,198</u>	<u>2,773,070</u>	<u>1,468,007</u>	<u>5,315,275</u>
Total liabilities	<u>1,214,902</u>	<u>3,007,341</u>	<u>2,830,246</u>	<u>7,052,489</u>
DEFERRED INFLOWS OF RESOURCES				
Pension items	8,181	4,899	10,440	23,520
Total deferred inflows of resources	<u>8,181</u>	<u>4,899</u>	<u>10,440</u>	<u>23,520</u>
NET POSITION				
Net investment in capital assets	2,813,749	3,304,412	(76,591)	6,041,570
Restricted for:				
Debt service	49,440	20,166	-	69,606
Unrestricted	2,428,095	45,369	992,504	3,465,968
Total net position	<u>\$ 5,291,284</u>	<u>\$ 3,369,947</u>	<u>\$ 915,913</u>	<u>\$ 9,577,144</u>

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, 2017**

	Water Fund	Sewer Fund	Electric Fund	Totals
OPERATING REVENUES				
Charges for sales and services	\$ 1,206,252	\$ 2,365,998	\$ 7,766,650	\$ 11,338,900
Other operating income	30,033	-	21,507	51,540
Total operating revenues	<u>1,236,285</u>	<u>2,365,998</u>	<u>7,788,157</u>	<u>11,390,440</u>
OPERATING EXPENSES				
Salaries and benefits	637,370	369,418	757,882	1,764,670
General operating expenses	379,691	281,808	359,878	1,021,377
Depreciation	293,947	284,982	515,812	1,094,741
Electric purchases	-	-	5,811,706	5,811,706
Water & sewer purchases	95,669	1,225,157	-	1,320,826
Total operating expenses	<u>1,406,677</u>	<u>2,161,365</u>	<u>7,445,278</u>	<u>11,013,320</u>
Operating income (loss)	(170,392)	204,633	342,879	377,120
NON-OPERATING REVENUES (EXPENSES)				
Intergovernmental	-	461,853	-	461,853
Interest income	5,663	1,736	3,770	11,169
Interest and fiscal charges	(24,876)	(37,184)	(44,365)	(106,425)
Total non-operating revenue (expenses)	<u>(19,213)</u>	<u>426,405</u>	<u>(40,595)</u>	<u>366,597</u>
Income (loss) before transfers	(189,605)	631,038	302,284	743,717
Transfers in	31,937	-	-	31,937
Transfers out	-	(31,937)	(175,000)	(206,937)
Change in net position	(157,668)	599,101	127,284	568,717
Net position, beginning of year	<u>5,448,952</u>	<u>2,770,846</u>	<u>788,629</u>	<u>9,008,427</u>
Net position, end of year	<u>\$ 5,291,284</u>	<u>\$ 3,369,947</u>	<u>\$ 915,913</u>	<u>\$ 9,577,144</u>

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, 2017

	Water Fund	Sewer Fund	Electric Fund	Totals
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers and users	\$ 1,233,496	\$ 2,350,069	\$ 7,705,558	\$ 11,289,123
Payments to suppliers	(509,377)	(1,512,274)	(6,213,135)	(8,234,786)
Payments to employees	(595,309)	(449,141)	(701,981)	(1,746,431)
Net cash provided by operating activities	128,810	388,654	790,442	1,307,906
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES				
Repayment of advances from other funds	-	(100,000)	-	(100,000)
Receipt of advances to other funds	100,000	-	-	100,000
Transfers to (from) other funds	31,937	(31,937)	(175,000)	(175,000)
Net cash provided by (used in) non-capital financing activities	131,937	(131,937)	(175,000)	(175,000)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchase of capital assets	(72,578)	(610,898)	(162,999)	(846,475)
Proceeds from issuance of installment note payable	-	687,000	-	687,000
Receipt of intergovernmental revenues	-	461,853	-	461,853
Principal payments	(20,732)	(729,186)	(281,227)	(1,031,145)
Interest paid	(24,876)	(37,184)	(44,365)	(106,425)
Net cash used in capital and related financing activities	(118,186)	(228,415)	(488,591)	(835,192)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received	5,663	1,736	3,770	11,169
Net cash provided by investing activities	5,663	1,736	3,770	11,169
Net increase in cash and cash equivalents	148,224	30,038	130,621	308,883
Cash and cash equivalents, beginning of year	1,915,832	809,721	1,258,516	3,984,069
Cash and cash equivalents, end of year	\$ 2,064,056	\$ 839,759	\$ 1,389,137	\$ 4,292,952
CASH AS REPORTED ON STATEMENT OF NET POSITION				
Cash and cash equivalents	\$ 2,014,616	\$ 801,563	\$ 1,389,137	\$ 4,205,316
Restricted cash and cash equivalents	49,440	38,196	-	87,636
Total cash and cash equivalents	\$ 2,064,056	\$ 839,759	\$ 1,389,137	\$ 4,292,952

continued

TOWN OF SELMA, NORTH CAROLINA

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Electric Fund</u>	<u>Totals</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY				
OPERATING ACTIVITIES				
Operating income	\$ (170,392)	\$ 204,633	\$ 342,879	\$ 377,120
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation expense	293,947	284,982	515,812	1,094,741
Change in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:				
Increase in accounts receivable	(2,789)	(15,929)	(82,599)	(101,317)
(Increase) decrease in inventories	(4,539)	623	(15,952)	(19,868)
Increase in prepaid items	(629)	(560)	(1,276)	(2,465)
Increase in deferred outflows of resources - pension items	(93,004)	(55,547)	(116,276)	(264,827)
Decrease in accounts payable	(26,156)	(3,936)	(6,745)	(36,837)
Increase (decrease) in accrued liabilities	1,448	(106,854)	10,170	(95,236)
Decrease in customer deposits	(2,693)	(1,436)	(17,578)	(21,707)
Increase (decrease) in compensated absences payable	(870)	585	(3,419)	(3,704)
Decrease in deferred inflows for pension items	(8,508)	(4,547)	(12,940)	(25,995)
Increase in net pension liability	112,114	68,000	139,827	319,941
Increase in net OPEB obligation	30,881	18,640	38,539	88,060
Net cash provided by operating activities	<u>\$ 128,810</u>	<u>\$ 388,654</u>	<u>\$ 790,442</u>	<u>\$ 1,307,906</u>

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

TOWN OF SELMA, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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

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

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

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, 2017. 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, 2017, 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

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 General Fund also reports restricted cash for the portion of assets restricted by outside parties for the maintenance of the Town's cemetery. 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, 2016.

NOTES TO FINANCIAL STATEMENTS

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, 2017, 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

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 several deferred outflows related to the pension plans, one type of 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, 2017, which was subsequent to the measurement date of the net pension liability. The deferred outflows will be applied to future measurement periods. The Town has four (4) items that qualify for reporting in this category which occurs in the governmental activities and in the individual proprietary funds. The Town reports deferred outflows 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, (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, and (4) changes in the plan assumptions. The net difference between projected and actual investment earnings on the pension plan assets are amortized over five (5) years, while the remaining deferred outflows of resources will be amortized over the remaining service period of plan members.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Deferred Outflows/Inflows of Resources (Continued)

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 two (2) 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, and (2) 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 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.

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.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Long-Term Obligations (Continued)

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.

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.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Fund Equity (Continued)

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.

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, 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.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 \$3,564,734 difference are as follows:

Installment notes	\$	(1,822,177)
Accrued interest payable		(57,035)
Compensated absences (i.e., vacation)		(215,506)
Net OPEB obligation		<u>(1,470,016)</u>
Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net position - governmental activities</i>	\$	<u><u>(3,564,734)</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

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 \$196,712 difference are as follows:

Capital outlay	\$ 359,878
Depreciation expense	<u>(556,590)</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>(196,712)</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 \$56,880 difference are as follows:

Issuance of installment note	\$ (138,990)
Repayment of principal on long-term debt	<u>195,870</u>
 Net adjustment to increase <i>net change in fund balances - total governmental funds</i> to arrive at <i>change in net position - governmental activities</i>	 \$ <u><u>56,880</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 \$307,710 difference are as follows:

Compensated absences (i.e., vacation)	\$ (51,612)
Change in accrued interest	(4,845)
Net pension liability - LGERS and related deferred outflows and inflows of resources	(22,457)
Total pension liability - LEO Special Separation Allowance and related deferred outflows and inflows of resources	20,242
Net OPEB obligation	<u>(249,038)</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>\$ (307,710)</u>

NOTE 3. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Contractual Violations. During the fiscal year ended June 30, 2017 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, 2017 the sinking fund accounts for the Water Fund and Sewer Fund were underfunded by \$42,630 and \$10,326, 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 \$213 as of June 30, 2017. 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:	
Capital outlay - Public Works	\$ 138,748
Professional services - Recreation	34
Debt service - principal	22,234
Water Fund:	
Purchase for resale - operations	15,669
Other operating expenditures	54,999
Sewer Fund - Debt service - principal	701,995
Electric Fund - Debt service - principal	39,334

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, 2017 are summarized as follows:

Statement of Net Position:	
Cash and cash equivalents	\$ 6,981,592
Restricted cash and cash equivalents	1,033,095
	<u>\$ 8,014,687</u>
Cash deposited with financial institutions	\$ 5,010,618
Certificate of deposit	28,415
Cash deposited with NCCMT	2,975,654
	<u>\$ 8,014,687</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. The Town’s investment in the NC Capital Management Trust Government Portfolio carried a credit rating of AAAm by Standard & Poor’s as of June 30, 2017. The Town’s investment in the NC Capital Management Trust Term Portfolio is unrated.

As of June 30, 2017 the Town’s investment balances were as follows:

<u>Investment by Type</u>	<u>Valuation Measurement Method</u>	<u>Book Value June 30, 2017</u>	<u>Duration</u>	<u>Rating</u>
North Carolina Capital Management Trust Government Portfolio	Amortized Cost	\$ 2,224,726	N/A	AAAm
North Carolina Capital Management Trust Term Portfolio	Fair Value Level 1	750,928	.09 years	Unrated
		<u>\$ 2,975,654</u>		

All investments are measured using the market approach: using prices and other relevant information generated by market transactions involving identical or comparable assets or a group of assets.

Level of fair value hierarchy: Level 1 debt securities are valued using directly observable, quoted prices (unadjusted) in active markets for identical assets. Level 2 debt securities are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities’ benchmark quoted prices.

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, 2017, the Town’s deposits are insured or collateralized as required by state law.

NOTES TO FINANCIAL STATEMENTS

NOTE 5. RECEIVABLES

Receivables at June 30, 2017, for the Town's individual major funds and aggregate nonmajor funds, including any applicable allowances for uncollectible accounts are as follows:

	<u>General</u>	<u>Water</u>	<u>Sewer</u>	<u>Electric</u>	<u>Other Governmental</u>
Receivables:					
Taxes	\$ 80,965	\$ -	\$ -	\$ -	\$ -
Intergovernmental Accounts	-	-	-	-	74,702
	493,698	167,009	329,465	908,987	51,145
Less allowance for uncollectible	85,121	26,949	57,051	179,061	35,000
Net total receivable	<u>\$ 489,542</u>	<u>\$ 140,060</u>	<u>\$ 272,414</u>	<u>\$ 729,926</u>	<u>\$ 90,847</u>

NOTE 6. CAPITAL ASSETS

Capital asset activity for the Town for the year ended June 30, 2017 is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Ending Balance</u>
Governmental Activities:					
Nondepreciable capital assets:					
Land	\$ 2,657,588	\$ -	\$ -	\$ -	\$ 2,657,588
Total	<u>2,657,588</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,657,588</u>
Capital assets, being depreciated:					
Buildings	5,584,403	-	-	-	5,584,403
Other improvements	5,574,196	77,318	-	-	5,651,514
Equipment and furniture	863,383	93,936	(52,459)	-	904,860
Vehicles and motorized equipment	2,694,786	188,624	(41,457)	-	2,841,953
Total being depreciated	<u>14,716,768</u>	<u>359,878</u>	<u>(93,916)</u>	<u>-</u>	<u>14,982,730</u>
Less accumulated depreciation for:					
Buildings	(2,124,317)	(260,874)	-	-	(2,385,191)
Other improvements	(3,115,409)	(46,701)	-	-	(3,162,110)
Equipment and furniture	(575,297)	(52,834)	52,459	-	(575,672)
Vehicles and motorized equipment	(2,488,086)	(196,181)	41,457	-	(2,642,810)
Total	<u>(8,303,109)</u>	<u>(556,590)</u>	<u>93,916</u>	<u>-</u>	<u>(8,765,783)</u>
Total capital assets, being depreciated, net	<u>6,413,659</u>	<u>(196,712)</u>	<u>-</u>	<u>-</u>	<u>6,216,947</u>
Governmental activities capital assets, net	<u>\$ 9,071,247</u>	<u>\$ (196,712)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,874,535</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 6. CAPITAL ASSETS (CONTINUED)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Water Fund:				
Nondepreciable capital assets:				
Land	\$ 182,438	\$ -	\$ -	\$ 182,438
Total	<u>182,438</u>	<u>-</u>	<u>-</u>	<u>182,438</u>
Capital assets, being depreciated:				
Buildings and improvements	981,757	-	-	981,757
Distribution system	7,675,523	6,500	-	7,682,023
Equipment	464,046	36,418	-	500,464
Vehicles and motorized equipment	95,790	47,411	-	143,201
Total	<u>9,217,116</u>	<u>90,329</u>	<u>-</u>	<u>9,307,445</u>
Less accumulated depreciation for:				
Buildings and improvements	(812,946)	(44,797)	-	(857,743)
Distribution system	(4,416,057)	(217,119)	-	(4,633,176)
Equipment	(389,781)	(23,557)	-	(413,338)
Vehicles and motorized equipment	(95,219)	(8,474)	-	(103,693)
Total	<u>(5,714,003)</u>	<u>(293,947)</u>	<u>-</u>	<u>(6,007,950)</u>
Total capital assets being depreciated, net	<u>3,503,113</u>	<u>(203,618)</u>	<u>-</u>	<u>3,299,495</u>
Water Fund capital assets, net	<u>\$ 3,685,551</u>	<u>\$ (203,618)</u>	<u>\$ -</u>	<u>\$ 3,481,933</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 6. CAPITAL ASSETS (CONTINUED)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Transfers</u>	<u>Ending Balance</u>
Sewer Fund:				
Nondepreciable capital assets:				
Construction in progress	\$ 544,341	\$ 591,956	\$ (1,136,297)	\$ -
Total	<u>544,341</u>	<u>591,956</u>	<u>(1,136,297)</u>	<u>-</u>
Capital assets, being depreciated:				
Buildings and improvements	149,072	-	-	149,072
Distribution system	7,950,686	-	1,136,297	9,086,983
Equipment	319,521	18,942	-	338,463
Vehicles and motorized equipment	102,849	-	-	102,849
Total	<u>8,522,128</u>	<u>18,942</u>	<u>1,136,297</u>	<u>9,677,367</u>
Less accumulated depreciation for:				
Buildings and improvements	(54,983)	(11,124)	-	(66,107)
Distribution system	(3,828,323)	(253,126)	-	(4,081,449)
Equipment	(216,420)	(20,160)	-	(236,580)
Vehicles and motorized equipment	(102,277)	(572)	-	(102,849)
Total	<u>(4,202,003)</u>	<u>(284,982)</u>	<u>-</u>	<u>(4,486,985)</u>
Total capital assets being depreciated, net	<u>4,320,125</u>	<u>(266,040)</u>	<u>1,136,297</u>	<u>5,190,382</u>
Sewer Fund capital assets, net	<u>\$ 4,864,466</u>	<u>\$ 325,916</u>	<u>\$ -</u>	<u>\$ 5,190,382</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 6. CAPITAL ASSETS (CONTINUED)

	Beginning Balance	Increases	Decreases	Ending Balance
Electric Fund:				
Nondepreciable capital assets:				
Land	\$ 129,366	\$ -	\$ -	\$ 129,366
Total	129,366	-	-	129,366
Capital assets, being depreciated:				
Buildings and improvements	203,802	-	-	203,802
Equipment	6,821,819	162,999	(17,313)	6,967,505
Vehicles and motorized equipment	760,532	-	-	760,532
Total	7,786,153	162,999	(17,313)	7,931,839
Less accumulated depreciation for:				
Buildings and improvements	(128,530)	(12,986)	-	(141,516)
Equipment	(5,688,531)	(485,956)	17,313	(6,157,174)
Vehicles and motorized equipment	(617,856)	(16,870)	-	(634,726)
Total	(6,434,917)	(515,812)	17,313	(6,933,416)
Total capital assets being depreciated, net	1,351,236	(352,813)	-	998,423
Electric Fund capital assets, net	\$ 1,480,602	\$ (352,813)	\$ -	\$ 1,127,789

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

Governmental activities:	
General government	\$ 33,044
Public safety	134,596
Transportation	239,776
Cemetery	42,950
Culture and recreation	106,224
Total depreciation expense - governmental activities	\$ 556,590
Business-type activities	
Water	\$ 293,947
Sewer	284,982
Electric	515,812
Total depreciation expense - business-type activities	\$ 1,094,741

NOTES TO FINANCIAL STATEMENTS

NOTE 7. LONG-TERM DEBT

Long-term liability activity for the year ended June 30, 2017 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Installment notes	\$ 1,879,057	\$ 138,990	\$ (195,870)	\$ 1,822,177	\$ 163,556
Compensated absences	163,894	100,190	(48,578)	215,506	101,288
Net pension liability (LGERS)	136,164	644,509	(125,552)	655,121	-
Law enforcement officers'					
SSA total pension liability	724,106	48,905	(79,817)	693,194	-
Net OPEB obligation	1,220,978	425,591	(176,553)	1,470,016	-
Governmental activity					
Long-term liabilities	<u>\$ 4,124,199</u>	<u>\$ 1,358,185</u>	<u>\$ (626,370)</u>	<u>\$ 4,856,014</u>	<u>\$ 264,844</u>
Business-type activities:					
Installment notes	2,285,709	687,000	(998,145)	1,974,564	304,747
Revenue bonds payable	1,835,000	-	(33,000)	1,802,000	33,000
Net pension liability (LGERS)	77,193	395,917	(75,976)	397,134	-
Compensated absences	90,352	44,807	(48,511)	86,648	40,724
Net OPEB obligation	695,340	115,976	(27,916)	783,400	-
Business-type activity					
Long-term liabilities	<u>\$ 4,983,594</u>	<u>\$ 1,243,700</u>	<u>\$ (1,183,548)</u>	<u>\$ 5,043,746</u>	<u>\$ 378,471</u>

For governmental funds, compensated absences are liquidated by the General Fund. The net pension liability (LGERS), total pension liability (LEOSSA), and OPEB obligation are liquidated by the General Fund. The compensated absences for the business-type activities are liquidated by the respective fund carrying the liability.

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, 2017 are as follows:

Governmental activities	Balance as of June 30, 2017
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.	\$ 210,000
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.	482,603
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.	340,097
	<i>continued</i>

NOTES TO FINANCIAL STATEMENTS

NOTE 7. LONG-TERM DEBT (CONTINUED)

Installment Notes (Continued)

<i>Governmental activities (continued)</i>	<u>Balance as of June 30, 2017</u>
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.	140,423
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.	28,700
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.	98,978
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.	373,333
A note issued by KS Bank for \$138,990 was issued on December 20, 2016 with annual payments of \$28,921, plus interest, for a new knuckleboom truck. The note bears an interest rate of 1.55% and matures in 2022.	127,873
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>20,170</u>
Total outstanding installment notes payable	<u>\$ 1,822,177</u>

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,			
2018	\$ 163,556	\$ 66,991	\$ 230,547
2019	145,274	61,359	206,633
2020	147,223	55,875	203,098
2021	149,244	50,319	199,563
2022	86,751	44,727	131,478
2023-2027	357,924	184,330	542,254
2028-2032	295,817	124,524	420,341
2033-2037	229,284	76,498	305,782
2038-2042	247,104	27,813	274,917
Total	<u>\$ 1,822,177</u>	<u>\$ 692,436</u>	<u>\$ 2,514,613</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 7. LONG-TERM DEBT (CONTINUED)

Installment Notes (Continued)

<i>Business-type activities</i>	<u>Balance as of June 30, 2017</u>
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.	\$ 1,077,791
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.	126,589
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.	98,184
A note issued by the U.S. Department of Agriculture for \$687,000 was issued on December 19, 2016 with a maturity of June 2056, refinancing of a previously issued line of credit with BB&T Bank. The note bears an interest rate of 1.875% and matures in 2056.	672,000
Total outstanding installment notes payable	<u>\$ 1,974,564</u>

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,			
2018	\$ 304,747	\$ 53,509	\$ 358,256
2019	314,444	43,586	358,030
2020	324,486	33,319	357,805
2021	335,885	22,696	358,581
2022	19,546	11,681	31,227
2023-2027	100,728	54,694	155,422
2028-2032	107,728	48,075	155,803
2033-2037	82,000	40,763	122,763
2038-2042	90,000	32,794	122,794
2043-2047	98,000	24,038	122,038
2048-2052	108,000	14,475	122,475
2053-2056	89,000	4,069	93,069
Total	<u>\$ 1,974,564</u>	<u>\$ 383,699</u>	<u>\$ 2,358,263</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, 2017, \$570,000 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, 2017, \$1,232,000 of the bonds were outstanding. The bonds mature in 2053.

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

Year Ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	37,000	46,580	83,580
2023-2027	201,000	216,708	417,708
2028-2032	231,000	183,320	414,320
2033-2037	268,000	150,705	418,705
2038-2042	309,000	108,800	417,800
2043-2047	345,000	60,138	405,138
2048-2052	226,000	19,571	245,571
2053	47,000	999	47,999
Total	<u>\$ 1,802,000</u>	<u>\$ 982,852</u>	<u>\$ 2,784,852</u>

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 \$2,784,852. Principal and interest paid for the current year and net customer revenues were \$84,319 and \$620,570, 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, 2017:

Operating revenues	\$ 3,602,283
Non-operating revenues	469,252
Operating expenses	<u>(2,989,113)</u>
Income available for debt service	<u>\$ 1,082,422</u>
Annual debt service (Revenue Bonds only)	\$ 84,319
Debt service coverage ratio	1283.7%

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, 2017 is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Other Governmental Funds	\$ 2,242

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

Advances to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Water Fund	Sewer Fund	\$ 650,000

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.

NOTES TO FINANCIAL STATEMENTS

NOTE 8. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS (CONTINUED)

Interfund transfers:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
General Fund	Electric Fund	\$ 175,000
Water Fund	Sewer Fund	31,937

Transfers are used to move revenues from the (1) Electric Fund to the General Fund for operating purposes, and (2) Sewer Fund to Water Fund for operating purposes.

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.

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NOTES TO FINANCIAL STATEMENTS

NOTE 9. PENSION PLANS (CONTINUED)

A. Local Governmental Employees' Retirement System (Continued)

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

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, 2017, was 7.01% of compensation for law enforcement officers and 6.46% 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 \$226,453 for the year ended June 30, 2017.

NOTES TO FINANCIAL STATEMENTS

NOTE 9. PENSION PLANS (CONTINUED)

A. Local Governmental Employees' Retirement System (Continued)

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, 2017, the Town reported a liability of \$1,052,255 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015. The total pension liability was then rolled forward to the measurement date of June 30, 2016 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, 2016, the Town's proportion was 0.04958%, which was an increase of 0.00204% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the Town recognized pension expense of \$278,025. At June 30, 2017, 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	\$ 19,770	\$ 36,872
Changes in plan assumptions	72,070	-
Net difference between projected and actual earnings on pension plan investments	581,763	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	18,227	25,446
Town contributions subsequent to the measurement date	226,453	-
Total	\$ 918,283	\$ 62,318

NOTES TO FINANCIAL STATEMENTS

NOTE 9. PENSION PLANS (CONTINUED)

A. Local Governmental Employees' Retirement System (Continued)

Town contributions made subsequent to the measurement date of \$226,453 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, 2018. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2018	\$	89,464
2019		89,672
2020		281,190
2021		169,186
	\$	<u>629,512</u>

Actuarial Assumptions. The total pension liability as of June 30, 2016 was determined by the December 31, 2015 actuarial valuation using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	3.50 to 7.75 percent, including inflation and productivity factor
Investment rate of return	7.25 percent, net of pension plan investment expense, including inflation

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

The actuarial assumptions used in the December 31, 2015 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

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

NOTES TO FINANCIAL STATEMENTS

NOTE 9. PENSION PLANS (CONTINUED)

A. Local Governmental Employees' Retirement System (Continued)

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, 2016 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed Income	29.0%	1.4%
Global Equity	42.0%	5.3%
Real Estate	8.0%	4.3%
Alternatives	8.0%	8.9%
Credit	7.0%	6.0%
Inflation Protection	6.0%	4.0%
Total	100%	

The information above is based on 30 year expectations developed with the consulting actuary for the 2016 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.

NOTES TO FINANCIAL STATEMENTS

NOTE 9. PENSION PLANS (CONTINUED)

A. Local Governmental Employees' Retirement System (Continued)

Sensitivity of the Town's proportionate share of the net pension liability 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%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Town's proportionate share of the net pension liability (asset)	\$ 2,497,489	\$ 1,052,255	\$ (154,914)

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

B. Law Enforcement Officers Special Separation Allowance

Plan Description. The Town 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	23
Total	28

NOTES TO FINANCIAL STATEMENTS

NOTE 9. PENSION PLANS (CONTINUED)

B. Law Enforcement Officers Special Separation Allowance (Continued)

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 Statement 73.

Actuarial Assumptions. The entry age actuarial cost method was used in the December 31, 2015 valuation. The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00 percent
Salary increases	3.50 to 7.35 percent, including inflation and productivity factor
Discount rate	3.86 percent

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. Administration costs of the Separation Allowance are financed through investment earnings. The Town paid \$66,857 as benefits came due for the reporting period.

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

Effective July 1, 2016, the Town implemented the provisions of GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, which significantly changed the Town's accounting for pension amounts related to the Separation Allowance. The information disclosed on the following pages is presented in accordance with this new standard.

NOTES TO FINANCIAL STATEMENTS

NOTE 9. PENSION PLANS (CONTINUED)

B. Law Enforcement Officers Special Separation Allowance (Continued)

At June 30, 2017, the Town reported a total pension liability of \$693,194. The total pension liability was measured as of December 31, 2016 based on a December 31, 2015 actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2016 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2017, the City recognized pension expense of \$46,615.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Change in assumptions	\$ -	\$ 10,670
Town benefit payments made subsequent to the measurement date.	33,429	-
Total	\$ 33,429	\$ 10,670

The town reported \$33,429 as deferred outflows of resources related to pensions resulting from benefit payments made and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total pension liability in the year ended June 30, 2018. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30	
2018	\$ 2,290
2019	2,290
2020	2,290
2021	2,290
2022	1,510
Total	\$ 10,670

Changes in the Total Pension Liability. The changes in the total pension liability of the Town for the fiscal year ended June 30, 2017 were as follows:

	Total Pension Liability
Balance at June 30, 2016	\$ 724,106
Service cost	24,248
Interest	24,657
Assumption changes	(12,960)
Contributions	(66,857)
Balance at June 30, 2017	\$ 693,194

NOTES TO FINANCIAL STATEMENTS

NOTE 9. PENSION PLANS (CONTINUED)

B. Law Enforcement Officers Special Separation Allowance (Continued)

The required schedule of changes in the Town's total pension liability and related ratios immediately following the notes to the financial statements presents multiyear trend information.

Sensitivity of the Town's total pension liability to changes in the discount rate. The following presents the Town's total pension liability calculated using the discount rate of 3.86 percent, as well as what the Town's total pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.86 percent) or 1-percentage-point higher (4.86 percent) than the current rate:

	1% Decrease (2.86%)	Current Discount Rate (3.86%)	1% Increase (4.86%)
Total pension liability	\$ 739,336	\$ 693,194	\$ 651,030

The plan currently uses mortality tables that vary by age, 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, 2015 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

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.

NOTES TO FINANCIAL STATEMENTS

NOTE 9. PENSION PLANS (CONTINUED)

C. Supplemental Retirement Income Plan for Law Enforcement Officers (Continued)

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, 2017 were \$59,251 which consisted of \$52,811 from the Town and \$6,440 from the law enforcement officers. As of June 30, 2017 there were twenty-five (25) participants in the plan.

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, 2017 were \$69,353 which consisted of \$54,623 from the Town and \$14,730 from the employees. As of June 30, 2017 there were forty-nine (49) 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.

NOTES TO FINANCIAL STATEMENTS

NOTE 10. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

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	86

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 \$204,469 or 9.1% 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 \$204,469 in fiscal year 2017. The Town's obligation to contribute to HCB Plan is established and may be amended by the Town Council.

NOTES TO FINANCIAL STATEMENTS

NOTE 10. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Employer Contributions

Fiscal Year Ended June 30,	Annual OPEB Cost (AOPEBC)	Actual OPEB Contribution	Percentage of AOPEBC Contributed	Net OPEB Obligation
2017	\$ 541,567	\$ 204,469	37.8 %	\$ 2,253,416
2016	547,615	160,104	29.2	1,916,318
2015	417,970	75,925	18.2	1,528,807

Annual OPEB Cost and Net OPEB Obligation

	For the Plan Year Ending June 30, 2017
Annual required contribution	\$ 571,473
Interest on net OPEB obligation	76,653
Adjustments to annual required contribution	<u>(106,559)</u>
Annual OPEB cost	541,567
Contribution made	<u>(204,469)</u>
Increase in net OPEB obligation	<u>337,098</u>
Net OPEB obligation, beginning of year	<u>1,916,318</u>
Net OPEB obligation, end of year	<u><u>\$ 2,253,416</u></u>

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

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 \$163,058 as of June 30, 2017.

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, 2017 were \$5,811,706.

NOTE 14. RESTATEMENTS

The Town implemented Governmental Accounting Standards Board (GASB) No. Statement 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, in the fiscal year ending June 30, 2017. The implementation of the statement required the Town to record beginning total pension liability and the effects on net position of benefit payments and administrative expenses paid by the Town to the Law Enforcement Officers' Special Separation Allowance during the measurement period (fiscal year ending December 31, 2016). As a result, net position for the governmental activities decreased \$563,085.

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF SELMA, NORTH CAROLINA

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

Actuarial 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	0.0%	\$ 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
SCHEDULE OF CHANGES IN TOTAL PENSION LIABILITY
JUNE 30, 2017

LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE

	<u>2017</u>
Total pension liability, beginning balance	\$ 724,106
Service Cost	24,248
Interest on the total pension liability	24,657
Changes of assumptions or other inputs	(12,960)
Benefit payments	(66,857)
Total pension liability, ending balance	<u>\$ 693,194</u>

The amounts presented for each fiscal year were determined as of the prior year ending December 31.

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 TOTAL PENSION LIABILITY AS A PERCENTAGE OF COVERED PAYROLL
LAST TWO FISCAL YEARS**

LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE

	<u>2017</u>	<u>2016</u>
Total pension liability	\$ 693,194	\$ 724,106
Town's covered-employee payroll	\$ 1,030,492	\$ 941,276
Total pension liability as a percentage of covered-employee payroll	67.27%	76.93%

The Town of Selma has no assets accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 73 to pay related benefits.

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
TOWN OF SELMA'S PROPORTIONATE SHARE OF NET PENSION LIABILITY (ASSET)
LAST FOUR FISCAL YEARS***

LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Town's proportion of the net pension liability (asset) (%)	0.04958%	0.04754%	0.04640%	0.05280%
Town's proportion of the net pension liability (asset) (\$)	\$ 1,052,255	\$ 213,357	\$ (273,641)	\$ 636,444
Town's covered-employee payroll	\$ 2,971,719	\$ 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	35.41%	7.69%	(10.05%)	22.76%
Plan fiduciary net position as a percentage of the total pension liability	91.47%	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 FOUR FISCAL YEARS**

LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 226,453	\$ 205,501	\$ 199,781	\$ 196,502
Contributions in relation to the contractually required contribution	226,453	205,501	199,781	196,502
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Town's covered-employee payroll	\$ 3,029,574	\$ 2,971,719	\$ 2,774,964	\$ 2,723,487
Contributions as a percentage of covered-employee payroll	7.47%	6.92%	7.20%	7.22%

TOWN OF SELMA, NORTH CAROLINA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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, 2015
Actuarial cost method	Frozen Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	12 years
Asset valuation method	Assets return in excess of or less than the expected return on market value of assets reflected over a five-year period and not less than 80% of market value)
Inflation rate	3.00%
Salary increases	3.50 - 7.75%, including inflation
Investment rate of return	7.25%, net of pension plan investment expense, including inflation

NONMAJOR GOVERNMENTAL FUNDS

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, 2017**

ASSETS	Special Revenue Funds		Capital Project Fund	Total Nonmajor Governmental Funds
	Small Business Revolving Loan Fund	ESA Solar Farm Interconnection Fund	CDBG Project Fund	
Accounts receivable	\$ 16,145	\$ -	\$ -	\$ 16,145
Intergovernmental receivable	-	-	74,702	74,702
Restricted cash and cash equivalents	29,868	6	-	29,874
Total assets	\$ 46,013	\$ 6	\$ 74,702	\$ 120,721
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ -	\$ -	\$ 72,673	\$ 72,673
Due to other funds	-	-	2,242	2,242
Total liabilities	-	-	74,915	74,915
FUND BALANCES				
Restricted for economic development	46,013	6	-	46,019
Unassigned	-	-	(213)	(213)
Total fund balances (deficit)	46,013	6	(213)	45,806
Total liabilities and fund balances	\$ 46,013	\$ 6	\$ 74,702	\$ 120,721

TOWN OF SELMA, NORTH CAROLINA

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017**

	<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>	
REVENUES				
Charges for services	\$ 624	\$ -	\$ -	\$ 624
Intergovernmental	-	-	157,255	157,255
Interest income	80	-	-	80
Total revenues	<u>704</u>	<u>-</u>	<u>157,255</u>	<u>157,959</u>
EXPENDITURES				
Capital outlay	-	-	157,244	157,244
Total expenditures	<u>-</u>	<u>-</u>	<u>157,244</u>	<u>157,244</u>
Net change in fund balances	704	-	11	715
FUND BALANCES (DEFICIT), beginning of year	<u>45,309</u>	<u>6</u>	<u>(224)</u>	<u>45,091</u>
FUND BALANCES (DEFICIT), end of year	<u>\$ 46,013</u>	<u>\$ 6</u>	<u>\$ (213)</u>	<u>\$ 45,806</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, 2017**

	Budget		Actual	Variance With Final Budget
	Original	Final		
Revenues				
Ad valorem taxes:				
Current year	\$ 2,355,436	\$ 2,355,436	\$ 2,285,499	\$ (69,937)
Prior year	5,000	8,322	8,355	33
Penalties and interest	5,000	5,000	7,082	2,082
Total ad valorem taxes	2,365,436	2,368,758	2,300,936	(67,822)
Other taxes and licenses:				
Local option sales taxes	675,000	675,000	896,204	221,204
Animal licenses	25	25	4	(21)
Total other taxes and licenses	675,025	675,025	896,208	221,183
Unrestricted intergovernmental:				
Local occupancy taxes	105,000	105,000	117,347	12,347
Payments in lieu of taxes (external sources)	20,000	25,200	28,218	3,018
Telecommunications sales tax	58,000	58,000	58,557	557
Fire district tax	145,000	145,000	158,989	13,989
Utilities sales tax	260,000	260,000	300,452	40,452
Piped natural gas sales tax	9,000	9,000	9,905	905
Video franchise fee	34,000	34,000	34,960	960
Beer and wine tax	25,000	25,000	27,185	2,185
ABC profit distribution	30,000	30,000	48,340	18,340
Total unrestricted intergovernmental	686,000	691,200	783,953	92,753
Restricted intergovernmental:				
Powell Bill allocation	165,000	165,000	165,094	94
Controlled substance tax	-	6,000	3,338	(2,662)
On-behalf of payments - Fire and Rescue	-	-	261	261
State grants	12,250	12,250	-	(12,250)
Solid waste disposal tax	4,000	4,000	4,175	175
Total restricted intergovernmental	181,250	187,250	172,868	(14,382)
Permits and fees:				
Building permits	5,000	5,000	9,422	4,422
Inspection fees	5,500	5,500	7,869	2,369
Total permits and fees	10,500	10,500	17,291	6,791
Sales and service:				
Cemetery fees	125,345	125,345	155,018	29,673
Recreation fees	54,000	54,000	75,193	21,193
Refuse charges	650,000	650,000	683,904	33,904
Rents	16,201	16,201	15,353	(848)
Other fees	8,301	8,301	5,500	(2,801)
Total sales and service	853,847	853,847	934,968	81,121
Investment earnings	8,674	8,675	10,626	1,951
Miscellaneous	158,650	181,453	184,759	3,306
Total revenues	4,939,382	4,976,708	5,301,609	324,901

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, 2017**

	Budget		Actual	Variance With Final Budget
	Original	Final		
Expenditures				
Current:				
General government:				
Governing body:				
Salaries and employee benefits	32,820	32,820	30,486	2,334
Professional services	7,500	27,150	13,472	13,678
Departmental supplies	1,500	1,400	1,075	325
Other operating expenditures	11,396	11,496	3,021	8,475
Capital outlay	20,000	13,500	12,019	1,481
Total	<u>73,216</u>	<u>86,366</u>	<u>60,073</u>	<u>26,293</u>
Administration:				
Salaries and employee benefits	234,143	292,843	281,219	11,624
Professional services	14,000	14,000	10,013	3,987
Departmental supplies	12,000	13,000	12,211	789
Other operating expenditures	44,150	43,250	40,162	3,088
Repairs and maintenance	500	500	-	500
Total	<u>304,793</u>	<u>363,593</u>	<u>343,605</u>	<u>19,988</u>
Finance:				
Salaries and employee benefits	46,826	46,826	40,796	6,030
Professional services	70,750	80,772	75,390	5,382
Departmental supplies	3,000	3,000	633	2,367
Other operating expenditures	9,150	7,650	4,730	2,920
Total	<u>129,726</u>	<u>138,248</u>	<u>121,549</u>	<u>16,699</u>
Public Buildings:				
Professional services	56,000	71,800	63,930	7,870
Departmental supplies	1,000	1,000	988	12
Other operating expenditures	198,001	199,931	194,750	5,181
Capital outlay	28,330	21,200	340	20,860
Repairs and maintenance	16,500	32,600	28,233	4,367
Total	<u>299,831</u>	<u>326,531</u>	<u>288,241</u>	<u>38,290</u>
Nonprofit Organization Support:				
Other operating expenditures	33,725	33,725	19,701	14,024
Total	<u>33,725</u>	<u>33,725</u>	<u>19,701</u>	<u>14,024</u>
Planning and Economic Development:				
Salaries and employee benefits	150,768	96,568	76,857	19,711
Professional services	30,000	69,500	62,215	7,285
Departmental supplies	4,000	4,000	3,702	298
Other operating expenditures	134,000	129,200	127,391	1,809
Repairs and maintenance	1,500	1,500	140	1,360
Total	<u>320,268</u>	<u>300,768</u>	<u>270,305</u>	<u>30,463</u>
Total general government	<u>1,161,559</u>	<u>1,249,231</u>	<u>1,103,474</u>	<u>145,757</u>

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, 2017**

	Budget		Actual	Variance With Final Budget
	Original	Final		
Public Safety:				
Police:				
Salaries and employee benefits	1,528,374	1,607,774	1,555,923	51,851
Professional services	16,000	15,500	15,457	43
Departmental supplies	18,500	22,700	21,802	898
Other operating expenditures	77,625	79,625	76,939	2,686
Capital outlay	78,500	91,050	90,829	221
Repairs and maintenance	26,000	28,603	25,501	3,102
Total	1,744,999	1,845,252	1,786,451	58,801
Fire Department:				
Salaries and employee benefits	357,505	395,255	378,561	16,694
Professional services	5,400	5,650	555	5,095
Departmental supplies	62,150	61,900	46,614	15,286
Other operating expenditures	17,120	19,670	18,666	1,004
Repairs and maintenance	66,600	66,850	41,940	24,910
Total	508,775	549,325	486,336	62,989
Total public safety	2,253,774	2,394,577	2,272,787	121,790
Transportation:				
Powell Bill:				
Departmental supplies	5,000	5,000	-	5,000
Capital outlay	248,500	399,500	330,092	69,408
Repairs and maintenance	17,000	17,000	6,812	10,188
Total	270,500	421,500	336,904	84,596
Public Works:				
Salaries and employee benefits	310,893	311,893	291,044	20,849
Professional services	541,000	570,000	566,121	3,879
Departmental supplies	30,600	30,600	21,451	9,149
Other operating expenditures	35,225	58,925	48,111	10,814
Repairs and maintenance	24,000	24,000	18,706	5,294
Capital outlay	150,000	2,248	140,996	(138,748)
Total	1,091,718	997,666	1,086,429	(88,763)
Total transportation	1,362,218	1,419,166	1,423,333	(4,167)
Cemetery:				
Salaries and employee benefits	99,365	101,865	96,196	5,669
Professional services	7,500	4,800	1,303	3,497
Departmental supplies	10,400	13,400	9,991	3,409
Other operating expenditures	5,050	5,550	3,308	2,242
Repairs and maintenance	4,500	5,700	3,494	2,206
Total	126,815	131,315	114,292	17,023
Culture and Recreation:				
Recreation:				
Salaries and employee benefits	185,921	208,571	200,370	8,201
Professional services	20,200	4,050	4,084	(34)
Departmental supplies	39,500	38,600	35,807	2,793
Other operating expenditures	73,750	76,250	67,617	8,633
Capital outlay	30,000	30,000	2,500	27,500
Repairs and maintenance	14,500	14,400	7,956	6,444
Total	363,871	371,871	318,334	53,537

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, 2017**

	Budget		Actual	Variance With Final Budget
	Original	Final		
Library:				
Salaries and employee benefits	113,762	114,262	104,755	9,507
Professional services	1,500	2,140	2,044	96
Departmental supplies	43,500	44,500	40,050	4,450
Other operating expenditures	6,500	6,875	5,243	1,632
Repairs and maintenance	7,000	4,540	1,725	2,815
Total	<u>172,262</u>	<u>172,317</u>	<u>153,817</u>	<u>18,500</u>
Total culture and recreation	<u>536,133</u>	<u>544,188</u>	<u>472,151</u>	<u>72,037</u>
Debt Service:				
Principal	157,827	173,636	195,870	(22,234)
Interest	77,830	76,097	71,996	4,101
Total expenditures	<u>5,676,156</u>	<u>5,988,210</u>	<u>5,653,903</u>	<u>334,307</u>
Deficiency of revenues over expenditures	<u>(736,774)</u>	<u>(1,011,502)</u>	<u>(352,294)</u>	<u>659,208</u>
Other financing sources				
Fund balance appropriation	411,774	686,663	-	(686,663)
Transfers in	175,000	175,000	175,000	-
Issuance of note payable	150,000	150,000	138,990	(11,010)
Total other financing sources	<u>736,774</u>	<u>1,011,663</u>	<u>313,990</u>	<u>(697,673)</u>
Net change in fund balances	-	161	(38,304)	(38,465)
Fund balance, beginning of year	<u>3,754,342</u>	<u>3,754,342</u>	<u>3,754,342</u>	-
Fund balance, end of year	<u>\$ 3,754,342</u>	<u>\$ 3,754,503</u>	<u>\$ 3,716,038</u>	<u>\$ (38,465)</u>

TOWN OF SELMA, NORTH CAROLINA
FIRE PROTECTION - SELMA PETROLEUM TERMINALS FUND

SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (NON-GAAP BASIS)
FOR THE YEAR ENDED JUNE 30, 2017

	<u>Budget</u>		<u>Actual</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Interest	\$ 60	\$ 60	\$ 390	\$ 330
Permits and fees	9,500	9,500	-	(9,500)
Miscellaneous	<u>5,500</u>	<u>81,201</u>	<u>117,978</u>	<u>36,777</u>
Total revenues	<u>15,060</u>	<u>90,761</u>	<u>118,368</u>	<u>27,607</u>
EXPENDITURES				
Public safety	<u>19,560</u>	<u>95,261</u>	<u>85,165</u>	<u>10,096</u>
Excess (deficiency) of revenues over expenditures	(4,500)	(4,500)	33,203	37,703
OTHER FINANCING SOURCES				
Fund balance appropriations	<u>4,500</u>	<u>4,500</u>	<u>-</u>	<u>(4,500)</u>
Net change in fund balances	-	-	33,203	33,203
FUND BALANCE, beginning of year	<u>119,712</u>	<u>119,712</u>	<u>119,712</u>	<u>-</u>
FUND BALANCE, end of year	<u>\$ 119,712</u>	<u>\$ 119,712</u>	<u>\$ 152,915</u>	<u>\$ 33,203</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, 2017**

	Budget		Actual	Variance With Final Budget
	Original	Final		
REVENUES				
Charges for services	\$ 4,030	\$ 4,030	\$ 624	\$ (3,406)
Interest	16	16	80	64
Total revenues	<u>4,046</u>	<u>4,046</u>	<u>704</u>	<u>(3,342)</u>
EXPENDITURES				
Economic development	<u>20,000</u>	<u>20,000</u>	-	<u>20,000</u>
Excess (deficiency) of revenues over expenditures	(15,954)	(15,954)	704	16,658
OTHER FINANCING SOURCES				
Fund balance appropriations	<u>15,954</u>	<u>15,954</u>	-	<u>(15,954)</u>
Net change in fund balances	-	-	704	704
FUND BALANCE, beginning of year	<u>45,309</u>	<u>45,309</u>	<u>45,309</u>	<u>-</u>
FUND BALANCE, end of year	<u><u>\$ 45,309</u></u>	<u><u>\$ 45,309</u></u>	<u><u>\$ 46,013</u></u>	<u><u>\$ 704</u></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, 2017**

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

**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, 2017**

	Budget		Actual	Variance With Final Budget
	Original	Final		
REVENUES				
Operating revenues				
Water charges	\$ 1,090,000	\$ 1,090,000	\$ 1,119,267	\$ 29,267
Penalties	85,000	85,000	76,326	(8,674)
Other operating revenues	113,500	113,500	40,692	(72,808)
Nonoperating revenues - interest	3,000	2,728	5,369	2,641
Total revenues	<u>1,291,500</u>	<u>1,291,228</u>	<u>1,241,654</u>	<u>(49,574)</u>
EXPENDITURES				
Water administration				
Salaries and benefits	295,300	286,400	263,223	23,177
Professional services	58,750	75,850	65,389	10,461
Utilities	62,300	62,300	61,986	314
Insurance	58,265	62,085	51,847	10,238
Other operating expenditures	18,750	18,750	15,864	2,886
Total water administration	<u>493,365</u>	<u>505,385</u>	<u>458,309</u>	<u>47,076</u>
Water operations				
Salaries and benefits	330,599	322,199	298,849	23,350
Department supplies	13,900	13,900	12,534	1,366
Chemicals	52,000	52,000	50,563	1,437
Maintenance and repairs	77,500	77,500	40,644	36,856
Contract services	62,500	89,400	67,629	21,771
Purchase for resale	80,000	80,000	95,669	(15,669)
Other operating expenditures	65,500	65,500	120,499	(54,999)
Total water operations	<u>681,999</u>	<u>700,499</u>	<u>686,387</u>	<u>14,112</u>

continued

**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, 2017**

	Budget		Actual	Variance With Final Budget
	Original	Final		
Debt service				
Principal	19,731	20,731	20,732	(1)
Interest	28,730	28,730	24,876	3,854
Total debt service	48,461	49,461	45,608	3,853
Total expenditures	1,223,825	1,255,345	1,190,304	65,041
Excess of revenues over expenditures	67,675	35,883	51,350	15,467
OTHER FINANCING SOURCES (USES)				
Budgeted use of net position	-	31,920	-	(31,920)
Transfers out	(67,675)	(67,675)	(67,675)	-
Total other financing sources (uses)	(67,675)	(35,755)	(67,675)	(31,920)
Net change in net position	\$ -	\$ 128	(16,325)	\$ (16,453)
Adjustments to full accrual:				
Capital outlays			72,578	
Payments of debt service - principal			20,732	
Decrease in compensated absences			870	
Increase in OPEB obligation			(30,881)	
Decrease in net pension liability and related pension items			(10,601)	
Depreciation expense			(293,947)	
Water Capital Reserve Fund			99,906	
Change in net position			\$ (157,668)	

**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, 2017**

	Budget		Actual	Variance With Final Budget
	Original	Final		
REVENUES				
Interest	\$ 272	\$ 272	\$ 294	\$ 22
OTHER FINANCING SOURCES (USES)				
Increase to net position	(41,272)	(41,272)	-	41,272
Transfer in	99,613	99,613	99,612	(1)
Transfer out	(58,613)	(58,613)	-	58,613
Total other financing sources (uses)	<u>(272)</u>	<u>(272)</u>	<u>99,612</u>	<u>99,884</u>
Net change in net position	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 99,906</u>	<u>\$ 99,906</u>

**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, 2017**

	Budget		Actual	Variance With Final Budget
	Original	Final		
REVENUES				
Operating revenues				
Sewer charges	\$ 2,255,000	\$ 2,255,000	\$ 2,239,666	\$ (15,334)
Penalties	85,000	85,000	76,375	(8,625)
Other operating revenues	54,000	54,000	49,957	(4,043)
Nonoperating revenues - interest	750	750	1,736	986
Total revenues	<u>2,394,750</u>	<u>2,394,750</u>	<u>2,367,734</u>	<u>(27,016)</u>
EXPENDITURES				
Sewer administration				
Salaries and benefits	233,388	228,088	201,459	26,629
Professional services	63,750	80,850	66,391	14,459
Utilities	54,000	61,000	60,571	429
Insurance	40,131	41,351	38,411	2,940
Maintenance and repairs	1,000	1,000	277	723
Other operating expenditures	23,300	23,309	14,869	8,440
Total sewer administration	<u>415,569</u>	<u>435,598</u>	<u>381,978</u>	<u>53,620</u>
Sewer operations				
Salaries and benefits	139,224	136,724	121,186	15,538
Department supplies	6,500	6,500	6,456	44
Maintenance and repairs	97,000	97,000	45,428	51,572
Transmission and treatment fees	1,570,000	1,570,000	1,225,157	344,843
Other operating expenditures	50,500	53,000	42,142	10,858
Total sewer operations	<u>1,863,224</u>	<u>1,863,224</u>	<u>1,440,369</u>	<u>422,855</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, 2017**

	Budget		Actual	Variance With Final Budget
	Original	Final		
Debt service				
Principal	26,200	27,191	729,186	(701,995)
Interest	52,900	51,900	40,593	11,307
Total debt service	79,100	79,091	769,779	(690,688)
Total expenditures	2,357,893	2,377,913	2,592,126	(214,213)
Excess (deficiency) of revenues over expenditures	36,857	16,837	(224,392)	(241,229)
OTHER FINANCING SOURCES (USES)				
Appropriation of net position	-	20,020	-	(20,020)
Proceeds from issuance of note payable	-	-	687,000	
Transfers out	(36,857)	(36,857)	(76,169)	(39,312)
Transfers in	-	-	320,546	320,546
Net change in net position	\$ -	\$ -	706,985	\$ 19,985
Adjustments to full accrual:				
Capital outlays			18,942	
Issuance of installment note			(687,000)	
Payments of debt service - principal			729,186	
Increase in compensated absences			(585)	
Increase in accrued interest			3,409	
Decrease in OPEB obligation			(18,640)	
Decrease in net pension liability and related pension items			(7,903)	
Deprecation expense			(284,982)	
Pump Station Number 10			(13,308)	
Wastewater System Improvements Capital Fund			152,997	
Change in net position			\$ 599,101	

**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, 2017**

	Budget		Actual	Variance With Final Budget
	Original	Final		
REVENUES				
Intergovernmental	\$ 562,000	\$ 562,000	\$ 461,853	\$ (100,147)
Contributions	30,768	30,768	-	(30,768)
Total revenues	<u>592,768</u>	<u>592,768</u>	<u>461,853</u>	<u>(130,915)</u>
EXPENDITURES				
Operations	1,142,883	1,142,883	32,444	1,110,439
Administrative	136,885	136,885	98	136,787
Total expenditures	<u>1,279,768</u>	<u>1,279,768</u>	<u>32,542</u>	<u>1,247,226</u>
Excess (deficiency) of revenues over expenditures	(687,000)	(687,000)	429,311	1,116,311
OTHER FINANCING SOURCES (USES)				
Proceeds from loan	656,232	656,232	-	(656,232)
Transfer in	30,768	30,768	44,232	13,464
Transfer out	-	-	(320,546)	(320,546)
Total other financing sources (uses)	<u>687,000</u>	<u>687,000</u>	<u>(276,314)</u>	<u>(963,314)</u>
Net change in net position	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 152,997</u>	<u>\$ 152,997</u>

**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, 2017**

	Budget		Actual	Variance With Final Budget
	Original	Final		
REVENUES				
Operating revenues				
Electric charges	\$ 7,705,000	\$ 7,705,000	\$ 7,201,666	\$ (503,334)
Other operating revenues	630,151	630,151	586,491	(43,660)
Nonoperating revenues - interest	1,500	1,500	3,024	1,524
Total revenues	<u>8,336,651</u>	<u>8,336,651</u>	<u>7,791,181</u>	<u>(545,470)</u>
EXPENDITURES				
Electric administration				
Salaries and benefits	454,152	461,852	425,271	36,581
Contracted services	22,750	54,050	46,591	7,459
Utilities	7,000	7,000	6,109	891
Insurance	18,500	19,720	18,633	1,087
Other operating expenditures	115,000	141,700	111,655	30,045
Total electric administration	<u>617,402</u>	<u>684,322</u>	<u>608,259</u>	<u>76,063</u>
Electric operations				
Salaries and benefits	332,653	330,653	278,466	52,187
Department supplies	71,000	71,000	52,019	18,981
Maintenance and repairs	7,000	7,000	5,675	1,325
Purchases for inventory	130,000	130,000	84,087	45,913
Contracted services	70,000	70,000	40,820	29,180
Other operating expenditures	250,600	252,600	165,702	86,898
Total electric operations	<u>861,253</u>	<u>861,253</u>	<u>626,769</u>	<u>234,484</u>
Electric power purchases	<u>5,976,531</u>	<u>6,040,531</u>	<u>5,811,705</u>	<u>228,826</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, 2017**

	Budget		Actual	Variance With Final Budget
	Original	Final		
Debt service				
Principal	241,893	241,893	281,227	(39,334)
Interest	57,222	89,856	44,366	45,490
Total debt service	299,115	331,749	325,593	6,156
Total expenditures	7,754,301	7,917,855	7,372,326	545,529
Excess (deficiency) of revenues over expenditures	582,350	418,796	418,855	59
OTHER FINANCING USES				
Appropriation to increase net position	-	163,554	-	(163,554)
Transfers out	(582,350)	(582,350)	(582,350)	-
Total other financing uses	(582,350)	(418,796)	(582,350)	(163,554)
Net change in net position	\$ -	\$ -	(163,495)	\$ (163,495)
Adjustments to full accrual:				
Capital outlays			162,999	
Payments of debt service - principal			281,227	
Increase in compensated absences			3,419	
Increase in OPEB obligation			(38,539)	
Increase in net pension liability and related pension items			(10,611)	
Deprecation expense			(515,812)	
Wastewater System Improvements Capital Fund			408,096	
Change in net position			\$ 127,284	

**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, 2017**

	Budget		Actual	Variance With Final Budget
	Original	Final		
REVENUES				
Interest	\$ 235	\$ 235	\$ 746	\$ 511
OTHER FINANCING SOURCES (USES)				
Appropriation of net position	(407,350)	(407,350)	-	407,350
Transfer in	407,115	407,115	407,350	235
Total other financing sources (uses)	(235)	(235)	407,350	407,585
Net change in net position	\$ -	\$ -	\$ 408,096	\$ 408,096

TOWN OF SELMA, NORTH CAROLINA
SCHEDULE OF AD VALOREM TAXES RECEIVABLE
JUNE 30, 2017

Fiscal Year	Uncollected Balance June 30, 2016	Additions	Collections And Credits	Uncollected Balance June 30, 2017
2016-2017	\$ -	\$ 2,286,199	\$ 2,282,888	\$ 3,311
2015-2016	7,257	-	5,913	1,344
2014-2015	2,051	-	251	1,800
2013-2014	2,310	-	175	2,135
2012-2013	3,114	-	247	2,867
2011-2012	3,263	-	84	3,179
2010-2011	2,936	-	152	2,784
2009-2010	4,346	-	771	3,575
2008-2009	3,873	-	40	3,833
2007-2008	302	-	130	172
2006-2007	294	-	261	33
2005-2006	263	-	263	-
	<u>\$ 30,009</u>	<u>\$ 2,286,199</u>	<u>\$ 2,291,175</u>	<u>25,033</u>
Less: allowance for uncollectible accounts:				
General Fund				<u>23,680</u>
Ad valorem taxes receivable - net				<u>\$ 1,353</u>
<u>Reconciliation to revenues:</u>				
Ad valorem taxes - General Fund				\$ 2,300,936
Reconciling items:				
Releases and write-offs				(2,679)
Interest collected				(7,082)
Total collections and credits				<u>\$ 2,291,175</u>

TOWN OF SELMA, NORTH CAROLINA

**ANALYSIS OF CURRENT TAX LEVY
TOWN-WIDE LEVY
JUNE 30, 2017**

	Town - Wide			Total Levy	
	Property Valuation	Rate	Total Levy	Property excluding Registered Motor Vehicles	Registered Motor Vehicles
	Original levy:				
Real property	\$ 306,061,879	0.51	\$ 1,560,916	\$ 1,560,916	\$ 152,177
Personal property	80,592,317	0.51	411,021	411,021	
Public service company	31,342,335	0.51	159,846	159,846	
Penalties	-		3,635	-	-
Total	<u>417,996,531</u>		<u>2,135,417</u>	<u>2,131,782</u>	<u>152,177</u>
Discoveries:					
Current year taxes	26,608		96	96	-
Prior year taxes	437,937		2,144	2,144	-
Penalties	-		444	-	-
Total	<u>464,545</u>		<u>2,684</u>	<u>2,240</u>	<u>-</u>
Abatements	(586,506)		(2,991)	(2,991)	-
Total property valuation	<u>\$ 417,874,570</u>				
Net levy			2,283,208	2,131,031	152,177
Uncollected taxes at June 30, 2017			<u>(3,311)</u>	<u>(3,311)</u>	<u>-</u>
Current year's taxes collected			<u>\$ 2,279,897</u>	<u>\$ 2,127,720</u>	<u>\$ 152,177</u>
Current levy collection percentage			<u>99.85%</u>	<u>99.84%</u>	<u>100.00%</u>

COMPLIANCE SECTION



**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***

**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, 2017, 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 6, 2017. Our report includes a reference to the change in accounting principle resulting from the implementation of Governmental Accounting Standards Board Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*, and Amendments to Certain Provisions of GASB Statements 67 and 68, as of July 1, 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 have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses, as items 2017-001, 2017-002, 2017-003, 2017-004, 2017-005, and 2017-006, that we consider to be material weaknesses.

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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2017-007.

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 6, 2017

TOWN OF SELMA, NORTH CAROLINA

SCHEDULE OF FINDINGS AND RESPONSES FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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, 2017 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, 2017 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, 2017

SECTION II FINANCIAL STATEMENT FINDINGS AND RESPONSES

2017-001 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 was needed to the Small Business Revolving Loan Fund to reduce revenues recognized during the current year, which should have offset the outstanding receivable balances. An adjustment of approximately \$5,700 was required to properly report the collection of the outstanding loan balance which should result in the reduction of the existing receivable balances.
- An adjustment of approximately \$75,000 was needed to the CDBG Project Fund to record year-end accrued revenues for the reimbursement of project expenditures which were incurred, by the Town as of June 30, 2017.
- An adjustment of approximately \$9,000 was needed to the Sewer Fund to adjust the Town's estimated allowance for uncollectible receivables.
- An adjustment of approximately \$18,000 was needed to the Electric Fund to adjust the unbilled receivable balance for current year services provided, but unbilled, as of June 30, 2017.
- An adjustment of approximately \$27,500 was needed to the Electric Fund to adjust the Town's estimated allowance for uncollectible receivables.

Effects: Total misstatements related to revenue recognition and reporting of the related balance sheet accounts were approximately \$135,200 for the year ended June 30, 2017.

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, 2017

SECTION II FINANCIAL STATEMENT FINDINGS AND RESPONSES (CONTINUED)

2017-002 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 cut-off of the year-end accrued expenditures, we identified approximately \$73,000 of unrecorded expenditures for the CDBG Project Fund. The expenditures were for goods and services which were received prior to June 30, 2017 but were not paid until subsequent to June 30, 2017, thus the year-end expenditures were understated.
- During our testing of the cut-off of the year-end accrued expenses, we identified approximately \$12,000 of unrecorded expenses for the Sewer Fund. The expenses were for services which were received prior to June 30, 2017 but were not paid until subsequent to June 30, 2017, thus the year-end expenses were understated.

Effects: Audit adjustments totaling approximately \$85,000 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, 2017

SECTION II FINANCIAL STATEMENT FINDINGS AND RESPONSES (CONTINUED)

2017-003 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 \$264,000 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 \$611,000 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 \$137,500 were required to record capital assets of the Water Fund which were being expensed. The outlays were for capital outlays related to a water improvement project which met the Town's capitalization policy and should have been capitalized.
- Adjustments totaling approximately \$85,000 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.
- Additionally, during our fieldwork for the Town's audit we noted the Town had not added any of the current year additions to the capital asset subsidiary ledger system and thus had not generated current year depreciation reports or reconciled the capital asset activity to the respective general ledger balances for the cost or accumulated depreciation of the Town's assets. During this time, the Town also realized, they no longer had access rights to log into the capital asset software. The Town was unable to access their subsidiary ledger until September 2017.

Effects: Audit adjustments of approximately \$1,097,500 were needed to correctly report capital asset balances for the Town's capital assets.

TOWN OF SELMA, NORTH CAROLINA

SCHEDULE OF FINDINGS AND RESPONSES FOR THE FISCAL YEAR ENDED JUNE 30, 2017

SECTION II FINANCIAL STATEMENT FINDINGS AND RESPONSES (CONTINUED)

2017-003 **Capital Asset Reporting (Continued)**

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. Additionally, the Town should consider updating the subsidiary ledger system periodically throughout the year. This will allow for the Town to not only estimate depreciation expense figures throughout the year, but will help reduce the risk of not capitalizing assets purchased or constructed throughout the year.

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, 2017

SECTION II FINANCIAL STATEMENT FINDINGS AND RESPONSES (CONTINUED)

2017-004 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, 2017, 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 every fund of the Town in order to reconcile the opening equity (fund balance or net position) to agree with the prior year's audited financial statements. Audit entries from the prior year, as well as entries incorrectly coded to the equity accounts during the current fiscal year, prevented the Town's opening balances from carrying forward from the prior year's audited numbers. As such, entries of approximately \$43,000 (General Fund), \$52,000 (ESA Solar Farm Fund), \$35,000 (Small Business Revolving Loan Fund), \$224 (CDBG Project Fund), \$68,000 (Water Fund), \$168,000 (Sewer Fund), and \$224,000 (Electric Fund) were required to correct opening balances in the respective funds.
- 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 \$139,000 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 \$392,000 was required to report capital expenditures which were made from the Town's restricted cash account but were not recorded to the general ledger. The cash balance remained unadjusted from the prior year's balance and the capital outlays were not reported.
- Adjustments were required in the Water Fund, the Sewer Fund, and the Electric Fund in order to show the current year principal payments as a reduction of the outstanding long-term debt balances rather than as expenses of the respective funds. Adjustments of approximately \$20,700, \$27,000, and \$291,000, respectively, were required to reduce the outstanding balances.

Effects: Audit adjustments of approximately \$1,460,000 were needed to correctly report general ledger balances in accordance with generally accepted accounting principles.

TOWN OF SELMA, NORTH CAROLINA

**SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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

2017-004 General Ledger Maintenance (Continued)

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, 2017

SECTION II FINANCIAL STATEMENT FINDINGS AND RESPONSES (CONTINUED)

2017-005 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 Town utilizes a pooled cash fund (fund 98) which accounts for the majority of the Town's physical cash and cash equivalent assets. Within this pooled fund, the liabilities are linked directly to the respective fund's general ledger operating account (i.e. The pooled cash liability 98-2080-0010 is tied to the General Fund's cash account 10-1010-0100). In situations where there are manual journal entries made directly to the pool's liability accounts or the respective funds' cash account which are not made in each place, this creates differences between the pool and the general ledger. During the current year adjustments were required to the pool (fund 98) and the respective reporting funds of the Town. Adjusting entries of approximately \$157,000 were posted to reconcile the fund 98 assets with the liabilities and entries of approximately \$165,000, \$8,000, \$4,000, and \$12,000 were required in the General Fund, the Water Fund, the Electric Fund, and the Sewer Fund in order to reconcile the pooled liabilities with the reported fund cash positions.

Effects: Audit adjustments of approximately \$346,000 were needed to correctly report cash balances as of June 30, 2017.

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, 2017

SECTION II FINANCIAL STATEMENT FINDINGS AND RESPONSES (CONTINUED)

2017-006 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-three (23) 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 two (2) of the twenty-five (25) entries were incorrectly posted and required a correction through the audit process.

TOWN OF SELMA, NORTH CAROLINA

**SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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

2017-006 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 FINDINGS AND RESPONSES FOR THE FISCAL YEAR ENDED JUNE 30, 2017

SECTION II FINANCIAL STATEMENT FINDINGS AND RESPONSES (CONTINUED)

2017-007 Annual Operating Budgets

Criteria: Internal controls should be in place to ensure the Town's annual budgeted expenditures for the Town's debt service principal and interest expenditures are fully budgeted in accordance with State Statute G.S 159-13(b)(1).

Condition: Actual debt service expenditures for the Town exceeded the annually appropriate budgeted amounts.

Context/Cause: The Town of Selma's General Fund, Sewer Fund, and Electric Fund reported actual expenditures which exceeded the budgeted expenditures by \$22,234, \$663,995, and \$45,264 respectively. Additionally, a budget was not adopted for the CDBG Project Fund, which reported approximately \$157,000 of expenditures. These unbudgeted expenditures as a whole merit the attention of management for consideration in the future budget recommendations and amendments.

Effects: The Town did not adopt or amend budgeted expenditures to include all debt service requirements for the fiscal year ended June 30, 2017 and as a result three separate funds are reporting debt service expenditures in excess of actuals debt service expenditures compared to appropriations. Additionally, an annual operating budget, nor a project length budget was adopted for the CDBG Project Fund, and thus the Town was operating a special revenue fund without an authorized budget.

Recommendation: We recommend the Town carefully review operating needs, including debt service requirements, of each fund and ensure all requirements are included in the original or amended budget. Throughout the year, the activity should be monitored to ensure any supplemental appropriations needed based on current year activity are considered and in presented to the Town Council for appropriation.

Auditee's Response: We concur with the finding. We will take necessary steps in the future to ensure all debt service expenditures are included in the original or amended budget numbers as approved by the Council.