

TOWN OF SELMA, NORTH CAROLINA

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2018

**Prepared by:
Finance Department**

**Submitted by:
Town Manager**

TOWN OF SELMA, NORTH CAROLINA

ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2018

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INTRODUCTORY SECTION

TOWN OF SELMA, NORTH CAROLINA

TOWN COUNCIL AND OFFICIALS

JUNE 30, 2018

TOWN COUNCIL

Cheryl L. Oliver.....Mayor

Jacqueline J. Lacey.....Council Member

Ann Williams.....Council Member

Tommy Holmes.....Council Member

Mark Peterson.....Council Member

TOWN OFFICIALS

Elton Daniels.....Town Manager

Rhonda Sommer.....Finance Officer

Brenda Thorne.....Town Clerk

Susan Sult.....Human Resource Manager

Alan B. Hewett.....Town Attorney

Richard A. Cooper.....Police Chief

Phillip W. McDaniel.....Fire Chief

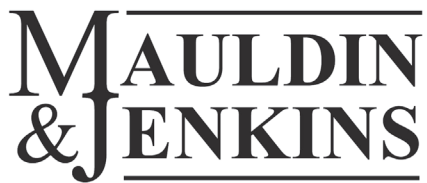
Donald W. Baker.....Utilities Director

Donald W. Baker.....Interim Public Works/Cemetery/Water & Sewer Director

Joseph L. Carter.....Recreation and Library Services Director

Julie A. Maybee.....Interim 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, 2018, 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, 2018, 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 10 and 14, the Town implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, as of July 1, 2017. This standard significantly changed the accounting for the Town's total other postemployment benefits (OPEB) liability and related disclosures. 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, the Schedule of Changes in Total OPEB Liability, 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, 63, 64, 65, 66, and 67, 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, and the schedule of expenditures of federal and state awards 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 and the schedule of expenditures of federal and state awards (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 27, 2018 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 27, 2018

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 fiscal year ended June 30, 2018. 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 \$13,041,597 (net position).
- The government's total net position increased by \$1,231,805 over the previous year's restated net position. This increase was due primarily to business-type activities.
- As of close of the current fiscal year, the Town of Selma's governmental funds reported combined ending fund balances of \$3,720,662 with a net decrease of \$194,097 in fund balance in comparison with the prior year. Approximately 58.26% of this total amount, or \$2,167,684, is available for spending at the government's discretion (unassigned fund balance). The remaining balance of \$1,552,978 (41.74%) is non-spendable, restricted, or committed.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$2,168,526, which represents 35.99% of total general fund expenditures for the fiscal year.
- The Town of Selma's total debt decreased by \$1,194,023 (7.32%) during the current fiscal year. The key factors in this increase was the change in other postemployment benefits and pension liabilities.

Overview of the Financial Statements

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

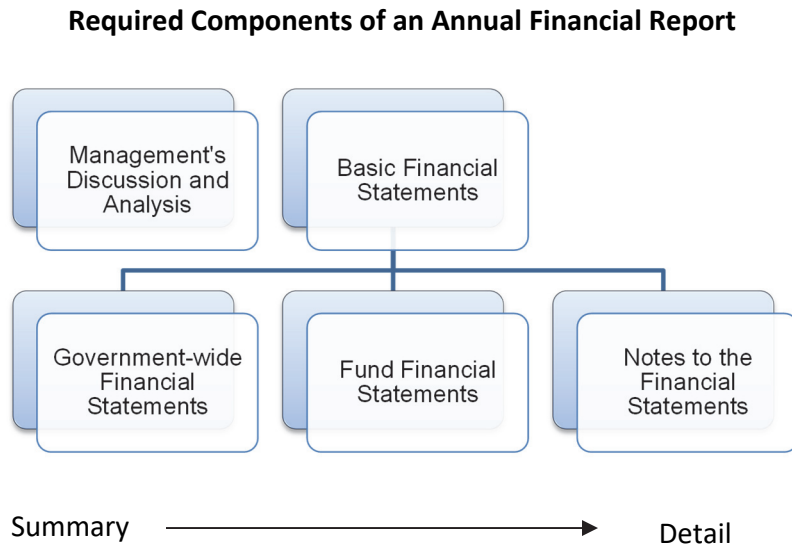
Basic Financial Statements

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

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

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

Figure 1



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

Government-Wide Financial Statements

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

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

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

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

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

Fund Financial Statements

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

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

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

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

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

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

Other Information – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the Town of Selma's progress in funding its obligation to provide pension and other postemployment benefits to its employees. Required supplementary information can be found beginning on page 63 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, 2018 and 2017

	Governmental Activities		Business-Type Activities		Total	
	2018	2017 - restated	2018	2017 - restated	2018	2017 - restated
Current and other assets	\$ 4,239,366	\$ 4,400,894	\$ 7,126,259	\$ 5,860,663	\$ 11,365,625	\$ 10,261,557
Capital assets	9,076,812	8,874,535	9,439,428	9,800,104	18,516,240	18,674,639
Deferred outflows of resources	673,835	808,625	211,861	342,386	885,696	1,151,011
Total assets and deferred outflows of resources	13,990,013	14,084,054	16,777,548	16,003,153	30,767,561	30,087,207
Current and other liabilities	503,976	473,427	1,423,921	1,318,117	1,927,897	1,791,544
Noncurrent liabilities	11,359,897	12,111,911	3,777,378	4,300,972	15,137,275	16,412,883
Deferred inflows of resources	647,909	49,468	12,883	23,520	660,792	72,988
Total liabilities and deferred inflows of resources	12,511,782	12,634,806	5,214,182	5,642,609	17,725,964	18,277,415
Net Position						
Net investment in capital assets	7,432,050	7,066,664	6,020,450	6,041,570	13,452,500	13,108,234
Restricted	1,313,409	1,439,082	66,537	69,606	1,379,946	1,508,688
Unrestricted	(7,267,228)	(7,056,498)	5,476,379	4,249,368	(1,790,849)	(2,807,130)
Total net position	\$ 1,478,231	\$ 1,449,248	\$ 11,563,366	\$ 10,360,544	\$ 13,041,597	\$ 11,809,792

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 \$13,041,597 as of June 30, 2018. The Town's net position increased by \$1,231,805 for the fiscal year ended June 30, 2018. The largest portion of net position reflects the Town's net investment in capital assets (e.g. land, buildings, machinery, equipment, and construction in progress) less any related debt still outstanding that was issued to acquire those items. The Town of Selma uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

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

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, \$1,379,946, represents resources that are subject to external restrictions on how they may be used. The remaining balance 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, 2018 and 2017

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Revenues:						
Program revenues:						
Charges for services	\$ 1,028,624	\$ 955,976	\$ 11,534,568	\$ 11,390,440	\$ 12,563,192	\$ 12,346,416
Operating grants & cont.	39,842	128,975	-	-	39,842	128,975
Capital grants & cont.	493,098	325,948	256,863	461,853	749,961	787,801
General revenues:						
Property taxes	2,518,995	2,459,925	-	-	2,518,995	2,459,925
Other taxes	935,028	896,208	-	-	935,028	896,208
Unrestricted interest	24,460	11,096	26,695	11,169	51,155	22,265
Unrestricted intergovernmental	625,290	624,964	-	-	625,290	624,964
Miscellaneous	200,361	177,937	-	-	200,361	177,937
Total revenues	5,865,698	5,581,029	11,818,126	11,863,462	17,683,824	17,444,491
Expenses:						
General government	1,368,691	1,164,416	-	-	1,368,691	1,164,416
Public safety	2,453,514	2,612,116	-	-	2,453,514	2,612,116
Transportation	1,402,860	1,571,804	-	-	1,402,860	1,571,804
Cemetery	163,202	167,249	-	-	163,202	167,249
Culture and recreation	597,950	-	-	-	597,950	-
Economic development	-	612,438	-	-	-	612,438
Interest on long-term debt	55,179	76,841	-	-	55,179	76,841
Water	-	-	1,350,303	1,431,553	1,350,303	1,431,553
Sewer	-	-	2,226,772	2,198,549	2,226,772	2,198,549
Electric	-	-	6,838,538	7,489,643	6,838,538	7,489,643
Total expenses	6,041,396	6,204,864	10,415,613	11,119,745	16,457,009	17,324,609
Increase in net position before transfers	(175,698)	(623,835)	1,402,513	743,717	1,226,815	119,882
Transfers	199,691	175,000	(199,691)	(175,000)	-	-
Change in net position	23,993	(448,835)	1,202,822	568,717	1,226,815	119,882
Net position, beginning	8,448,811	9,460,731	9,577,144	9,008,427	18,025,955	18,469,158
Restatements	(6,999,563)	(563,085)	783,400	-	(6,216,163)	(563,085)
Net position, ending	\$ 1,473,241	\$ 8,448,811	\$ 11,563,366	\$ 9,577,144	\$ 13,036,607	\$ 18,025,955

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 99.94%. The statewide average in fiscal year 2018 was 98.78%.
- Increased sales tax revenues of approximately \$38,820 due to economic growth in the Town.

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

Governmental activities

Governmental activities reported an increase in the Town's net position of \$23,993. The Town has made a concerted effort to control costs and manage expenditures to make the best use of resources for its citizens. 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. Increased efforts to maximize tax collections also contributed to the favorable net position. 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 \$463,039,544.

Business-type activities

Business-type activities increased the Town of Selma's net position by \$1,202,822. This increase was after a transfer of \$175,000 from the Electric Fund to the General Fund in the current fiscal year. The Town's enterprise operations consist of water, sewer and electric utilities. Revenues in the Water, Sewer and Electric Funds increased by 2.19%, 3.04% and 0.58%, respectively, for an overall increase of \$144,128 in revenues.

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 unassigned fund balance in the General Fund was \$2,168,526, while total fund balance was \$3,674,914. 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 35.99% of total General Fund expenditures, while total fund balance represents approximately 61.00% of that same amount.

At June 30, 2018, the governmental funds of the Town of Selma reported a combined fund balance of \$3,720,662 with a net decrease in fund balance of (\$194,097). Included in this change in fund balance is a decrease of \$58 in fund balance of other governmental funds. Fund balance in the General Fund decreased by \$194,039.

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

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 \$233,106. Total expenditures in the General Fund were less than amounts approved in the final budget by \$768,347.

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 \$2,955,154, \$564,692, and \$1,956,083, respectively. The change in net position for the Water, Sewer and Electric Funds were \$62,893, \$116,592, and \$1,023,337, resulting in a total combined increase in net position of \$1,202,822 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, 2018 totals \$18,516,240 (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:

- \$329,601 for street improvements
- \$259,315 for electric improvements
- \$253,232 for the purchase of vehicles and equipment
- \$52,016 for sewer improvements
- \$43,050 for sidewalks
- \$40,511 for the purchase and start of renovations of the pool

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, 2018 and 2017

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land	\$ 2,657,588	\$ 2,657,588	\$ 311,804	\$ 311,804	\$ 2,969,392	\$ 2,969,392
Construction in progress	273,693	-	183,893	-	457,586	-
Buildings and Improvements	2,971,287	3,199,212	227,965	269,265	3,199,252	3,468,477
Other improvements	2,648,732	2,489,404	-	-	2,648,732	2,489,404
Distribution system	-	-	7,648,012	8,054,381	7,648,012	8,054,381
Equipment	299,422	329,188	790,236	999,340	1,089,658	1,328,528
Vehicles	226,090	199,143	277,518	165,314	503,608	364,457
Total	<u>\$ 9,076,812</u>	<u>\$ 8,874,535</u>	<u>\$ 9,439,428</u>	<u>\$ 9,800,104</u>	<u>\$ 18,516,240</u>	<u>\$ 18,674,639</u>

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, 2018, the Town of Selma had total bonded debt outstanding of \$1,769,000, 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 \$3,294,740. Of this amount, \$1,649,978 is applicable to the Town's business-type activities. The remaining \$1,644,762 is applicable to the Town's governmental activities.

The Town of Selma's total debt and obligations decreased by \$1,194,023 during the past fiscal year, primarily due to changes in other postemployment benefits liability and principal payments on debt obligations.

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 \$37,043,164.

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, 2018 and 2017

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Installment notes	\$ 1,644,762	\$ 1,822,177	\$ 1,649,978	\$ 1,974,564	\$ 3,294,740	\$ 3,796,741
Revenue bonds	-	-	1,769,000	1,802,000	1,769,000	1,802,000
Compensated absences	351,751	292,160	112,497	86,648	464,248	378,808
Net pension liability (asset)	487,435	655,121	272,915	397,134	760,350	1,052,255
Law enforcement officers' SSA pension obligation	720,140	693,194	-	-	720,140	693,194
Net OPEB obligation	8,112,721	8,592,224	-	-	8,112,721	8,592,224
Total	<u>\$ 11,316,809</u>	<u>\$ 12,054,876</u>	<u>\$ 3,804,390</u>	<u>\$ 4,260,346</u>	<u>\$ 15,121,199</u>	<u>\$ 16,315,222</u>

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 6,684.
- The Town's tax collection rates for property excluding motor vehicles and registered motor vehicles are 99.93% and 100.00%, respectively.
- Sales tax revenues for the current year increased by \$38,820 (4.33%) over the previous year.
- Johnston County's unemployment rate was 3.9% for the month of June, 2018 compared to the average unemployment for the State of North Carolina of 4.2%.

Budget Highlights for the Fiscal Year Ending June 30, 2019

Governmental Activities: The property tax rate will increase to \$0.54 per \$100 of assessed property value. Total budgeted expenditures in the General Fund are expected to be \$6,394,810. Town employees will receive a 2.5% cost of living adjustment in compensation.

Business-type Activities: The water, sewer and electric rates in the Town will remain the same for fiscal year 2019.

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, 2018

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 2,526,218	\$ 5,296,222	\$ 7,822,440
Investments	28,721	-	28,721
Receivables, net of allowance for uncollectibles	533,926	1,382,187	1,916,113
Intergovernmental receivables	234,903	-	234,903
Taxes receivable	51,427	-	51,427
Inventories	88,400	381,313	469,713
Prepaid items	5,003	-	5,003
Restricted cash and cash equivalents	770,768	66,537	837,305
Capital assets:			
Non-depreciable	2,931,281	495,697	3,426,978
Depreciable, net of accumulated depreciation	6,145,531	8,943,731	15,089,262
Total assets	13,316,178	16,565,687	29,881,865
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows - pension items	461,172	211,861	673,033
Deferred outflows - OPEB items	212,663	-	212,663
Total deferred outflows of resources	673,835	211,861	885,696
LIABILITIES			
Accounts payable	376,863	814,163	1,191,026
Retainage payable	10,773	-	10,773
Accrued liabilities	116,340	215,321	331,661
Customer deposits	-	394,437	394,437
Interest payable	42,690	24,704	67,394
Installment notes, due within one year	145,274	314,444	459,718
Installment notes, due in more than one year	1,499,488	1,335,534	2,835,022
Bonds payable, due within one year	-	34,000	34,000
Bonds payable, due in more than one year	-	1,735,000	1,735,000
Compensated absences, due within one year	92,722	27,721	120,443
Compensated absences, due in more than one year	259,029	33,060	292,089
Total pension liability (LEOSSA), due in more than one year	720,538	-	720,538
Net pension liability (LGERs), due in more than one year	487,435	272,915	760,350
Total OPEB liability, due in more than one year	8,112,721	-	8,112,721
Total liabilities	11,863,873	5,201,299	17,065,172
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows - pension items	31,391	12,883	44,274
Deferred inflows - OPEB items	616,518	-	616,518
Total deferred inflows of resources	647,909	12,883	660,792
NET POSITION			
Net investment in capital assets	7,432,050	6,020,450	13,452,500
Restricted for:			
Stabilization by State Statute	573,905	-	573,905
Streets - Powell Bill	331,377	-	331,377
Cemetery perpetual care	361,537	-	361,537
Debt service	-	66,537	66,537
Economic development	46,590	-	46,590
Unrestricted	(7,267,228)	5,476,379	(1,790,849)
Total net position	\$ 1,478,231	\$ 11,563,366	\$ 13,041,597

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, 2018

Functions/Programs	Program Revenues				Net (Expenses) Revenues and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
General government	\$ 1,363,569	\$ 89,598	\$ -	\$ 20,000	\$ (1,253,971)	\$ -	\$ (1,253,971)
Public safety	2,453,694	4,564	21,380	29,112	(2,398,638)	-	(2,398,638)
Transportation	1,402,860	673,152	5,256	419,834	(304,618)	-	(304,618)
Cemetery	163,202	186,851	29	-	23,678	-	23,678
Economic development	-	398	-	24,152	24,550	-	24,550
Culture and recreation	597,950	74,061	13,177	-	(510,712)	-	(510,712)
Interest on long-term debt	55,131	-	-	-	(55,131)	-	(55,131)
Total governmental activities	6,036,406	1,028,624	39,842	493,098	(4,474,842)	-	(4,474,842)
Business-type activities:							
Water	1,350,303	1,263,341	-	29,352	-	(57,610)	(57,610)
Sewer	2,226,772	2,437,863	-	-	-	211,091	211,091
Electric	6,838,538	7,833,364	-	227,511	-	1,222,337	1,222,337
Total business-type activities	10,415,613	11,534,568	-	256,863	-	1,375,818	1,375,818
Total primary government	\$ 16,452,019	\$ 12,563,192	\$ 39,842	\$ 749,961	(4,474,842)	1,375,818	(3,099,024)
General revenues:							
					2,353,620	-	2,353,620
					165,375	-	165,375
					935,028	-	935,028
					24,460	26,695	51,155
					625,290	-	625,290
					200,361	-	200,361
					199,691	(199,691)	-
					4,503,825	(172,996)	4,330,829
					28,983	1,202,822	1,231,805
					1,449,248	10,360,544	11,809,792
					\$ 1,478,231	\$ 11,563,366	\$ 13,041,597

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

TOWN OF SELMA, NORTH CAROLINA

BALANCE SHEET GOVERNMENTAL FUNDS JUNE 30, 2018

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash	\$ 2,497,701	\$ -	\$ 2,497,701
Investments	28,721	-	28,721
Taxes receivable, net	51,427	-	51,427
Accounts receivable, net	521,657	12,269	533,926
Intergovernmental receivable	-	234,903	234,903
Restricted cash and cash equivalents	736,447	34,321	770,768
Investments	28,517	-	28,517
Inventory	88,400	-	88,400
Prepaid expenditures	5,003	-	5,003
Due from other funds	821	-	821
Total assets	<u>\$ 3,958,694</u>	<u>\$ 281,493</u>	<u>\$ 4,240,187</u>
LIABILITIES			
Accounts payable	\$ 152,712	\$ 224,151	\$ 376,863
Retainage payable	-	10,773	10,773
Due to other funds	-	821	821
Accrued liabilities	116,340	-	116,340
Total liabilities	<u>269,052</u>	<u>235,745</u>	<u>504,797</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - cemetery lot sales	14,728	-	14,728
Total deferred inflows of resources	<u>14,728</u>	<u>-</u>	<u>14,728</u>
FUND BALANCES			
Nonspendable:			
Prepaid items	5,003	-	5,003
Inventories	88,400	-	88,400
Restricted:			
Stabilization by State Statute	573,905	-	573,905
Streets - Powell Bill	331,377	-	331,377
Cemetery perpetual care	346,809	-	346,809
Economic development	-	46,590	46,590
Committed - Library Trust	160,894	-	160,894
Unassigned	2,168,526	(842)	2,167,684
Total fund balances	<u>3,674,914</u>	<u>45,748</u>	<u>3,720,662</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 3,958,694</u>	<u>\$ 281,493</u>	
Amounts reported for governmental activities in the statement of net position are different because:			
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds			9,076,812
Some receivables are not available to pay for current-period expenditure and, therefore, are reported as unavailable revenue in the funds			14,728
Net pension liability for the LGERS is not recorded on the fund financial statements			(487,435)
Total OPEB liability is not recorded on the fund financial statements			(8,112,721)
Total pension liability for the Special Separation Allowance LEO is not recorded on the fund financial statements			(720,538)
Deferred outflows and inflows of resources related to pensions and OPEB which are not current financial resources and, therefore, not reported in the funds			25,926
Long-term liabilities are not due and payable in the current period and therefore, are not reported in the funds			(2,039,203)
Net position of governmental activities:			<u>\$ 1,478,231</u>

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, 2018

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues			
Ad valorem taxes	\$ 2,353,620	\$ -	\$ 2,353,620
Other taxes	935,028	-	935,028
Unrestricted intergovernmental	790,665	-	790,665
Restricted intergovernmental	245,994	252,360	498,354
Permits and fees	38,373	-	38,373
Sales and services	987,833	398	988,231
Investment earnings	24,281	179	24,460
Miscellaneous	234,947	-	234,947
Total revenues	<u>5,610,741</u>	<u>252,937</u>	<u>5,863,678</u>
Expenditures			
Current:			
General government	1,362,793	-	1,362,793
Public safety	2,408,258	-	2,408,258
Transportation	1,288,009	-	1,288,009
Cemetery	122,965	-	122,965
Culture and recreation	595,636	-	595,636
Capital outlay	-	252,989	252,989
Debt service:			
Principal retirements	177,415	-	177,415
Interest	69,476	-	69,476
Total expenditures	<u>6,024,552</u>	<u>252,989</u>	<u>6,277,541</u>
Deficiency of revenues over expenditures	<u>(413,811)</u>	<u>(52)</u>	<u>(413,863)</u>
Other financing sources (uses)			
Transfers in	219,772	-	219,772
Transfers out	-	(6)	(6)
Total other financing sources (uses)	<u>219,772</u>	<u>(6)</u>	<u>219,766</u>
Net change in fund balances	(194,039)	(58)	(194,097)
Fund balances, beginning of year	<u>3,868,953</u>	<u>45,806</u>	<u>3,914,759</u>
Fund balances, end of year	<u>\$ 3,674,914</u>	<u>\$ 45,748</u>	<u>\$ 3,720,662</u>

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, 2018

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

Net change in fund balances - total governmental funds	\$ (194,097)
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 capital outlay exceeded depreciation in the current period.	203,340
The effect of disposal transactions involving capital assets is to decrease net position.	(1,063)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	2,020
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 repayments of the principal of long-term debt.	177,415
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>(158,632)</u>
Change in net position - governmental activities	<u>\$ 28,983</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, 2018

	Budget		Actual	Variance with
	Original	Final	Amounts	Actual and Final Budget Positive (Negative)
Revenues				
Ad valorem taxes	\$ 2,320,000	\$ 2,320,000	\$ 2,353,620	\$ 33,620
Other taxes	800,000	828,375	935,028	106,653
Unrestricted intergovernmental	660,148	695,441	790,665	95,224
Restricted intergovernmental	203,761	260,128	245,994	(14,134)
Permits and fees	12,000	12,000	27,873	15,873
Sales and services	847,902	882,904	987,833	104,929
Investment earnings	8,675	8,675	23,775	15,100
Miscellaneous	209,200	334,795	210,636	(124,159)
Total revenues	5,061,686	5,342,318	5,575,424	233,106
Expenditures				
Current:				
General government	1,255,376	1,511,418	1,362,793	148,625
Public safety	2,382,176	2,472,155	2,385,677	86,478
Transportation	1,365,640	1,585,585	1,288,009	297,576
Cemetery	124,822	143,767	122,965	20,802
Culture and recreation	640,201	808,271	595,636	212,635
Debt service:				
Principal retirements	140,865	172,396	177,415	(5,019)
Interest	76,438	76,726	69,476	7,250
Total expenditures	5,985,518	6,770,318	6,001,971	768,347
Excess (deficiency) of revenues over expenditures	(923,832)	(1,428,000)	(426,547)	1,001,453
Other financing sources:				
Fund balance appropriation	703,832	1,163,000	-	(1,163,000)
Transfers in	175,000	175,000	219,772	44,772
Issuance of note payable	90,000	90,000	-	(90,000)
Total other financing sources	968,832	1,428,000	219,772	(1,208,228)
Net change in fund balances	45,000	-	(206,775)	(206,775)
Fund balances, beginning of year	3,716,038	3,716,038	3,716,038	-
Fund balances, end of year	\$ 3,761,038	\$ 3,716,038	3,509,263	\$ (206,775)

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	152,915
Investment earnings	506
Permits and fees	10,500
Other revenues	24,311
Public safety expenditures	(22,581)
Fund balance, end of year	\$ 3,674,914

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

TOWN OF SELMA, NORTH CAROLINA

STATEMENT OF NET POSITION PROPRIETARY FUNDS JUNE 30, 2018

ASSETS	Water Fund	Sewer Fund	Electric Fund	Totals
CURRENT ASSETS				
Cash and cash equivalents	\$ 2,245,365	\$ 1,150,065	\$ 1,900,792	\$ 5,296,222
Restricted cash	34,050	32,487	-	66,537
Accounts receivable, net of allowances	149,542	282,111	950,534	1,382,187
Inventories	70,376	8,558	302,379	381,313
Total current assets	2,499,333	1,473,221	3,153,705	7,126,259
NONCURRENT ASSETS				
Advances to other funds	650,000	-	-	650,000
CAPITAL ASSETS				
Nondepreciable	182,438	-	313,259	495,697
Depreciable, net of accumulated depreciation	3,103,264	4,903,585	936,882	8,943,731
Total noncurrent assets	3,935,702	4,903,585	1,250,141	10,089,428
Total assets	6,435,035	6,376,806	4,403,846	17,215,687
DEFERRED OUTFLOWS OF RESOURCES				
Pension items	76,647	46,100	89,114	211,861
Total deferred outflows of resources	76,647	46,100	89,114	211,861
LIABILITIES				
CURRENT LIABILITIES				
Accounts payable	29,365	118,250	666,548	814,163
Accrued liabilities	15,704	11,012	213,309	240,025
Customer deposits	76,955	70,237	247,245	394,437
Installment contracts, current	6,546	12,000	295,898	314,444
Bonds payable, current	10,000	24,000	-	34,000
Compensated absences payable, current	6,291	6,291	15,139	27,721
Total current liabilities	144,861	241,790	1,438,139	1,824,790
NONCURRENT LIABILITIES				
Installments contracts	85,093	629,969	620,472	1,335,534
Bonds payable	550,000	1,185,000	-	1,735,000
Advance from other funds	-	650,000	-	650,000
Compensated absences payable	5,474	5,474	22,112	33,060
Net pension liability	97,915	58,134	116,866	272,915
Total noncurrent liabilities	738,482	2,528,577	759,450	4,026,509
Total liabilities	883,343	2,770,367	2,197,589	5,851,299
DEFERRED INFLOWS OF RESOURCES				
Pension items	4,622	2,744	5,517	12,883
Total deferred inflows of resources	4,622	2,744	5,517	12,883
NET POSITION				
Net investment in capital assets	2,634,063	3,052,616	333,771	6,020,450
Restricted for:				
Debt service	34,050	32,487	-	66,537
Unrestricted	2,955,604	564,692	1,956,083	5,476,379
Total net position	\$ 5,623,717	\$ 3,649,795	\$ 2,289,854	\$ 11,563,366

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, 2018

	Water Fund	Sewer Fund	Electric Fund	Totals
OPERATING REVENUES				
Charges for sales and services	\$ 1,196,784	\$ 2,343,735	\$ 7,786,901	\$ 11,327,420
Other operating income	66,557	94,128	46,463	207,148
Total operating revenues	1,263,341	2,437,863	7,833,364	11,534,568
OPERATING EXPENSES				
Salaries and benefits	608,875	368,954	686,097	1,663,926
General operating expenses	399,270	234,605	396,756	1,030,631
Depreciation	222,747	344,618	285,936	853,301
Electric purchases	-	-	5,435,235	5,435,235
Water & sewer purchases	95,505	1,240,049	-	1,335,554
Total operating expenses	1,326,397	2,188,226	6,804,024	10,318,647
Operating income (loss)	(63,056)	249,637	1,029,340	1,215,921
NON-OPERATING REVENUES (EXPENSES)				
Intergovernmental	-	29,352	227,511	256,863
Interest income	11,482	6,043	9,170	26,695
Interest and fiscal charges	(23,906)	(38,546)	(34,514)	(96,966)
Total non-operating revenue (expenses)	(12,424)	(3,151)	202,167	186,592
Income (loss) before capital contributions and transfers	(75,480)	246,486	1,231,507	1,402,513
Capital contributions	20,075	-	-	20,075
Transfers in	149,811	25,500	6	175,317
Transfers out	(31,513)	(155,394)	(208,176)	(395,083)
Change in net position	62,893	116,592	1,023,337	1,202,822
Net position, beginning of year, restated	5,560,824	3,533,203	1,266,517	10,360,544
Net position, end of year	\$ 5,623,717	\$ 3,649,795	\$ 2,289,854	\$ 11,563,366

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, 2018

	Water Fund	Sewer Fund	Electric Fund	Totals
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers and users	\$ 1,253,859	\$ 2,437,918	\$ 7,711,137	\$ 11,402,914
Payments to suppliers	(501,644)	(1,471,252)	(5,718,738)	(7,691,634)
Payments to employees	(619,425)	(370,039)	(673,982)	(1,663,446)
Net cash provided by operating activities	<u>132,790</u>	<u>596,627</u>	<u>1,318,417</u>	<u>2,047,834</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES				
Transfers to (from) other funds	<u>118,298</u>	<u>(129,894)</u>	<u>(208,170)</u>	<u>(219,766)</u>
Net cash provided by (used in) non-capital financing activities	<u>118,298</u>	<u>(129,894)</u>	<u>(208,170)</u>	<u>(219,766)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchase of capital assets	(6,441)	(57,821)	(408,288)	(472,550)
Receipt of intergovernmental revenues	-	19,600	129,130	148,730
Principal payments	(16,545)	(53,031)	(288,010)	(357,586)
Interest paid	(24,225)	(38,731)	(40,594)	(103,550)
Net cash used in capital and related financing activities	<u>(47,211)</u>	<u>(129,983)</u>	<u>(607,762)</u>	<u>(784,956)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received	<u>11,482</u>	<u>6,043</u>	<u>9,170</u>	<u>26,695</u>
Net cash provided by investing activities	<u>11,482</u>	<u>6,043</u>	<u>9,170</u>	<u>26,695</u>
Net increase in cash and cash equivalents	215,359	342,793	511,655	1,069,807
Cash and cash equivalents, beginning of year	<u>2,064,056</u>	<u>839,759</u>	<u>1,389,137</u>	<u>4,292,952</u>
Cash and cash equivalents, end of year	<u><u>\$ 2,279,415</u></u>	<u><u>\$ 1,182,552</u></u>	<u><u>\$ 1,900,792</u></u>	<u><u>\$ 5,362,759</u></u>
CASH AS REPORTED ON STATEMENT OF NET POSITION				
Cash and cash equivalents	\$ 2,245,365	\$ 1,150,065	\$ 1,900,792	\$ 5,296,222
Restricted cash and cash equivalents	34,050	32,487	-	66,537
Total cash and cash equivalents	<u><u>\$ 2,279,415</u></u>	<u><u>\$ 1,182,552</u></u>	<u><u>\$ 1,900,792</u></u>	<u><u>\$ 5,362,759</u></u>

continued

TOWN OF SELMA, NORTH CAROLINA

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS FOR THE YEAR ENDED JUNE 30, 2018

	Water Fund	Sewer Fund	Electric Fund	Totals
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating income (loss)	\$ (63,056)	\$ 249,637	\$ 1,029,340	\$ 1,215,921
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation expense	222,747	344,618	285,936	853,301
Change in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:				
(Increase) decrease in accounts receivable	(9,482)	55	(122,227)	(131,654)
(Increase) decrease in inventories	(12,668)	(1,189)	55,390	41,533
Decrease in prepaid items	629	560	1,276	2,465
Decrease in deferred outflows of resources - pension items	43,334	25,603	61,588	130,525
Increase in accounts payable	2,215	976	45,634	48,825
Increase in accrued liabilities	6,216	3,554	20,908	30,678
Increase in customer deposits	2,955	3,055	10,953	16,963
Decrease in compensated absences payable	(16,323)	(3,495)	(6,049)	(25,867)
Decrease in deferred inflows for pension items	(3,559)	(2,155)	(4,923)	(10,637)
Decrease in net pension liability	(40,218)	(24,592)	(59,409)	(124,219)
Net cash provided by operating activities	<u>\$ 132,790</u>	<u>\$ 596,627</u>	<u>\$ 1,318,417</u>	<u>\$ 2,047,834</u>
NON CASH CAPITAL AND RELATED FINANCING ACTIVITIES				
Donated capital assets from governmental activities	\$ 25,075	\$ -	\$ -	\$ 25,075
Total noncash capital and related financing activities	<u>\$ 25,075</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 25,075</u>

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

TOWN OF SELMA, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

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 and CDBG Projects Fund for which project length budgets were adopted. 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, 2018, 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 Town's investments are reported at fair value, while non-participating interest earning contracts are accounted for at cost. The NCCMT-Cash Portfolio, a SEC-registered (2a-7) external investment pool, is measured at net asset value per share calculated at amortized cost. The NCCMT-Term Portfolio's securities are valued at fair value.

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, as well as a sinking fund for the USDA bonds. 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, 2017.

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, 2018, 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 and the OPEB plan, one type of deferred outflow of resources being recognized is a deferred outflow of resources for the Town's actual contributions to the respective plan during the fiscal year ended June 30, 2018, which was subsequent to the measurement date of the net pension liability and total OPEB liability. The deferred outflows will be applied to future measurement periods. The Town has four (4) other 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 and OPEB 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 pension 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 three (3) items that qualify for reporting in this category which occurs in the governmental activities and in the individual proprietary funds. The Town reports deferred inflows of resources for the: (1) difference between expected and actual experience of the pension and OPEB plans, (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, and (3) changes in OPEB and pension plan assumptions. 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. Thnoe Town, by resolution, has created a minimum fund balance policy to be no less than 25% 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 \$2,039,203 difference are as follows:

Installment notes	\$ (1,644,762)
Accrued interest payable	(42,690)
Compensated absences (i.e., vacation)	<u>(351,751)</u>
Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net position - governmental activities</i>	<u><u>\$ (2,039,203)</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 \$203,340 difference are as follows:

Capital outlay	\$ 747,536
Depreciation expense	<u>(544,196)</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>\$ 203,340</u></u>

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 \$158,632 difference are as follows:

Compensated absences (i.e., vacation)	\$ (59,591)
Change in accrued interest	14,345
Net pension liability - LGERS and related deferred outflows and inflows of resources	(622)
Total pension liability - LEO Special Separation Allowance and related deferred outflows and inflows of resources	10,887
Total OPEB liability - and related deferred outflows and inflows of resources	<u>(123,651)</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>\$ (158,632)</u></u>

NOTES TO FINANCIAL STATEMENTS

NOTE 3. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Deficit Fund Balance. The CDBG Project Fund is reporting a deficit fund balance of (\$842) as of June 30, 2018. This shortfall will be recouped in future years through additional supplements or transfers from the General Fund.

NOTE 4. DEPOSITS AND INVESTMENTS

Total deposits as of June 30, 2018 are summarized as follows:

Statement of Net Position:

Cash and cash equivalents	\$ 7,822,440
Restricted cash and cash equivalents	837,305
	<u>\$ 8,659,745</u>
Cash deposited with financial institutions	\$ 6,098,804
Cash deposited with NCCMT	2,560,941
	<u>\$ 8,659,745</u>

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, 2018. The Town's investment in the NC Capital Management Trust Term Portfolio is unrated.

NOTES TO FINANCIAL STATEMENTS

NOTE 4. DEPOSITS AND INVESTMENTS (CONTINUED)

As of June 30, 2018 the Town's investment balances were as follows:

<u>Investment by Type</u>	<u>Valuation Measurement Method</u>	<u>Book Value June 30, 2018</u>	<u>Duration</u>	<u>Rating</u>
North Carolina Capital Management Trust Government Portfolio	Amortized Cost	\$ 1,798,905	N/A	AAAm
North Carolina Capital Management Trust Term Portfolio	Fair Value Level 1	762,036	.09 years	Unrated
		<u>\$ 2,560,941</u>		
Certificate of deposit	Amortized Cost	28,721	12 months	Unrated
		<u>\$ 2,589,662</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, 2018, the Town's deposits are insured or collateralized as required by state law.

NOTES TO FINANCIAL STATEMENTS

NOTE 5. RECEIVABLES

Receivables at June 30, 2018, 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	\$ 77,122	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	-	-	-	234,903
Accounts	587,226	180,765	344,777	1,154,167	47,269
Less allowance for uncollectible	<u>91,264</u>	<u>31,223</u>	<u>62,666</u>	<u>203,633</u>	<u>35,000</u>
Net total receivable	<u><u>\$ 573,084</u></u>	<u><u>\$ 149,542</u></u>	<u><u>\$ 282,111</u></u>	<u><u>\$ 950,534</u></u>	<u><u>\$ 247,172</u></u>

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NOTES TO FINANCIAL STATEMENTS

NOTE 6. CAPITAL ASSETS

Capital asset activity for the Town for the year ended June 30, 2018 is as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Governmental Activities:					
Nondepreciable capital assets:					
Land	\$ 2,657,588	\$ -	\$ -	\$ -	\$ 2,657,588
Construction in progress	-	213,693	-	60,000	273,693
Total	<u>2,657,588</u>	<u>213,693</u>	<u>-</u>	<u>60,000</u>	<u>2,931,281</u>
Capital assets, being depreciated:					
Buildings	5,584,403	39,877	-	(60,000)	5,564,280
Other improvements	5,651,514	378,680	-	-	6,030,194
Equipment and furniture	904,860	26,306	(25,035)	-	906,131
Vehicles and motorized equipment	2,841,953	88,980	(58,042)	-	2,872,891
Total being depreciated	<u>14,982,730</u>	<u>533,843</u>	<u>(83,077)</u>	<u>(60,000)</u>	<u>15,373,496</u>
Less accumulated depreciation for:					
Buildings	(2,385,191)	(207,802)	-	-	(2,592,993)
Other improvements	(3,162,110)	(219,352)	-	-	(3,381,462)
Equipment and furniture	(575,672)	(55,009)	23,972	-	(606,709)
Vehicles and motorized equipment	(2,642,810)	(62,033)	58,042	-	(2,646,801)
Total	<u>(8,765,783)</u>	<u>(544,196)</u>	<u>82,014</u>	<u>-</u>	<u>(9,227,965)</u>
Total capital assets, being depreciated, net	<u>6,216,947</u>	<u>(10,353)</u>	<u>(1,063)</u>	<u>(60,000)</u>	<u>6,145,531</u>
Governmental activities capital assets, net	<u>\$ 8,874,535</u>	<u>\$ 203,340</u>	<u>\$ (1,063)</u>	<u>\$ -</u>	<u>\$ 9,076,812</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 6. CAPITAL ASSETS (CONTINUED)

	Beginning Balance	Increases	Decreases	Ending Balance
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	7,682,023	9,881	-	7,691,904
Equipment	500,464	1,660	-	502,124
Vehicles and motorized equipment	143,201	14,975	-	158,176
Total	<u>9,307,445</u>	<u>26,516</u>	<u>-</u>	<u>9,333,961</u>
Less accumulated depreciation for:				
Buildings and improvements	(857,743)	(25,792)	-	(883,535)
Distribution system	(4,633,176)	(159,076)	-	(4,792,252)
Equipment	(413,338)	(15,002)	-	(428,340)
Vehicles and motorized equipment	(103,693)	(22,877)	-	(126,570)
Total	<u>(6,007,950)</u>	<u>(222,747)</u>	<u>-</u>	<u>(6,230,697)</u>
Total capital assets being depreciated, net	<u>3,299,495</u>	<u>(196,231)</u>	<u>-</u>	<u>3,103,264</u>
Water Fund capital assets, net	<u>\$ 3,481,933</u>	<u>\$ (196,231)</u>	<u>\$ -</u>	<u>\$ 3,285,702</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 6. CAPITAL ASSETS (CONTINUED)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Sewer Fund:				
Capital assets, being depreciated:	\$	\$	\$	\$
Buildings and improvements	149,072	-	-	149,072
Distribution system	9,086,983	52,016	-	9,138,999
Equipment	338,463	5,805	-	344,268
Vehicles and motorized equipment	102,849	-	-	102,849
Total	<u>9,677,367</u>	<u>57,821</u>	<u>-</u>	<u>9,735,188</u>
Less accumulated depreciation for:				
Buildings and improvements	(66,107)	(9,269)	-	(75,376)
Distribution system	(4,081,449)	(309,190)	-	(4,390,639)
Equipment	(236,580)	(26,159)	-	(262,739)
Vehicles and motorized equipment	(102,849)	-	-	(102,849)
Total	<u>(4,486,985)</u>	<u>(344,618)</u>	<u>-</u>	<u>(4,831,603)</u>
Total capital assets being depreciated, net	<u>5,190,382</u>	<u>(286,797)</u>	<u>-</u>	<u>4,903,585</u>
Sewer Fund capital assets, net	<u>\$ 5,190,382</u>	<u>\$ (286,797)</u>	<u>\$ -</u>	<u>\$ 4,903,585</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 6. CAPITAL ASSETS (CONTINUED)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Electric Fund:				
Nondepreciable capital assets:				
Land	\$ 129,366	\$ -	\$ -	\$ 129,366
Construction in progress	-	183,893	-	183,893
Total	<u>129,366</u>	<u>183,893</u>	<u>-</u>	<u>313,259</u>
Capital assets, being depreciated:				
Buildings and improvements	203,802	-	-	203,802
Equipment	6,967,505	83,979	(19,712)	7,031,772
Vehicles and motorized equipment	760,532	140,416	(121,392)	779,556
Total	<u>7,931,839</u>	<u>224,395</u>	<u>(141,104)</u>	<u>8,015,130</u>
Less accumulated depreciation for:				
Buildings and improvements	(141,516)	(6,239)	-	(147,755)
Equipment	(6,157,174)	(259,387)	19,712	(6,396,849)
Vehicles and motorized equipment	(634,726)	(20,310)	121,392	(533,644)
Total	<u>(6,933,416)</u>	<u>(285,936)</u>	<u>141,104</u>	<u>(7,078,248)</u>
Total capital assets being depreciated, net	<u>998,423</u>	<u>(61,541)</u>	<u>-</u>	<u>936,882</u>
Electric Fund capital assets, net	<u>\$ 1,127,789</u>	<u>\$ 122,352</u>	<u>\$ -</u>	<u>\$ 1,250,141</u>

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

Governmental activities:	
General government	\$ 30,332
Public safety	127,375
Transportation	239,697
Cemetery	39,005
Culture and recreation	107,787
Total depreciation expense - governmental activities	<u>\$ 544,196</u>
Business-type activities	
Water	\$ 222,747
Sewer	344,618
Electric	285,936
Total depreciation expense - business-type activities	<u>\$ 853,301</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 7. LONG-TERM DEBT

Long-term liability activity for the year ended June 30, 2018 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Installment notes	\$ 1,822,177	\$ -	\$ (177,415)	\$ 1,644,762	\$ 145,274
Compensated absences	292,160	152,314	(92,723)	351,751	92,722
Net pension liability (LGERS)	655,121	231,421	(399,107)	487,435	-
Law enforcement officers'					
SSA total pension liability	693,194	94,201	(66,857)	720,538	-
Total OPEB liability	8,592,224	478,697	(958,200)	8,112,721	-
Governmental activity					
Long-term liabilities	<u>\$ 12,054,876</u>	<u>\$ 956,633</u>	<u>\$ (1,694,302)</u>	<u>\$ 11,317,207</u>	<u>\$ 237,996</u>
Business-type activities:					
Installment notes	\$ 1,974,564	\$ -	\$ (324,586)	\$ 1,649,978	\$ 314,444
Revenue bonds payable	1,802,000	-	(33,000)	1,769,000	34,000
Net pension liability (LGERS)	397,134	99,615	(223,834)	272,915	-
Compensated absences	86,648	13,413	(39,280)	60,781	27,721
Business-type activity					
Long-term liabilities	<u>\$ 4,260,346</u>	<u>\$ 113,028</u>	<u>\$ (620,700)</u>	<u>\$ 3,752,674</u>	<u>\$ 376,165</u>

For governmental funds, compensated absences are liquidated by the General Fund. The net pension liability (LGERS), total pension liability (LEOSSA), and total OPEB liability are liquidated by the General Fund. The compensated absences for the business-type activities are liquidated by the respective fund carrying the liability. See Note 14 for explanations for changes in beginning balances in compensated absences and total OPEB 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, 2018 are as follows:

Governmental activities	Balance as of June 30, 2018
A note issued by RBC Bank for \$525,000 was issued on July 23, 2010 with annual payments of \$52,500 for construction of the Town's mausoleum. The note bears an interest rate of 5.25% and matures in 2020.	\$ 157,500

A note issued by US Department of Agriculture for \$550,000 was issued on December 6, 2010 with annual payments of \$30,850 for police department purchases and renovations. The note bears an interest rate of 3.75% and matures in 2040.	469,851
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NOTES TO FINANCIAL STATEMENTS

NOTE 7. LONG-TERM DEBT (CONTINUED)

Installment Notes (Continued)

	<i>continued</i> Balance as of <u>June 30, 2018</u>
<i>Governmental activities (continued)</i>	
A note issued by US Department of Agriculture for \$375,000 was issued on September 21, 2011 with annual payments of \$22,350 for library expansion. The note bears an interest rate of 4.25% and matures in 2041.	332,201
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.	127,150
A note issued by US Department of Agriculture for \$31,900 was issued on March 21, 2012 with annual payments of \$1,790 for fire department renovations. The note bears an interest rate of 3.75% and matures in 2042.	27,988
A note issued by US Department of Agriculture for \$110,000 was issued on March 21, 2012 with annual payments of \$6,170 for fire department renovations. The note bears an interest rate of 3.75% and matures in 2042.	96,520
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.	334,981
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.	98,571
Total outstanding installment notes payable	<u>\$ 1,644,762</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,			
2019	\$ 145,274	\$ 61,359	\$ 206,633
2020	147,223	55,875	203,098
2021	149,244	50,319	199,563
2022	84,579	44,727	129,306
2023	71,676	42,141	113,817
2024-2028	347,892	171,525	519,417
2029-2033	264,884	113,948	378,832
2034-2038	238,283	67,499	305,782
2039-2042	195,707	18,052	213,759
Total	<u>\$ 1,644,762</u>	<u>\$ 625,445</u>	<u>\$ 2,270,207</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 7. LONG-TERM DEBT (CONTINUED)

Installment Notes (Continued)

<i>Business-type activities</i>	Balance as of June 30, 2018
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.	\$ 820,833
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.	95,538
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.	91,638
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.	641,969
Total outstanding installment notes payable	<u>\$ 1,649,978</u>

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>
2019	\$ 314,444	\$ 43,586	\$ 358,030
2020	324,486	33,319	357,805
2021	334,077	22,696	356,773
2022	19,546	11,681	31,227
2023	19,546	11,438	30,984
2024-2028	101,728	53,419	155,147
2029-2033	103,182	46,669	149,851
2034-2038	83,000	39,225	122,225
2039-2043	92,000	31,106	123,106
2044-2048	100,000	22,200	122,200
2049-2053	110,000	12,450	122,450
2054-2056	47,969	2,400	50,369
Total	<u>\$ 1,649,978</u>	<u>\$ 330,189</u>	<u>\$ 1,980,167</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, 2018, \$560,000 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, 2018, \$1,209,000 of the bonds were outstanding. The bonds mature in 2053.

The debt service to maturity on the revenue bonds is as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year Ending June 30,			
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	38,000	45,539	83,539
2024-2028	207,000	211,013	418,013
2029-2033	238,000	179,669	417,669
2034-2038	275,000	142,843	417,843
2039-2043	318,000	99,578	417,578
2044-2048	322,000	49,831	371,831
2049-2053	229,000	14,769	243,769
Total	<u>\$ 1,769,000</u>	<u>\$ 935,448</u>	<u>\$ 2,704,448</u>

The Town has pledged future water and sewer customer revenues, net of specified operating expenses, to repay \$643,000, \$1,320,000, and \$687,000 of Water & Sewer Revenue Bonds Series 2007, 2013, and 2016, 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 \$2,704,448. Principal and interest paid for the current year and net customer revenues were \$107,955 and \$622,612, 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, 2018:

Operating revenues	\$ 3,701,204
Non-operating revenues	46,877
Operating expenses	<u>(2,947,258)</u>
Income available for debt service	<u>\$ 800,823</u>
Annual debt service (Revenue Bonds only)	\$ 114,501
Debt service coverage ratio	699.4%

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, 2018 is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Other Governmental Funds	\$ 821

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. Due to budgeting restrictions the Sewer Fund did not make an installment payment this year.

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	\$ 208,176
General Fund	Water Fund	6,013
General Fund	Sewer Fund	5,583
		<u>\$ 219,772</u>
Electric Fund	Other governmental funds	<u>\$ 6</u>
Sewer Fund	Water Fund	<u>\$ 25,500</u>
Water Fund	Sewer Fund	<u>\$ 149,811</u>

Transfers are used to move revenues from the (1) Electric Fund to the General Fund for operating purposes, (2) Water Fund to Sewer Fund for operating purposes, (3) used to close out activity in the ESA Solar Fund and move residual equity into the Electric Fund, (4) used to move OPEB retirement contributions from the proprietary funds into the General Fund, and (5) to move capital reserves for the utilities to the reserve fund.

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.

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, 2018, was 8.25% of compensation for law enforcement officers and 7.50% 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 \$254,019 for the year ended June 30, 2018.

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, 2018, the Town reported a liability of \$760,350 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016. The total pension liability was then rolled forward to the measurement date of June 30, 2017 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, 2017, the Town's proportion was 0.04977%, which was an increase of 0.00019% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the Town recognized pension expense of \$250,310. At June 30, 2018, 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	\$ 43,803	\$ 21,523
Changes in plan assumptions	108,588	-
Net difference between projected and actual earnings on pension plan investments	184,613	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	12,640	14,371
Town contributions subsequent to the measurement date	254,019	-
Total	\$ 603,663	\$ 35,894

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 \$254,019 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, 2019. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending June 30:

2019	\$	32,950
2020		225,153
2021		112,737
2022		(57,090)
	\$	<u>313,750</u>

Actuarial Assumptions. The total pension liability as of June 30, 2017 was determined by the December 31, 2016 actuarial valuation using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	3.50 to 8.10 percent, including inflation and productivity factor
Investment rate of return	7.20 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, 2016 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, 2017 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	29.0%	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 7.20%. 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 7.20 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 (6.20 percent) or one percentage point higher (8.20 percent) than the current rate:

	<u>1% Decrease (6.20%)</u>	<u>Current Discount Rate (7.20%)</u>	<u>1% Increase (8.20%)</u>
Town's proportionate share of the net pension liability (asset)	\$ 2,282,581	\$ 760,350	\$ (510,237)

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, 2016, the date of the most recent actuarial valuation the Separation Allowance's membership consisted of:

Retirees receiving benefits	5
Active plan members	<u>24</u>
Total	<u><u>29</u></u>

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 criteria which are outlined in GASB Statement 73.

Actuarial Assumptions. The entry age actuarial cost method was used in the December 31, 2016 valuation. The total pension liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 percent
Salary increases	3.50 to 7.35 percent, including inflation and productivity factor
Discount rate	3.16 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

At June 30, 2018, the Town reported a total pension liability of \$720,538. The total pension liability was measured as of December 31, 2017 based on a December 31, 2016 actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2017 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2018, the Town recognized pension expense of \$55,790.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Experience differences	\$ 6,383	\$ -
Change in assumptions	29,738	8,380
Town benefit payments made subsequent to the measurement date.	33,249	-
Total	<u>\$ 69,370</u>	<u>\$ 8,380</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 9. PENSION PLANS (CONTINUED)

B. Law Enforcement Officers Special Separation Allowance (Continued)

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

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, 2019. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending June 30:

2019	\$ 5,631
2020	5,631
2021	5,631
2022	6,411
2023	4,437
	<u>\$ 27,741</u>

Changes in the Total Pension Liability. The changes in the total pension liability of the Town for the fiscal year ended June 30, 2018 were as follows:

	Total Pension Liability
Balance at June 30, 2017	\$ 693,194
Service Cost	24,692
Interest	25,467
Experience differences	7,783
Assumption changes	36,259
Benefit payments	<u>(66,857)</u>
Balance at June 30, 2018	<u>\$ 720,538</u>

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 3.16 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 (2.16 percent) or 1-percentage-point higher (4.16 percent) than the current rate:

	1% Decrease (2.16%)	Current Discount Rate (3.16%)	1% Increase (4.16%)
Total pension liability	\$ 771,333	\$ 720,538	\$ 674,197

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, 2016 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 Town. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Supplemental Retirement Income Plan for Law Enforcement Officers is included in the Comprehensive Annual Financial Report (CAFR) for the state of North Carolina. The state's CAFR includes the pension trust fund financial statements for the Internal Revenue Code Section 401(k) plan that includes the Supplemental Retirement Income Plan for Law Enforcement Officers. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

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, 2018 were \$61,062 which consisted of \$54,982 from the Town and \$6,080 from the law enforcement officers. As of June 30, 2018 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, 2018 were \$95,731, which consisted of \$55,554 from the Town and \$40,177 from the employees. As of June 30, 2018 there were fifty-three (53) participants in the plan.

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NOTES TO FINANCIAL STATEMENTS

NOTE 10. OTHER POSTEMPLOYMENT BENEFITS

Effective July 1, 2017, the Town implemented the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which significantly changed the Town's accounting for OPEB amounts. The information disclosed in this note is presented in accordance with this new standard.

Plan Description and Benefits Provided. 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. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75 and a separate report was not issued for the HCB Plan.

Membership of the HCB Plan consisted of the following at June 30, 2017, the date of the latest actuarial valuation:

Active participants	51
Retirees and beneficiaries currently receiving benefits	<u>28</u>
Total	<u><u>79</u></u>

The plan was closed to new entrants on August 22, 2014.

Contributions. The Town Council has elected to fund the HCB Plan on a "pay as you go" basis. Per the Town resolution, retirees are able to continue to receive health insurance at active employee rates, subsidized by Town contributions. For the fiscal year ended June 30, 2018, the Town contributed \$212,663 for the pay as you go benefits for the HCB Plan.

NOTES TO FINANCIAL STATEMENTS

NOTE 10. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Total OPEB Liability

The Town's total OPEB liability of \$8,112,721 was measured as of June 30, 2017 and was determined by an actuarial valuation as of June 30, 2016.

Actuarial assumptions and other inputs. The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement unless otherwise specified:

Inflation rate	2.50%
Real wage growth	1.00%
Wage inflation	3.50%
Salary increase, including wage inflation	
General employees	3.50% - 7.75%
Firefighters	3.50% - 7.75%
Law Enforcement Officers	3.50% - 7.35%
Municipal bond index rate	
Prior measurement date	3.01%
Measurement date	3.56%
Health care cost trends	
Pre-medicare	7.50% - 5.00%, Ultimate Trend in 2023
Medicare	5.50% - 5.00%, Ultimate Trend in 2020

The discount rate is based on the yield June average of the Bond Buyer General Obligation 20-year Municipal Bond Index published weekly by the Bond Buyer.

Changes in the Total OPEB Liability. The changes in the total OPEB liability for the Town for the fiscal year ended June 30, 2018 were as follows:

	Total OPEB Liability
Balance at June 30, 2017	\$ 8,592,224
Service Cost	223,048
Interest	255,649
Experience differences	(12,765)
Assumption changes	(746,136)
Benefit payments	(199,299)
Balance at June 30, 2018	<u>\$ 8,112,721</u>

Change in assumption and other inputs reflect a change in the discount rate from 3.01% to 3.56%. The current mortality rates were based on the RP-2014 mortality tables, with adjustments for LGERS experience and generational mortality improvements using Scale MP-2015. The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

NOTES TO FINANCIAL STATEMENTS

NOTE 10. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Total OPEB Liability (Continued)

Sensitivity of the total OPEB liability to changes in the discount rate. The following presents the total OPEB liability of the Town, as well as what the Town's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.56 percent) or 1-percentage-point higher (4.56) than the current discount rate:

	1% Decrease (2.56%)	Current Discount Rate (3.56%)	1% Increase (4.56%)
Total OPEB liability	\$ 9,549,805	\$ 8,112,721	\$ 6,982,773

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rate. The following presents the total OPEB liability of the Town, as well as what the Town's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease (6.50% to 4.00%)	Current (7.50% to 5.00%)	1% Increase (8.50% to 6.00%)
Total OPEB liability	\$ 6,901,217	\$ 8,112,721	\$ 9,679,419

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 revisions 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 June 30, 2018 and the current sharing pattern of costs between employer and inactive employees.

OPEB Expense and Deferred Outflows and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2018 the Town recognized OPEB expense of \$331,144. At June 30, 2018, the Town reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 10,370
Changes in plan assumptions	-	606,148
Town contributions subsequent to the measurement date	212,663	-
Total	<u>\$ 212,663</u>	<u>\$ 616,518</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 10. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

OPEB Expense and Deferred Outflows and Deferred Inflows of Resources Related to OPEB (Continued)

Town contributions made subsequent to the measurement date of \$212,663 are reported as deferred outflows of resources and will be recognized as a decrease of the total pension liability in the year ended June 30, 2019. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending June 30:

2019	\$	(142,383)
2020		(142,383)
2021		(142,383)
2022		(142,383)
2023		(46,986)
	\$	<u>(616,518)</u>

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 is bonded for \$500,000. The remaining employees that have access to funds are bonded under a blanket bond for \$250,000.

NOTES TO FINANCIAL STATEMENTS

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.

Construction Commitments:

The Town has entered into construction commitments for various Town projects including sewer improvement, civic center improvements and general repair contracts with outstanding construction commitments of \$1,241,000 as of June 30, 2018.

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, 2018 were \$5,435,235.

NOTES TO FINANCIAL STATEMENTS

NOTE 14. RESTATEMENTS

The Town has determined a restatement to beginning net position was required in the Town's governmental activities for the implementation of GASB Statement No. 75, which requires retroactive reporting of opening balances. In addition, the Town has determined a restatement of the beginning net position was required in the Town's governmental activities to accrue for the holiday portion of accrued vacation, which is to be accrued for public safety employees. The effect of the restatements resulted in a change to beginning net position of the governmental activities as follows:

	Governmental Activities
Net Position, governmental activities, as previously reported	\$ 8,448,811
Restatement for implementation of GASB Statement No. 75:	
Total OPEB liability as of June 30, 2017	(8,592,224)
Deferred outflows of resources - contributions	199,299
Removal of prior Net OPEB obligation reported June 30, 2017	1,470,016
Restatement for beginning accrued vacation	(76,654)
Net Position, governmental activities, as restated	<u><u>\$ 1,449,248</u></u>

In addition, the Town has determined a restatement to beginning net position was required in the Town's business-type activities as a result of the implementation of GASB Statement No. 75, as the Town elected to record the liability in the governmental activities as the governmental activities will fund the OPEB contribution payments. The effect of the restatements resulted in a change to beginning net position of the business-type activities at the respective fund levels as follows:

Net Position, Water Fund, as previously reported	\$ 5,291,284
Removal of prior Net OPEB obligation reported June 30, 2017	269,540
Beginning net position, Water Fund, as restated	<u><u>\$ 5,560,824</u></u>
Net Position, Sewer Fund, as previously reported	\$ 3,369,947
Removal of prior Net OPEB obligation reported June 30, 2017	163,256
Beginning net position, Sewer Fund, as restated	<u><u>\$ 3,533,203</u></u>
Net Position, Electric Fund, as previously reported	\$ 915,913
Removal of prior Net OPEB obligation reported June 30, 2017	350,604
Beginning net position, Electric Fund, as restated	<u><u>\$ 1,266,517</u></u>
Net Position, Business-type Activities, as previously reported	\$ 9,577,144
Removal of prior Net OPEB obligation reported June 30, 2017	783,400
Beginning net position, Business-type Activities, as restated	<u><u>\$ 10,360,544</u></u>

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF SELMA, NORTH CAROLINA

**REQUIRED SUPPLEMENTARY INFORMATION
OPEB HEALTHCARE BENEFIT PLAN
SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY
AND RELATED RATIOS**

	2018
Total OPEB liability	
Service cost	\$ 223,048
Interest on total OPEB liability	255,649
Difference between expected and actual experience	(12,765)
Changes of assumptions and other inputs	(746,136)
Benefit payments	(199,299)
Net change in total OPEB liability	(479,503)
 Total OPEB liability - beginning	 8,592,224
Total OPEB liability - ending	\$ 8,112,721
 Covered-employee payroll	 \$ 2,061,538
 Total OPEB liability as a percentage of covered-employee payroll	 393.5%

Notes to the Schedule:

The schedule will present 10 years of information once it is accumulated.

The Town is not accumulating assets in a trust fund that meets the criteria in paragraph 4 of GASB Statement No. 75 for payment of future OPEB benefits.

TOWN OF SELMA, NORTH CAROLINA

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CHANGES IN TOTAL PENSION LIABILITY

JUNE 30, 2018

LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE

	2018	2017
Total pension liability, beginning balance	\$ 693,194	\$ 724,106
Service Cost	24,692	24,248
Interest on the total pension liability	25,467	24,657
Difference between expected and actual experience	7,783	-
Changes of assumptions or other inputs	36,259	(12,960)
Benefit payments	(66,857)	(66,857)
Total pension liability, ending balance	<u>\$ 720,538</u>	<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 THREE FISCAL YEARS**

LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE

	2018	2017	2016
Total pension liability	\$ 720,538	\$ 693,194	\$ 724,106
Town's covered-employee payroll	\$ 1,110,276	\$ 1,030,492	\$ 941,276
Total pension liability as a percentage of covered-employee payroll	64.90%	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 FIVE FISCAL YEARS***

LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM

	2018	2017	2016	2015	2014
Town's proportion of the net pension liability (asset) (%)	0.04977%	0.04958%	0.04754%	0.04640%	0.05280%
Town's proportion of the net pension liability (asset) (\$)	\$ 760,350	\$ 1,052,254	\$ 213,357	\$ (273,641)	\$ 636,444
Town's covered-employee payroll	\$ 3,029,574	\$ 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	25.10%	35.41%	7.69%	(10.05%)	22.76%
Plan fiduciary net position as a percentage of the total pension liability	94.18%	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 FIVE FISCAL YEARS**

LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 254,019	\$ 226,453	\$ 205,501	\$ 199,781	\$ 196,502
Contributions in relation to the contractually required contribution	254,019	226,453	205,501	199,781	196,502
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Town's covered-employee payroll	\$ 3,158,766	\$ 3,029,574	\$ 2,971,719	\$ 2,774,964	\$ 2,723,487
Contributions as a percentage of covered-employee payroll	8.04%	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, 2018

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, 2017 reported in that schedule:

Valuation date	December 31, 2016
Actuarial cost method	Frozen Entry age
Amortization method	Level dollar, 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	7.20%, 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, 2018

	<u>Special Revenue Fund</u>	<u>Capital Project Fund</u>	<u>Total</u>
ASSETS	Small Business Revolving Loan Fund	CDBG Project Fund	Nonmajor Governmental Funds
Accounts receivable	\$ 12,269	\$ -	\$ 12,269
Intergovernmental receivable	-	234,903	234,903
Restricted cash and cash equivalents	34,321	-	34,321
	<hr/>	<hr/>	<hr/>
Total assets	\$ 46,590	\$ 234,903	\$ 281,493
	<hr/>	<hr/>	<hr/>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ -	\$ 224,151	\$ 224,151
Retainage payable	-	10,773	10,773
Due to other funds	-	821	821
	<hr/>	<hr/>	<hr/>
Total liabilities	-	235,745	235,745
	<hr/>	<hr/>	<hr/>
FUND BALANCES			
Restricted for economic development	46,590	-	46,590
Unassigned	-	(842)	(842)
	<hr/>	<hr/>	<hr/>
Total fund balances	46,590	(842)	45,748
	<hr/>	<hr/>	<hr/>
Total liabilities and fund balances	\$ 46,590	\$ 234,903	\$ 281,493
	<hr/>	<hr/>	<hr/>

TOWN OF SELMA, NORTH CAROLINA

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>Special Revenue Funds</u>		<u>Capital Projects Fund</u>	Total Nonmajor Governmental Funds
	Small Business Revolving Loan Fund	ESA Solar Farm Interconnection Fund	CDBG Project Fund	
REVENUES				
Charges for services	\$ 398	\$ -	\$ -	\$ 398
Intergovernmental	-	-	252,360	252,360
Interest income	179	-	-	179
	<hr/>	<hr/>	<hr/>	<hr/>
Total revenues	577	-	252,360	252,937
	<hr/>	<hr/>	<hr/>	<hr/>
EXPENDITURES				
Capital outlay	-	-	252,989	252,989
	<hr/>	<hr/>	<hr/>	<hr/>
Total expenditures	-	-	252,989	252,989
	<hr/>	<hr/>	<hr/>	<hr/>
Excess (deficiency) of revenues over expenditures	577	-	(629)	(52)
	<hr/>	<hr/>	<hr/>	<hr/>
OTHER FINANCING USES				
Transfers out	-	(6)	-	(6)
Total other financing uses	-	(6)	-	(6)
	<hr/>	<hr/>	<hr/>	<hr/>
Net change in fund balances	577	(6)	(629)	(58)
	<hr/>	<hr/>	<hr/>	<hr/>
FUND BALANCES (DEFICIT), beginning of year	46,013	6	(213)	45,806
	<hr/>	<hr/>	<hr/>	<hr/>
FUND BALANCES (DEFICIT), end of year	\$ 46,590	\$ -	\$ (842)	\$ 45,748
	<hr/>	<hr/>	<hr/>	<hr/>

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, 2018

	Budget			Variance With
	Original	Final	Actual	Final Budget
Revenues				
Ad valorem taxes:				
Current year	\$ 2,305,000	\$ 2,305,000	\$ 2,338,866	\$ 33,866
Prior year	7,500	7,500	4,909	(2,591)
Penalties and interest	7,500	7,500	9,845	2,345
Total ad valorem taxes	2,320,000	2,320,000	2,353,620	33,620
Other taxes and licenses:				
Local option sales taxes	800,000	828,375	935,012	106,637
Animal licenses	-	-	16	16
Total other taxes and licenses	800,000	828,375	935,028	106,653
Unrestricted intergovernmental:				
Local occupancy taxes	105,000	123,000	123,311	311
Payments in lieu of taxes (external sources)	20,000	31,354	33,087	1,733
Telecommunications sales tax	55,000	55,000	44,436	(10,564)
Fire district tax	152,148	158,087	165,375	7,288
Utilities sales tax	235,000	235,000	320,501	85,501
Piped natural gas sales tax	8,000	8,000	10,589	2,589
Video franchise fee	30,000	30,000	25,716	(4,284)
Beer and wine tax	25,000	25,000	27,750	2,750
ABC profit distribution	30,000	30,000	39,900	9,900
Total unrestricted intergovernmental	660,148	695,441	790,665	95,224
Restricted intergovernmental:				
Powell Bill allocation	165,000	167,474	167,474	-
Controlled substance tax	-	10,893	27,049	16,156
On-behalf of payments - Fire and Rescue	261	261	2,063	1,802
State grants	35,000	78,000	44,152	(33,848)
Solid waste disposal tax	3,500	3,500	5,256	1,756
Total restricted intergovernmental	203,761	260,128	245,994	(14,134)
Permits and fees:				
Building permits	5,000	5,000	19,495	14,495
Inspection fees	7,000	7,000	8,378	1,378
Total permits and fees	12,000	12,000	27,873	15,873
Sales and service:				
Cemetery fees	119,500	132,600	184,831	52,231
Recreation fees	52,500	60,902	74,062	13,160
Refuse charges	650,000	650,000	673,152	23,152
Rents	16,201	16,201	16,780	579
Other fees	9,701	23,201	39,008	15,807
Total sales and service	847,902	882,904	987,833	104,929
Investment earnings	8,675	8,675	23,775	15,100
Miscellaneous	209,200	334,795	210,636	(124,159)
Total revenues	5,061,686	5,342,318	5,575,424	233,106

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, 2018

	Budget		Actual	Variance With Final Budget
	Original	Final		
Expenditures				
Current:				
General government:				
Governing body:				
Salaries and employee benefits	30,357	30,582	26,809	3,773
Professional services	7,500	19,500	19,447	53
Departmental supplies	1,500	2,500	2,081	419
Other operating expenditures	16,836	14,111	10,749	3,362
Total	56,193	66,693	59,086	7,607
Administration:				
Salaries and employee benefits	308,427	335,726	354,452	(18,726)
Professional services	12,000	12,000	8,961	3,039
Departmental supplies	14,000	14,000	10,470	3,530
Other operating expenditures	54,800	60,221	54,394	5,827
Capital outlay	46,000	20,600	19,900	700
Repairs and maintenance	500	12,650	225	12,425
Total	435,727	455,197	448,402	6,795
Finance:				
Salaries and employee benefits	48,688	47,688	35,920	11,768
Professional services	78,500	114,500	106,701	7,799
Departmental supplies	3,000	-	-	-
Other operating expenditures	7,650	10,650	7,687	2,963
Total	137,838	172,838	150,308	22,530
Public Buildings:				
Professional services	56,000	70,775	67,956	2,819
Departmental supplies	1,500	1,500	1,062	438
Other operating expenditures	186,731	187,022	176,122	10,900
Capital outlay	25,500	8,210	7,103	1,107
Repairs and maintenance	17,500	157,637	142,994	14,643
Total	287,231	425,144	395,237	29,907
Nonprofit Organization Support:				
Other operating expenditures	29,425	29,425	20,147	9,278
Total	29,425	29,425	20,147	9,278
Planning and Economic Development:				
Salaries and employee benefits	125,662	160,821	142,295	18,526
Professional services	40,750	42,250	4,321	37,929
Departmental supplies	6,250	12,565	5,126	7,439
Other operating expenditures	134,800	144,985	137,101	7,884
Repairs and maintenance	1,500	1,500	770	730
Total	308,962	362,121	289,613	72,508
Total general government	1,255,376	1,511,418	1,362,793	148,625

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, 2018

	Budget			Variance With
	Original	Final	Actual	Final Budget
Public Safety:				
Police:				
Salaries and employee benefits	1,611,183	1,647,413	1,610,177	37,236
Professional services	16,000	8,000	7,071	929
Departmental supplies	20,735	22,373	21,267	1,106
Other operating expenditures	73,101	72,301	68,902	3,399
Capital outlay	74,800	99,879	99,019	860
Repairs and maintenance	27,000	35,389	30,551	4,838
Total	1,822,819	1,885,355	1,836,987	48,368
Fire Department:				
Salaries and employee benefits	430,355	457,798	432,961	24,837
Professional services	8,400	9,400	9,295	105
Departmental supplies	57,500	51,100	47,091	4,009
Other operating expenditures	20,830	20,830	18,982	1,848
Repairs and maintenance	42,272	47,672	40,361	7,311
Total	559,357	586,800	548,690	38,110
Total public safety	2,382,176	2,472,155	2,385,677	86,478
Transportation:				
Powell Bill:				
Departmental supplies	5,000	5,000	-	5,000
Capital outlay	392,700	524,775	380,238	144,537
Repairs and maintenance	25,000	25,000	969	24,031
Total	422,700	554,775	381,207	173,568
Public Works:				
Salaries and employee benefits	319,815	320,315	275,483	44,832
Professional services	541,000	578,200	569,793	8,407
Departmental supplies	28,600	30,000	23,618	6,382
Other operating expenditures	29,525	25,425	18,682	6,743
Repairs and maintenance	24,000	25,000	12,356	12,644
Capital outlay		51,870	6,870	45,000
Total	942,940	1,030,810	906,802	124,008
Total transportation	1,365,640	1,585,585	1,288,009	297,576
Cemetery:				
Salaries and employee benefits	102,272	108,432	103,441	4,991
Professional services	500	2,405	968	1,437
Departmental supplies	12,500	18,280	10,176	8,104
Other operating expenditures	4,550	6,650	5,062	1,588
Repairs and maintenance	5,000	8,000	3,318	4,682
Total	124,822	143,767	122,965	20,802
Culture and Recreation:				
Recreation:				
Salaries and employee benefits	205,923	232,938	211,170	21,768
Professional services	20,200	10,300	8,119	2,181
Departmental supplies	41,840	43,590	35,282	8,308
Other operating expenditures	91,250	191,700	113,002	78,698
Capital outlay	70,000	126,654	65,890	60,764
Repairs and maintenance	19,500	11,601	8,820	2,781
Total	448,713	616,783	442,283	174,500

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, 2018

	Budget		Actual	Variance With Final Budget
	Original	Final		
Library:				
Salaries and employee benefits	128,738	128,738	100,747	27,991
Professional services	2,500	3,500	3,281	219
Departmental supplies	39,000	38,000	35,397	2,603
Other operating expenditures	6,250	7,250	4,375	2,875
Capital outlay	8,000	7,900	7,686	214
Repairs and maintenance	7,000	6,100	1,867	4,233
Total	191,488	191,488	153,353	38,135
Total culture and recreation	640,201	808,271	595,636	212,635
Debt Service:				
Principal	140,865	172,396	177,415	(5,019)
Interest	76,438	76,726	69,476	7,250
Total expenditures	5,985,518	6,770,318	6,001,971	768,347
Deficiency of revenues over expenditures	(923,832)	(1,428,000)	(426,547)	1,001,453
Other financing sources				
Fund balance appropriation	703,832	1,163,000	-	(1,163,000)
Transfers in	175,000	175,000	219,772	44,772
Issuance of note payable	90,000	90,000	-	(90,000)
Total other financing sources	968,832	1,428,000	219,772	(1,208,228)
Net change in fund balances	45,000	-	(206,775)	(206,775)
Fund balance, beginning of year	3,716,038	3,716,038	3,716,038	-
Fund balance, end of year	\$ 3,761,038	\$ 3,716,038	\$ 3,509,263	\$ (206,775)

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, 2018**

	Budget		Actual	Variance With Final Budget
	Original	Final		
REVENUES				
Interest	\$ -	\$ -	\$ 506	\$ 506
Permits and fees	21,000	21,000	10,500	(10,500)
Miscellaneous	-	8,380	24,311	15,931
Total revenues	21,000	29,380	35,317	5,937
EXPENDITURES				
Public safety	25,500	33,880	22,581	11,299
Excess (deficiency) of revenues over expenditures	(4,500)	(4,500)	12,736	17,236
OTHER FINANCING SOURCES				
Fund balance appropriations	4,500	4,500	-	(4,500)
Net change in fund balances	-	-	12,736	12,736
FUND BALANCE, beginning of year	152,915	152,915	152,915	-
FUND BALANCE, end of year	\$ 152,915	\$ 152,915	\$ 165,651	\$ 12,736

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, 2018

	Budget			Variance With
	Original	Final	Actual	Final Budget
REVENUES				
Charges for services	\$ 4,030	\$ 4,030	\$ 398	\$ (3,632)
Interest	16	16	179	163
Total revenues	4,046	4,046	577	(3,469)
EXPENDITURES				
Economic development	20,000	20,000	-	20,000
Excess (deficiency) of revenues over expenditures	(15,954)	(15,954)	577	16,531
OTHER FINANCING SOURCES				
Fund balance appropriations	15,954	15,954	-	(15,954)
Net change in fund balances	-	-	577	577
FUND BALANCE, beginning of year	46,013	46,013	46,013	-
FUND BALANCE, end of year	\$ 46,013	\$ 46,013	\$ 46,590	\$ 577

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, 2018

	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
Excess of revenues over expenditures	-	6	-	6
OTHER FINANCING SOURCES (USES)				
Transfers out	(6)	-	(6)	(6)
Appropriation of fund balance	6	-	-	-
Total other financing sources (uses)	-	-	(6)	(6)
Net change in fund balances	-	6	(6)	-
FUND BALANCE, beginning of year	-	-	6	-
FUND BALANCE, end of year	\$ -	\$ 6	\$ -	\$ -

TOWN OF SELMA, NORTH CAROLINA
CDBG PROJECT FUND

**SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (NON-GAAP BASIS)**
PROJECT LIFE AS OF JUNE 30, 2018

	Project Budget	Prior Years	Actual Current Year	Total
REVENUES				
Intergovernmental	\$ 1,289,900	\$ 157,255	\$ 252,360	\$ 409,615
Contributions	23,800	-	-	-
Total revenues	<u>1,313,700</u>	<u>157,255</u>	<u>252,360</u>	<u>409,615</u>
EXPENDITURES				
Capital outlay:				
Other	1,318,700	157,468	252,989	410,457
Total expenditures	<u>1,318,700</u>	<u>157,468</u>	<u>252,989</u>	<u>410,457</u>
Deficiency of revenues over expenditures	(5,000)	(213)	(629)	(842)
OTHER FINANCING SOURCES				
Transfers in	5,000	-	-	-
Net change in fund balance	-	(213)	(629)	(842)
FUND BALANCE (DEFICIT), beginning of year	<u>-</u>	<u>-</u>	<u>(213)</u>	<u>-</u>
FUND BALANCE (DEFICIT), end of year	<u><u>\$ -</u></u>	<u><u>\$ (213)</u></u>	<u><u>\$ (842)</u></u>	<u><u>\$ (842)</u></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, 2018**

	Budget			Variance With
	Original	Final	Actual	Final Budget
REVENUES				
Operating revenues				
Water charges	\$ 1,133,000	\$ 1,133,000	\$ 1,114,796	\$ (18,204)
Penalties	75,000	75,000	72,508	(2,492)
Other operating revenues	56,000	81,000	76,037	(4,963)
Nonoperating revenues - interest	4,400	4,400	10,461	6,061
Total revenues	1,268,400	1,293,400	1,273,802	(19,598)
EXPENDITURES				
Water administration				
Salaries and benefits	323,454	331,653	315,767	15,886
Professional services	81,500	89,140	63,236	25,904
Utilities	62,200	63,100	64,343	(1,243)
Insurance	60,574	64,045	48,006	16,039
Other operating expenditures	39,150	38,210	12,255	25,955
Total water administration	566,878	586,148	503,607	82,541
Water operations				
Salaries and benefits	338,755	346,980	281,790	65,190
Department supplies	13,000	13,750	12,198	1,552
Chemicals	54,000	61,500	52,298	9,202
Maintenance and repairs	77,500	67,500	58,297	9,203
Contract services	65,000	75,000	71,304	3,696
Purchase for resale	100,000	100,000	95,505	4,495
Other operating expenditures	140,000	139,725	51,856	87,869
Total water operations	788,255	804,455	623,248	181,207
continued				

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, 2018**

	Budget		Actual	Variance With Final Budget
	Original	Final		
Debt service				
Principal	15,545	16,545	16,545	-
Interest	28,500	28,500	24,225	4,275
Total debt service	44,045	45,045	40,770	4,275
Total expenditures	1,399,178	1,435,648	1,167,625	268,023
Excess of revenues over expenditures	(130,778)	(142,248)	106,177	248,425
OTHER FINANCING SOURCES (USES)				
Budgeted use of net position	100,000	111,470	-	(111,470)
Proceeds from note payable	90,000	90,000	-	(90,000)
Transfers in	9,318	9,318	9,318	-
Transfers out	(71,989)	(71,989)	(6,013)	65,976
Total other financing sources (uses)	28,011	39,481	3,305	(45,494)
Net change in net position	<u>\$ (102,767)</u>	<u>\$ (102,767)</u>	109,482	<u>\$ 136,955</u>
Adjustments to full accrual:				
Capital outlays			6,441	
Payments of debt service - principal			16,545	
Decrease in compensated absences			16,323	
Decrease in net pension liability and related pension items			441	
Change in accrued interest			319	
Donated assets			20,075	
Depreciation expense			(222,747)	
Water Capital Reserve Fund			116,014	
Change in net position			<u>\$ 62,893</u>	

TOWN OF SELMA, NORTH CAROLINA
WATER CAPITAL RESERVE FUND

**SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN NET POSITION - BUDGET AND ACTUAL (NON-GAAP BASIS)
FOR THE YEAR ENDED JUNE 30, 2018**

	Budget		Actual	Variance With Final Budget
	Original	Final		
REVENUES				
Interest	\$ 500	\$ 500	\$ 1,021	\$ 521
OTHER FINANCING SOURCES (USES)				
Increase to net position	(43,539)	(184,032)	-	184,032
Transfer in	218,350	218,350	149,811	(68,539)
Transfer out	(175,311)	(34,818)	(34,818)	-
Total other financing sources (uses)	(500)	(500)	114,993	115,493
Net change in net position	\$ -	\$ -	\$ 116,014	\$ 116,014

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, 2018**

	Budget			Variance With
	Original	Final	Actual	Final Budget
REVENUES				
Operating revenues				
Sewer charges	\$ 2,278,000	\$ 2,278,000	\$ 2,223,896	\$ (54,104)
Penalties	80,000	80,000	73,558	(6,442)
Other operating revenues	52,000	52,000	48,109	(3,891)
Nonoperating revenues - interest	1,000	7,800	5,939	(1,861)
Total revenues	2,411,000	2,417,800	2,351,502	(66,298)
EXPENDITURES				
Sewer administration				
Salaries and benefits	242,265	250,064	227,156	22,908
Professional services	64,000	63,275	55,144	8,131
Utilities	55,000	58,500	62,865	(4,365)
Insurance	44,000	48,071	46,963	1,108
Maintenance and repairs	500	500	101	399
Other operating expenditures	16,785	23,160	16,981	6,179
Total sewer administration	422,550	443,570	409,210	34,360
Sewer operations				
Salaries and benefits	191,955	185,455	121,133	64,322
Department supplies	7,500	7,500	6,792	708
Maintenance and repairs	52,000	61,500	41,732	19,768
Transmission and treatment fees	1,375,000	1,375,000	1,240,049	134,951
Other operating expenditures	69,500	79,725	77,399	2,326
Total sewer operations	1,695,955	1,709,180	1,487,105	222,075
continued				

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, 2018**

	Budget		Actual	Variance With Final Budget
	Original	Final		
Debt service				
Principal	37,000	56,031	53,031	3,000
Interest	33,286	39,086	38,546	540
Total debt service	70,286	95,117	91,577	3,540
Total expenditures	2,188,791	2,247,867	1,987,892	259,975
Excess of revenues over expenditures	222,209	169,933	363,610	193,677
OTHER FINANCING SOURCES (USES)				
Appropriation of net position	118	84,394	-	(84,394)
Proceeds from issuance of note payable	200,000	200,000	-	(200,000)
Transfers in	25,500	25,500	25,500	-
Transfers out	(157,827)	(157,827)	(155,394)	2,433
Net change in net position	<u>\$ 290,000</u>	<u>\$ 322,000</u>	233,716	<u>\$ (88,284)</u>
Adjustments to full accrual:				
Capital outlays			57,821	
Payments of debt service - principal			53,031	
Increase in compensated absences			3,495	
Increase in net pension liability and related pension items			1,143	
Depreciation expense			(344,618)	
Wastewater System Improvements Capital Fund			112,004	
Change in net position			<u>\$ 116,592</u>	

TOWN OF SELMA, NORTH CAROLINA
WASTEWATER 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, 2018**

	Budget		Actual	Variance With Final Budget
	Original	Final		
REVENUES				
Intergovernmental	\$ 709,200	\$ 879,452	\$ 29,352	\$ (850,100)
Contributions	30,768	30,768	-	(30,768)
Miscellaneous	-	92,300	92,300	-
Interest	-	-	104	104
Total revenues	<u>739,968</u>	<u>1,002,520</u>	<u>121,756</u>	<u>(880,764)</u>
EXPENDITURES				
Operations	1,290,083	1,552,635	9,752	1,542,883
Administrative	<u>136,885</u>	<u>136,885</u>	<u>-</u>	<u>136,885</u>
Total expenditures	<u>1,426,968</u>	<u>1,689,520</u>	<u>9,752</u>	<u>1,679,768</u>
Excess (deficiency) of revenues over expenditures	(687,000)	(687,000)	112,004	799,004
OTHER FINANCING SOURCES (USES)				
Proceeds from loan	656,232	656,232	-	(656,232)
Transfer in	<u>30,768</u>	<u>30,768</u>	<u>-</u>	<u>(30,768)</u>
Total other financing sources (uses)	<u>687,000</u>	<u>687,000</u>	<u>-</u>	<u>(687,000)</u>
Net change in net position	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 112,004</u>	<u>\$ 112,004</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, 2018**

	Budget			Variance With
	Original	Final	Actual	Final Budget
REVENUES				
Operating revenues				
Electric charges	\$ 7,210,920	\$ 7,210,920	\$ 7,216,056	\$ 5,136
Other operating revenues	1,102,183	1,115,325	844,819	(270,506)
Nonoperating revenues - interest	2,000	2,000	5,815	3,815
Total revenues	8,315,103	8,328,245	8,066,690	(261,555)
EXPENDITURES				
Electric administration				
Salaries and benefits	474,870	493,654	453,779	39,875
Contracted services	38,000	14,008	12,847	1,161
Utilities	7,000	7,000	6,139	861
Insurance	19,720	22,804	22,804	-
Other operating expenditures	119,340	139,434	136,749	2,685
Total electric administration	658,930	676,900	632,318	44,582
Electric operations				
Salaries and benefits	336,974	336,974	230,173	106,801
Department supplies	71,500	71,500	52,227	19,273
Maintenance and repairs	7,000	9,000	5,532	3,468
Purchases for inventory	90,000	90,000	120,566	(30,566)
Contracted services	70,000	61,500	28,714	32,786
Other operating expenditures	700,167	713,309	430,404	282,905
Total electric operations	1,275,641	1,282,283	867,616	414,667
Electric power purchases	5,494,383	6,014,703	5,435,235	579,468
				continued

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, 2018**

	Budget		Actual	Variance With Final Budget
	Original	Final		
Debt service				
Principal	237,708	255,466	288,010	(32,544)
Interest	89,402	71,644	40,594	31,050
Total debt service	327,110	327,110	328,604	(1,494)
Total expenditures	7,756,064	8,300,996	7,263,773	1,037,223
Excess of revenues over expenditures	559,039	27,249	802,917	775,668
OTHER FINANCING USES				
Appropriation to increase net position	-	531,790	-	(531,790)
Transfers in	-	-	6	6
Transfers out	(559,039)	(559,039)	(592,215)	(33,176)
Total other financing uses	(559,039)	(27,249)	(592,209)	(564,960)
Net change in net position	\$ -	\$ -	210,708	\$ 210,708
Adjustments to full accrual:				
Capital outlays			408,288	
Payments of debt service - principal			288,010	
Increase in compensated absences			6,049	
Decrease in net pension liability and related pension items			2,744	
Change in accrued interest			6,080	
Depreciation expense			(285,936)	
Wastewater System Improvements Capital Fund			387,394	
Change in net position			\$ 1,023,337	

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, 2018**

	Budget		Actual	Variance With Final Budget
	Original	Final		
REVENUES				
Interest	\$ 600	\$ 600	\$ 3,355	\$ 2,755
OTHER FINANCING SOURCES (USES)				
Appropriation of net position	(384,639)	(384,639)	-	384,639
Transfer in	384,039	384,039	384,039	-
Total other financing sources (uses)	(600)	(600)	384,039	384,639
Net change in net position	\$ -	\$ -	\$ 387,394	\$ 387,394

TOWN OF SELMA, NORTH CAROLINA

**SCHEDULE OF AD VALOREM TAXES RECEIVABLE
JUNE 30, 2018**

<u>Fiscal Year</u>	<u>Uncollected Balance June 30, 2017</u>	<u>Additions</u>	<u>Collections And Credits</u>	<u>Uncollected Balance June 30, 2018</u>
2017-2018	\$ -	\$ 2,377,049	\$ 2,375,445	\$ 1,604
2016-2017	3,311	-	2,454	857
2015-2016	1,344	-	200	1,144
2014-2015	1,800	-	584	1,216
2013-2014	2,135	-	543	1,592
2012-2013	2,867	-	29	2,838
2011-2012	3,179	-	255	2,924
2010-2011	2,784	-	13	2,771
2009-2010	3,575	-	444	3,131
2008-2009	3,833	-	283	3,550
2007-2008	205	-	131	74
	<u>\$ 25,033</u>	<u>\$ 2,377,049</u>	<u>\$ 2,380,381</u>	<u>21,701</u>
Less: allowance for uncollectible accounts:				
General Fund				<u>21,652</u>
Ad valorem taxes receivable - net				<u>\$ 49</u>
<u>Reconciliation to revenues:</u>				
Ad valorem taxes - General Fund				\$ 2,353,620
Reconciling items:				
Releases and write-offs				16,633
Refunds				19,973
Interest collected				(9,845)
Total collections and credits				<u>\$ 2,380,381</u>

TOWN OF SELMA, NORTH CAROLINA

**ANALYSIS OF CURRENT TAX LEVY
TOWN-WIDE LEVY
JUNE 30, 2018**

				Total Levy	
	Town - Wide			Property excluding	
	Property Valuation	Rate	Total Levy	Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Real property	\$ 345,513,922	0.51	\$ 1,762,121	\$ 1,762,121	\$ 169,254
Personal property	82,937,808	0.51	422,983	422,983	-
Public service company	32,371,441	0.51	165,094	165,094	-
Penalties	-		1,782	-	-
Total	<u>460,823,171</u>		<u>2,351,980</u>	<u>2,350,198</u>	<u>169,254</u>
Discoveries:					
Current year taxes	489,855		2,229	2,229	-
Prior year taxes	4,985,928		24,620	24,620	-
Penalties	-		6,564	-	-
Total	<u>5,475,783</u>		<u>33,413</u>	<u>26,849</u>	<u>-</u>
Abatements	<u>(3,259,410)</u>		<u>(16,623)</u>	<u>(16,623)</u>	<u>-</u>
Total property valuation	<u>\$ 463,039,544</u>				
Net levy			2,529,678	2,360,424	169,254
Uncollected taxes at June 30, 2018			<u>(1,603)</u>	<u>(1,603)</u>	<u>-</u>
Current year's taxes collected			<u>\$ 2,528,075</u>	<u>\$ 2,358,821</u>	<u>\$ 169,254</u>
Current levy collection percentage			<u>99.94%</u>	<u>99.93%</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, 2018, 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 27, 2018. Our report includes a reference to the change in accounting principle resulting from the implementation of Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, as of July 1, 2017.

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 questioned costs, as items 2018-001 and 2018-002 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

The Town's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. 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.

A handwritten signature in black ink that reads "Mauldin & Jenkins, LLC". The signature is written in a cursive, flowing style.

Atlanta, Georgia
November 27, 2018



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR STATE PROGRAM
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
APPLICABLE SECTIONS OF THE UNIFORM GUIDANCE AND THE STATE SINGLE AUDIT
IMPLEMENTATION ACT**

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

Report on Compliance for Each Major State Program

We have audited the Town of Selma, North Carolina's (the "Town") compliance with the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of the Town's major state programs for the year ended June 30, 2018. The Town's major state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of state statutes, regulations, and the terms and conditions of its state awards applicable to its state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Town's major state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and applicable sections of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), as described in the *Audit Manual for Governmental Auditors in North Carolina*, and the *State Single Audit Implementation Act*. Those standards, the Uniform Guidance, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about the Town's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

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

Opinion on Each Major State Program

In our opinion, the Town complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended June 30, 2018.

Report on Internal Control Over Compliance

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

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

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

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

Mauldin & Jenkins, LLC

Atlanta, Georgia
November 27, 2018

TOWN OF SELMA, NORTH CAROLINA

**SCHEDULE OF EXPENDITURES OF FEDERAL
AND STATE AWARDS
JUNE 30, 2018**

Awarding Agency	CFDA Number	Pass-through Number	Federal	State
FEDERAL AWARDS				
<u>Dept of Housing and Urban Development</u> Passed through N.C. Department of Commerce and N.C. Department of Environmental Quality Community Development Block Grant	14.228	15-I-2763	\$ 252,992	\$ -
<u>U.S. Department of Homeland Security</u> Federal Emergency Management Agency Passed through N.C. Department of Public Safety Disaster Grants - Public Assistance	97.036	n/a	9,751	-
TOTAL FEDERAL AWARDS			<u>262,743</u>	<u>-</u>
STATE AWARDS				
<u>N.C. Department of Transportation</u> Powell Bill Utilities Relocation		DOT-4 U5795	- -	381,207 227,511
TOTAL STATE AWARDS			<u>-</u>	<u>608,718</u>
TOTAL FEDERAL AND STATE AWARDS			<u>\$ 262,743</u>	<u>\$ 608,718</u>

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal and state awards (the "SEFSA") includes the federal and state award activity of the Town of Selma, North Carolina (the "Town") under programs of the federal government and the state of North Carolina for the year ended June 30, 2018. The information in this SEFSA is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the State Single Audit Implementation Act. Because the SEFSA presents only a selected portion of the operations of the Town, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Town.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the SEFSA are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3. Indirect Cost Rate

The Town did not utilize the 10% de minimus indirect cost rate.

TOWN OF SELMA, NORTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

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, 2018 due to the total amount expended being less than \$750,000.

State Awards

Internal control over major state programs:
Material weaknesses identified:

☐ yes ☒ no

Significant deficiencies identified:

☐ yes ☒ none reported

Type of auditor's report issued on compliance of major state programs:

Unmodified

Any audit findings disclosed that are require to be reported
In accordance with the State Single Audit Implementation Act?

☐ yes ☒ no

Identification of major state program:

Program Name

Non-State System Street Aid Allocation (Powell Bill)

TOWN OF SELMA, NORTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

SECTION II
FINANCIAL STATEMENT FINDINGS AND RESPONSES

2018-001 Restatement of Prior Year Balances

Criteria: Internal controls should be in place to ensure that financial statements properly present the financial position and results of operations of the Town.

Condition: Internal controls were not sufficient to timely detect material misstatements in the Town's financial statements for the fiscal year ended June 30, 2017.

Context/Cause: During our audit for the fiscal year ended June 30, 2018, a material misstatement was identified by management that caused the need to restate opening net position for the fiscal year ended June 30, 2017 for governmental activities. The Town improperly omitted the holiday time portion of accrued vacation owed to employees in the public safety department of the government. A total adjustment of \$76,645 was required to correct the accrued vacation balance and restate the opening net position of governmental activities.

Effects: As a result of the issue identified, the total restatement to the beginning net position of governmental activities was \$76,645.

Recommendation: We recommend the Town carefully review the financial statement and the applicable reporting requirements under generally accepted accounting principles (GAAP) to ensure that all information and financial data is being properly reported.

Auditee's Response: We concur with the finding related to the prior year. We will take necessary steps in the future to ensure that items are properly reported in accordance with GAAP.

TOWN OF SELMA, NORTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

SECTION II
FINANCIAL STATEMENT FINDINGS AND RESPONSES

2018-002 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, 2018, several adjustments were required in the General Fund, Water Fund, Sewer Fund and Electric Fund 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 \$33,000 (General Fund), \$99,000 (Water Fund), \$152,000 (Sewer Fund), and \$408,000 (Electric Fund) were required to correct opening balances in the respective funds.

Effects: Audit adjustments of approximately \$692,000 were needed to correctly report general ledger balances in accordance with generally accepted accounting principles.

Recommendation: We recommend management carefully review the opening equity of each fund throughout the year to ensure the fund(s) are properly reporting opening fund balances/net position based on previously audited statements.

Auditee's Response: We concur with the finding. The finding relates to funds improperly established within the financial accounting system. Steps have been taken in the 2019 fiscal year to resolve this problem going forward.

TOWN OF SELMA, NORTH CAROLINA

SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE FISCAL YEAR ENDED JUNE 30, 2018

2017-001 Revenue Recognition

Condition: Internal controls were not sufficient to detect misstatements in the reporting of the Town's revenues and related balance sheet accounts. Adjustments of \$5,700, \$75,000, \$9,000, and \$45,000 were required in the Small Business Revolving Loan Fund, CDBG Project Fund, Sewer Fund, and Electric Fund, respectively. Total adjustments were \$132,500.

Status: Item was corrected as of June 30, 2018.

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. Adjustments of \$73,000 and \$12,000 were required in the CDBG Project Fund and Sewer Fund, respectively. Total adjustments were \$85,000.

Status: Item was corrected as of June 30, 2018.

2017-003 Capital Asset Reporting

Condition: Material misstatements were detected in the reporting of the current year additions to the Town's capital asset balances. Adjustments of \$264,000, \$611,000, \$137,500 and \$85,000 were required in the Electric Fund, Sewer Fund, Water Fund, and governmental activities, respectively. Total adjustments were \$1,097,500. In addition, the Town had not added any current year additions to the capital asset subsidiary ledger, due to an inability to access the subsidiary ledger, resulting in misstated depreciation reports.

Status: Item was corrected as of June 30, 2018.

TOWN OF SELMA, NORTH CAROLINA

SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE FISCAL YEAR ENDED JUNE 30, 2018

2017-004 General Ledger Maintenance

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. Total adjustments of \$590,224 were required in all funds to properly reconcile opening equity to agree with prior year's audited financial statements. Additional adjustments were required in the General Fund to report proceeds of financial arrangements, capital expenditures, and other capital outlays. Adjustments in the enterprise funds were required to show the current year principal payments as a reduction of outstanding long-term debt balances rather than expenses totaling \$338,700.

Status: See 2018-002.

2017-005 Cash Reporting

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

Status: Item was corrected as of June 30, 2018.

2017-006 Segregation of Duties

Condition: The limited number of employees and the resulting overlapping of duties causes segregation of duties to be difficult. During the prior year it was noted there was no documented review and approval of the bank reconciliations. In addition it was noted that manual journal entries posted to the Town's general ledger did not include documented review and approval of a person independent of the person who was preparing and posting the entry.

Status: Item was corrected as of June 30, 2018.

TOWN OF SELMA, NORTH CAROLINA

SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE FISCAL YEAR ENDED JUNE 30, 2018

2017-007 Annual Operating Budgets

Condition: Actual debt service expenditures for the Town exceeded the annually appropriate budgeted amounts. 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, and thus the Town was operating a special revenue fund without an authorized budget.

Status: Item was corrected as of June 30, 2018.

TOWN OF SELMA, NORTH CAROLINA

MANAGEMENT'S CORRECTIVE ACTION PLAN FOR THE FISCAL YEAR ENDED JUNE 30, 2018

2018-001 Restatement of Prior Year Balances

Contact Person Responsible for the Corrective Action Plan: Rhonda Sommer, Finance Director

Corrective Action Plan: We have met with the finance department and will be initiating a secondary review process to ensure all significant accruals are reviewed throughout year-end to ensure proper reporting with applicable standards.

Anticipated Completion Date: June 30, 2019.

2018-002 General Ledger Maintenance

Contact Person Responsible for the Corrective Action Plan: Rhonda Sommer, Finance Director

Corrective Action Plan: We have met within the finance department and steps have been taken to correct within the general ledger in the 2019 fiscal year.

Anticipated Completion Date: June 30, 2019.