

**TOWN OF SELMA, NORTH CAROLINA**

**ANNUAL FINANCIAL REPORT**

**FOR THE YEAR ENDED JUNE 30, 2015**

**Prepared by:  
Finance Department**

**Submitted by:  
Jon Barlow  
Town Manager**

# TOWN OF SELMA, NORTH CAROLINA

## ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2015

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# TOWN OF SELMA, NORTH CAROLINA

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## INTRODUCTORY SECTION

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# **TOWN OF SELMA, NORTH CAROLINA**

## **TOWN COUNCIL AND OFFICIALS**

**JUNE 30, 2015**

### **TOWN COUNCIL**

Cheryl L. Oliver.....Mayor

Jacqueline J. Lacey.....Council Member

William E. Overby.....Council Member

Tommy Holmes.....Council Member

Eric W. Sellers.....Council Member

### **TOWN OFFICIALS**

Jonathan R. Barlow.....Town Manager

Kimberly P. Batten.....Finance Officer

Claudia P. Greenfield.....Town Clerk / Human Resource Director

Alan B. Hewett.....Town Attorney

Richard A. Cooper.....Police Chief

Phillip W. McDaniel.....Fire Chief

Donald W. Baker.....Utilities Director

Alexander K. Fuller.....Public Works / Cemetery / Water & Sewer Director

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

Julie A. Maybee.....Planning/Economic Development Director

## FINANCIAL SECTION

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## INDEPENDENT AUDITOR'S REPORT

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

### Report on the Financial Statements

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

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

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

### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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**Opinions**

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

**Emphasis of Matter**

As discussed in Notes 9 and 14, the Town implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, as well as Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, as of July 1, 2014. These standards significantly changed the accounting for the Town's net pension liability and the 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 Law Enforcement Officers' Special Separation Allowance Schedule of Funding Progress, Other Post-employment Benefits Schedule of Funding Progress, the Schedule of the Town of Selma's Contributions and the Town of Selma's Proportionate Share of Net Pension Liability (Asset) on pages 52, 53, 54, and 55, 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.



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Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinions on the basic financial statements are not affected by this missing information.

#### *Other Information*

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

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2015 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

*Mauldin & Jenkins, LLC*

Atlanta, Georgia  
October 23, 2015

# TOWN OF SELMA, NORTH CAROLINA

## STATEMENT OF NET POSITION JUNE 30, 2015

	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Total
ASSETS			
Cash and cash equivalents	\$ 2,611,806	\$ 3,161,984	\$ 5,773,790
Receivables, net of allowance for uncollectibles	368,507	1,246,917	1,615,424
Taxes receivable	60,326	-	60,326
Inventories	84,138	465,570	549,708
Prepaid items	392	-	392
Restricted cash and cash equivalents	691,024	-	691,024
Net pension asset	171,132	102,509	273,641
Capital assets:			
Non-depreciable	3,186,785	331,221	3,518,006
Depreciable, net of accumulated depreciation	5,890,179	10,167,778	16,057,957
Total assets	13,064,289	15,475,979	28,540,268
DEFERRED OUTFLOWS OF RESOURCES			
Pension plan contributions made subsequent to the measurement date	127,500	72,281	199,781
Total deferred outflows of resources	127,500	72,281	199,781
LIABILITIES			
Accounts payable	83,450	774,575	858,025
Accrued liabilities	82,411	185,253	267,664
Customer deposits	-	417,207	417,207
Interest payable	46,495	-	46,495
Net pension obligation	131,629	-	131,629
Installment notes, due within one year	135,592	256,582	392,174
Installment notes, due in more than one year	1,438,901	1,598,710	3,037,611
Bonds payable, due within one year	-	31,000	31,000
Bonds payable, due in more than one year	-	1,835,000	1,835,000
Compensated absences, due within one year	72,037	40,041	112,078
Compensated absences, due in more than one year	81,233	45,153	126,386
Net OPEB obligation, due in more than one year	991,009	537,798	1,528,807
Total liabilities	3,062,757	5,721,319	8,784,076
DEFERRED INFLOWS OF RESOURCES			
Difference between expected and actual experience - pension	18,699	11,200	29,899
Net difference between projected and actual investment earnings on pension plan investments	398,393	238,640	637,033
Changes in proportion and differences between employer contributions and proportionate share of contributions related to pensions	31,907	19,114	51,021
Total deferred inflows of resources	448,999	268,954	717,953
NET POSITION			
Net investment in capital assets	7,502,471	6,777,707	14,280,178
Restricted for:			
Stabilization by State Statute	373,506	-	373,506
Streets - Powell Bill	597,862	-	597,862
Cemetery perpetual care	454,645	-	454,645
Debt service	-	10,278	10,278
Economic development	132,149	-	132,149
Unrestricted	619,400	2,770,002	3,389,402
Total net position	\$ 9,680,033	\$ 9,557,987	\$ 19,238,020

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, 2015

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	\$ 915,060	\$ 40,869	\$ -	\$ -	\$ (874,191)	\$ -	\$ (874,191)
Public safety	2,346,249	10,275	21,630	138,333	(2,176,011)	-	(2,176,011)
Transportation	1,347,631	640,190	3,920	167,343	(536,178)	-	(536,178)
Cemetery	207,905	153,664	4,068	-	(50,173)	-	(50,173)
Economic development	106,313	177	5,000	158,309	57,173	-	57,173
Culture and recreation	583,920	91,572	8,403	-	(483,945)	-	(483,945)
Interest on long-term debt	65,072	-	-	-	(65,072)	-	(65,072)
Total governmental activities	<u>5,572,150</u>	<u>936,747</u>	<u>43,021</u>	<u>463,985</u>	<u>(4,128,397)</u>	<u>-</u>	<u>(4,128,397)</u>
Business-type activities:							
Water	1,320,531	1,161,510	-	-	-	(159,021)	(159,021)
Sewer	2,301,099	1,976,752	-	-	-	(324,347)	(324,347)
Electric	8,669,119	8,177,431	-	-	-	(491,688)	(491,688)
Total business-type activities	<u>12,290,749</u>	<u>11,315,693</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(975,056)</u>	<u>(975,056)</u>
Total primary government	<u>\$ 17,862,899</u>	<u>\$ 12,252,440</u>	<u>\$ 43,021</u>	<u>\$ 463,985</u>	<u>(4,128,397)</u>	<u>(975,056)</u>	<u>(5,103,453)</u>
General revenues:							
Property taxes, levied for general purposes					2,123,962	-	2,123,962
Property taxes, levied for fire districts					147,296	-	147,296
Other taxes					776,417	-	776,417
Unrestricted investment earnings					8,297	8,182	16,479
Unrestricted intergovernmental					619,033	-	619,033
Miscellaneous					46,715	-	46,715
Total general revenues					<u>3,721,720</u>	<u>8,182</u>	<u>3,729,902</u>
Change in net position					<u>(406,677)</u>	<u>(966,874)</u>	<u>(1,373,551)</u>
Net position, beginning of year, restated					<u>10,086,710</u>	<u>10,524,861</u>	<u>20,611,571</u>
Net position, end of year					<u>\$ 9,680,033</u>	<u>\$ 9,557,987</u>	<u>\$ 19,238,020</u>

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

# TOWN OF SELMA, NORTH CAROLINA

## BALANCE SHEET GOVERNMENTAL FUNDS JUNE 30, 2015

	General Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>			
Cash	\$ 2,611,806	\$ -	\$ 2,611,806
Taxes receivable, net	60,326	-	60,326
Accounts receivable, net	327,091	41,416	368,507
Restricted cash and cash equivalents	597,862	93,162	691,024
Inventory	84,138	-	84,138
Prepaid expenditures	392	-	392
Total assets	<u>\$ 3,681,615</u>	<u>\$ 134,578</u>	<u>\$ 3,816,193</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 81,021	\$ 2,429	\$ 83,450
Accrued liabilities	82,411	-	82,411
Total liabilities	<u>163,432</u>	<u>2,429</u>	<u>165,861</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable revenue - other	13,911	-	13,911
Total deferred inflows of resources	<u>13,911</u>	<u>-</u>	<u>13,911</u>
<b>FUND BALANCES</b>			
Nonspendable:			
Prepaid items	392	-	392
Inventories	84,138	-	84,138
Restricted:			
Stabilization by State Statute	373,506	-	373,506
Streets - Powell Bill	597,862	-	597,862
Cemetery perpetual care	454,645	-	454,645
Economic development	-	132,149	132,149
Committed - Library Trust	224,645	-	224,645
Unassigned	1,769,084	-	1,769,084
Total fund balances	<u>3,504,272</u>	<u>132,149</u>	<u>3,636,421</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 3,681,615</u>	<u>\$ 134,578</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.	9,076,964
Some receivables are not available to pay for current-period expenditures and, therefore, are reported as unavailable revenue in the funds.	13,911
Net pension assets for the LGERS is not recorded on the fund financial statements.	171,132
Net pension obligation for the Special Separation Allowance LEO is not recorded on the fund financial statements.	(131,629)
Contributions to the pension plan in the current fiscal year are deferred outflows of resources on the Statement of Net Position as they were made after the measurement period.	127,500
Deferred inflows of resources related to pensions which are not current financial resources and, therefore, not reported in the funds.	(448,999)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	(2,765,267)
Net position of governmental activities	<u>\$ 9,680,033</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, 2015

	General Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>			
Ad valorem taxes	\$ 2,134,330	\$ -	\$ 2,134,330
Other taxes	776,417	-	776,417
Unrestricted intergovernmental	766,329	-	766,329
Restricted intergovernmental	329,326	-	329,326
Permits and fees	30,720	-	30,720
Sales and services	909,600	177	909,777
Investment earnings	8,199	98	8,297
Contributions	-	158,309	158,309
Miscellaneous	66,086	-	66,086
Total revenues	<u>5,021,007</u>	<u>158,584</u>	<u>5,179,591</u>
<b>Expenditures</b>			
Current:			
General government	886,575	-	886,575
Public safety	2,177,622	-	2,177,622
Transportation	1,048,083	-	1,048,083
Cemetery	158,165	-	158,165
Culture and recreation	484,535	-	484,535
Economic development	-	106,313	106,313
Capital outlay	-	9,655	9,655
Debt service:			
Principal retirements	158,581	-	158,581
Interest	70,331	-	70,331
Total expenditures	<u>4,983,892</u>	<u>115,968</u>	<u>5,099,860</u>
Excess of revenues over expenditures	<u>37,115</u>	<u>42,616</u>	<u>79,731</u>
<b>Other financing sources (uses)</b>			
Transfers in	10,373	-	10,373
Transfers out	-	(10,373)	(10,373)
Total other financing sources (uses)	<u>10,373</u>	<u>(10,373)</u>	<u>-</u>
Net change in fund balances	47,488	32,243	79,731
Fund balances, beginning of year, restated	<u>3,456,784</u>	<u>99,906</u>	<u>3,556,690</u>
Fund balances, end of year	<u>\$ 3,504,272</u>	<u>\$ 132,149</u>	<u>\$ 3,636,421</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, 2015

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

Net change in fund balances - total governmental funds	\$ 79,731
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.	(435,116)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(14,118)
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 repayments of the principal of long-term debt.	158,581
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>(195,755)</u>
Change in net position - governmental activities	<u>\$ (406,677)</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, 2015

	Budget		Actual	Variance with
	Original	Final	Amounts	Actual and Final Budget Positive (Negative)
<b>Revenues</b>				
Ad valorem taxes	\$ 2,229,363	\$ 2,231,363	\$ 2,134,330	\$ (97,033)
Other taxes	690,050	690,050	776,417	86,367
Unrestricted intergovernmental	317,000	639,641	766,329	126,688
Restricted intergovernmental	201,000	214,500	329,326	114,826
Permits and fees	11,500	13,112	30,720	17,608
Sales and services	915,582	912,082	909,600	(2,482)
Investment earnings	10,082	10,082	8,147	(1,935)
Miscellaneous	30,600	35,814	57,086	21,272
Total revenues	4,405,177	4,746,644	5,011,955	265,311
<b>Expenditures</b>				
Current:				
General government	907,470	970,443	886,575	83,868
Public safety	2,183,890	2,311,192	2,143,843	167,349
Transportation	1,105,750	1,107,877	1,048,083	59,794
Cemetery	179,850	180,315	158,165	22,150
Culture and recreation	503,150	522,950	484,535	38,415
Debt service:				
Principal retirements	133,223	133,223	158,581	(25,358)
Interest	69,575	69,575	70,331	(756)
Total expenditures	5,082,908	5,295,575	4,950,113	345,462
Excess (deficiency) of revenues over expenditures	(677,731)	(548,931)	61,842	610,773
<b>Other financing sources:</b>				
Fund balance appropriation	323,381	194,581	-	(194,581)
Transfers in	354,350	354,350	10,373	(343,977)
Total other financing sources	677,731	548,931	10,373	(538,558)
Net change in fund balances	-	-	72,215	72,215
Fund balances, beginning of year, restated	3,456,784	3,456,784	3,456,784	-
Fund balances, end of year	\$ 3,456,784	\$ 3,456,784	3,528,999	\$ 72,215
Reconciliation to the General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance:				
Fire Protection - Selma Petroleum Terminals Fund:				
Investment earnings			52	
Other revenues			9,000	
Public safety expenditures			(33,779)	
Fund balance, end of year			\$ 3,504,272	

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

# TOWN OF SELMA, NORTH CAROLINA

## STATEMENT OF NET POSITION PROPRIETARY FUNDS JUNE 30, 2015

ASSETS	Water Fund	Sewer Fund	Electric Fund	Totals
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	\$ 1,674,064	\$ 363,729	\$ 1,124,191	\$ 3,161,984
Accounts receivable, net of allowances	137,117	266,261	843,539	1,246,917
Inventories	60,702	13,247	391,621	465,570
Total current assets	1,871,883	643,237	2,359,351	4,874,471
<b>NONCURRENT ASSETS</b>				
Advances to other funds	850,000	-	-	850,000
Net pension asset	35,513	21,288	45,708	102,509
<b>CAPITAL ASSETS</b>				
Nondepreciable	189,204	12,651	129,366	331,221
Depreciable, net of accumulated depreciation	3,763,193	4,600,972	1,803,613	10,167,778
Total noncurrent assets	4,837,910	4,634,911	1,978,687	11,451,508
Total assets	6,709,793	5,278,148	4,338,038	16,325,979
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred outflows - pension contributions made subsequent to measurement date	24,363	13,789	34,129	72,281
Total deferred outflows of resources	24,363	13,789	34,129	72,281
<b>LIABILITIES</b>				
<b>CURRENT LIABILITIES</b>				
Accounts payable	25,015	104,722	644,838	774,575
Accrued liabilities	9,531	8,065	167,657	185,253
Customer deposits	68,793	62,768	285,646	417,207
Installment contracts, current	10,730	4,184	241,668	256,582
Bonds payable, current	9,000	22,000	-	31,000
Compensated absences payable, current	12,225	6,567	21,249	40,041
	135,294	208,306	1,361,058	1,704,658
<b>NONCURRENT LIABILITIES</b>				
Installments contracts	108,917	4,187	1,485,606	1,598,710
Bonds payable	580,000	1,255,000	-	1,835,000
Advance from other funds	-	850,000	-	850,000
Compensated absences payable	13,785	7,405	23,963	45,153
Net OPEB obligation	191,828	91,677	254,293	537,798
Total noncurrent liabilities	894,530	2,208,269	1,763,862	4,866,661
Total liabilities	1,029,824	2,416,575	3,124,920	6,571,319
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Difference between expected and actual experience - pension	3,880	2,326	4,994	11,200
Net difference between projected and actual investment earnings on pension plan investments	82,674	49,558	106,408	238,640
Changes in proportion and differences between employer contributions and proportionate share of contributions as they were made after the measurement period.	6,622	3,970	8,522	19,114
Total deferred inflows of resources	93,176	55,854	119,924	268,954
<b>NET POSITION</b>				
Net investment in capital assets	3,243,750	3,328,252	205,705	6,777,707
Restricted for:				
Debt service	-	10,278	-	10,278
Unrestricted	2,367,406	(519,022)	921,618	2,770,002
Total net position	\$ 5,611,156	\$ 2,819,508	\$ 1,127,323	\$ 9,557,987

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, 2015**

	Water Fund	Sewer Fund	Electric Fund	Totals
<b>OPERATING REVENUES</b>				
Charges for sales and services	\$ 1,160,766	\$ 1,974,938	\$ 8,171,562	\$ 11,307,266
Other operating income	744	1,814	5,869	8,427
Total operating revenues	1,161,510	1,976,752	8,177,431	11,315,693
<b>OPERATING EXPENSES</b>				
Salaries and benefits	576,305	234,893	697,050	1,508,248
General operating expenses	355,259	249,926	319,133	924,318
Depreciation	270,187	286,273	528,752	1,085,212
Electric purchases	-	-	7,067,561	7,067,561
Water & sewer purchases	88,953	1,497,991	-	1,586,944
Total operating expenses	1,290,704	2,269,083	8,612,496	12,172,283
Operating loss	(129,194)	(292,331)	(435,065)	(856,590)
<b>NON-OPERATING REVENUES (EXPENSES)</b>				
Interest income	4,561	790	2,831	8,182
Interest and fiscal charges	(29,827)	(32,016)	(56,623)	(118,466)
Total non-operating revenue (expenses)	(25,266)	(31,226)	(53,792)	(110,284)
Loss before transfers	(154,460)	(323,557)	(488,857)	(966,874)
Transfers in	41,000	-	-	41,000
Transfers out	-	(41,000)	-	(41,000)
Change in net position	(113,460)	(364,557)	(488,857)	(966,874)
Net position, beginning of year, restated	5,724,616	3,184,065	1,616,180	10,524,861
Net position, end of year	\$ 5,611,156	\$ 2,819,508	\$ 1,127,323	\$ 9,557,987

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, 2015

	Water Fund	Sewer Fund	Electric Fund	Totals
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers and users	\$ 1,162,785	\$ 1,908,674	\$ 8,197,189	\$ 11,268,648
Payments to suppliers	(412,685)	(1,734,563)	(7,382,824)	(9,530,072)
Payments to employees	(546,875)	(269,698)	(603,040)	(1,419,613)
Net cash provided by (used in) operating activities	<u>203,225</u>	<u>(95,587)</u>	<u>211,325</u>	<u>318,963</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>				
Advances to other funds	(250,000)	-	-	(250,000)
Receipt of advances from other funds	-	250,000	-	250,000
Transfers from other funds	41,000	(41,000)	-	-
Net cash provided by (used in) non-capital financing activities	<u>(209,000)</u>	<u>209,000</u>	<u>-</u>	<u>-</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Purchase of capital assets	(5,647)	(19,875)	(201,515)	(227,037)
Proceeds from issuance of note payable	-	-	157,256	157,256
Principal payments	(15,546)	(40,000)	(273,643)	(329,189)
Interest paid	(29,827)	(32,016)	(62,881)	(124,724)
Net cash used in capital and related financing activities	<u>(51,020)</u>	<u>(91,891)</u>	<u>(380,783)</u>	<u>(523,694)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest received	4,561	790	2,831	8,182
Net cash provided by investing activities	<u>4,561</u>	<u>790</u>	<u>2,831</u>	<u>8,182</u>
Net increase (decrease) in cash and cash equivalents	(52,234)	22,312	(166,627)	(196,549)
Cash and cash equivalents, beginning of year	<u>1,726,298</u>	<u>341,417</u>	<u>1,290,818</u>	<u>3,358,533</u>
Cash and cash equivalents, end of year	<u>\$ 1,674,064</u>	<u>\$ 363,729</u>	<u>\$ 1,124,191</u>	<u>\$ 3,161,984</u>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>				
Operating loss	\$ (129,194)	\$ (292,331)	\$ (435,065)	\$ (856,590)
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:				
Depreciation expense	270,187	286,273	528,752	1,085,212
Change in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:				
(Increase) decrease in accounts receivable	1,275	(68,078)	19,758	(47,045)
Decrease in inventories	31,201	-	39,594	70,795
Increase in net pension asset	(118,111)	(70,801)	(152,017)	(340,929)
Decrease (increase) in deferred outflows of resources	1,139	1,498	(1,306)	1,331
Increase (decrease) in accounts payable	(7,375)	5,700	26,825	25,150
Increase in accrued liabilities	1,914	1,052	99,886	102,852
Increase (decrease) in customer deposits	7,701	7,654	(62,549)	(47,194)
Increase in compensated absences payable	2,337	2,354	7,214	11,905
Increase in deferred inflows for difference between expected and actual experience - pension	3,880	2,326	4,994	11,200
Increase in deferred inflows for net difference between projected and actual investment earnings on pension plan investments	82,674	49,558	106,408	238,640
Increase in deferred inflows for changes in proportion and differences between employer contributions and proportionate share of contributions	6,622	3,970	8,522	19,114
Increase (decrease) in net OPEB obligation	48,975	(24,762)	20,309	44,522
Net cash provided by (used in) operating activities	<u>\$ 203,225</u>	<u>\$ (95,587)</u>	<u>\$ 211,325</u>	<u>\$ 318,963</u>

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

# **TOWN OF SELMA, NORTH CAROLINA**

## **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2015**

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

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

#### **A. Reporting Entity**

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

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

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

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

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

## NOTES TO FINANCIAL STATEMENTS

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

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

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

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

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

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

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

## NOTES TO FINANCIAL STATEMENTS

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

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

The Town reports the following major governmental fund:

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

The Town reports the following major enterprise funds:

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

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

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

Additionally, the Town reports the following fund types:

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

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

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

## NOTES TO FINANCIAL STATEMENTS

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

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

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

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

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

#### C. Budgets

Annual appropriated budgets are adopted for all funds, with the exception of capital projects funds for which project length budgets are 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, 2015, the original budget was amended through supplemental appropriations. These changes are reflected in the budgetary comparison schedules.

All budget appropriations lapse at the end of each year.

## NOTES TO FINANCIAL STATEMENTS

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

#### D. 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 as determined by quoted market prices. The securities of the NCCMT- Cash Portfolio, a SEC-registered (2a-7) money market mutual fund, are valued at fair value, which is the NCCMT's share price. The NCCMT-Term Portfolio's securities are valued at fair value.

#### E. 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. 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.

#### F. 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, 2014.

#### G. 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.

## NOTES TO FINANCIAL STATEMENTS

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

#### H. 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."

#### I. Inventories

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.

#### J. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2015, 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 are recorded at estimated fair market value at the date of donation. 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.

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
Equipment	10 years
Vehicles	5-6 years



## NOTES TO FINANCIAL STATEMENTS

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

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

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflow of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Town reports one type of deferred outflows of resources related to the reporting of the net pension liability. The deferred outflow of resources being recognized is a deferred outflow of resources for the Town's actual contributions to the pension plan during the fiscal year ended June 30, 2015, which was subsequent to the measurement date of the net pension liability. The deferred outflows will be applied to future measurement periods.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Town has three (3) items that qualify for reporting in this category which occurs in the governmental activities and in the individual proprietary funds. The Town reports a deferred inflow of resources for the: (1) difference between expected and actual experience of the pension plan, (2) net difference between projected and actual investment earnings on the pension plan assets, and (3) the difference between the Town's actual contributions towards the pension plan and the Town's proportionate share of contributions. These 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 other revenues as 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.

## NOTES TO FINANCIAL STATEMENTS

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

#### N. Long-Term Obligations

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

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

#### O. Fund Equity

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

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

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.

## NOTES TO FINANCIAL STATEMENTS

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

#### O. Fund Equity (Continued)

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

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

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

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

**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.

## NOTES TO FINANCIAL STATEMENTS

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

#### P. Pensions

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Local Governmental Employees' Retirement System (LERS) and additions to/deductions from LERS' fiduciary net position have been determined on the same basis as they are reported by LERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

#### Q. Management Estimates

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

### 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 \$2,765,267 difference are as follows:

Installment notes	\$ (1,574,493)
Accrued interest payable	(46,495)
Compensated absences (i.e., vacation)	(153,270)
Net OPEB obligation	<u>(991,009)</u>
Net adjustment to reduce <i>fund balance – total governmental funds</i> to arrive at <i>net position – governmental activities</i>	<u><u>\$ (2,765,267)</u></u>

## NOTES TO FINANCIAL STATEMENTS

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

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

Another element of the reconciliation between *fund balance – total governmental funds* and *net position – governmental activities* as reported in the government-wide statement of net position explains “deferred inflows of resources related to pensions which are not current financial resources and, therefore, not reported in the funds.” The details of this \$448,999 difference are as follows:

Difference between expected and actual experience - pension	\$	18,699
Net difference between projected and actual investments earnings on pension plan investments		398,393
Changes in proportion and differences between employer contributions and proportionate share of contributions related to pensions		<u>31,907</u>
Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net position - governmental activities</i>	\$	<u><u>448,999</u></u>

#### 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 \$435,116 difference are as follows:

Capital outlay	\$	172,634
Depreciation expense		<u>(607,750)</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>(435,116)</u></u>

## NOTES TO FINANCIAL STATEMENTS

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

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

Another element of the reconciliation states that "some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds." The details of this \$195,755 difference are as follows:

Compensated absences (i.e., vacation)	\$ (19,557)
Change in accrued interest	5,259
Net pension liability (asset) - LGERS	124,767
Net pension obligation - Special Separation Allowance LEO	(8,700)
Net OPEB obligation	<u>(297,524)</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>\$ (195,755)</u>

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

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

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

General Fund:	
Debt service - principal	\$ 25,358
Debt service - interest	756
Sewer administration	8,473
Electric Fund debt service	37,636

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

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 4. DEPOSITS AND INVESTMENTS

Total deposits as of June 30, 2015 are summarized as follows:

Statement of Net Position:

Cash and cash equivalents	\$ 5,773,790
Restricted cash and cash equivalents	691,024
	<u>\$ 6,464,814</u>
Cash deposited with financial institutions	\$ 4,409,069
Cash deposited with NCCMT	2,055,745
	<u>\$ 6,464,814</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.

As of June 30, 2015 the Town had \$2,055,745 invested in the NCCMT's cash portfolio which carried a credit rating of AAAM by Standard and Poor's. The Town has no policy regarding credit risk. As of June 30, 2015 the NCCMT reported a weighted average maturity (WAM) of 40 days.

**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, 2015, the Town's deposits are insured or collateralized as required by state law.

## NOTES TO FINANCIAL STATEMENTS

### NOTE 5. RECEIVABLES

Receivables at June 30, 2015, 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	\$ 84,978	\$ -	\$ -	\$ -	\$ -
Accounts	405,300	174,822	326,314	997,065	41,416
Less allowance for uncollectible	<u>102,861</u>	<u>37,705</u>	<u>60,053</u>	<u>153,526</u>	<u>-</u>
Net total receivable	<u><u>\$ 387,417</u></u>	<u><u>\$ 137,117</u></u>	<u><u>\$ 266,261</u></u>	<u><u>\$ 843,539</u></u>	<u><u>\$ 41,416</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, 2015 is as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
<b>Governmental Activities:</b>					
Nondepreciable capital assets:					
Land	\$ 2,657,588	\$ -	\$ -	\$ -	\$ 2,657,588
Construction in progress	529,197	-	-	-	529,197
Total	<u>3,186,785</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,186,785</u>
Capital assets, being depreciated:					
Buildings	4,483,903	-	-	27,017	4,510,920
Other improvements	5,590,938	-	-	(16,742)	5,574,196
Equipment and furniture	754,602	124,445	(23,489)	(10,275)	845,283
Vehicles and motorized equipment	2,673,225	48,189	(91,849)	-	2,629,565
Total being depreciated	<u>13,502,668</u>	<u>172,634</u>	<u>(115,338)</u>	<u>-</u>	<u>13,559,964</u>
Less accumulated depreciation for:					
Buildings	(1,791,918)	(163,930)	-	27,017	(1,928,831)
Other improvements	(2,662,962)	(222,405)	-	(16,742)	(2,902,109)
Equipment and furniture	(451,026)	(57,804)	23,489	(10,275)	(495,616)
Vehicles and motorized equipment	(2,271,467)	(163,611)	91,849	-	(2,343,229)
Total	<u>(7,177,373)</u>	<u>(607,750)</u>	<u>115,338</u>	<u>-</u>	<u>(7,669,785)</u>
Total capital assets, being depreciated, net	<u>6,325,295</u>	<u>(435,116)</u>	<u>-</u>	<u>-</u>	<u>5,890,179</u>
Governmental activities capital assets, net	<u>\$ 9,512,080</u>	<u>\$ (435,116)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,076,964</u>

## NOTES TO FINANCIAL STATEMENTS

### NOTE 6. CAPITAL ASSETS (CONTINUED)

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Water Fund:</b>				
Nondepreciable capital assets:				
Land	\$ 182,438	\$ -	\$ -	\$ 182,438
Construction in progress	-	6,766	-	6,766
Total	<u>182,438</u>	<u>6,766</u>	<u>-</u>	<u>189,204</u>
Capital assets, being depreciated:				
Buildings and improvements	981,757	-	-	981,757
Distribution system	7,675,523	-	-	7,675,523
Equipment	457,576	5,647	-	463,223
Vehicles and motorized equipment	95,790	-	-	95,790
Total	<u>9,210,646</u>	<u>5,647</u>	<u>-</u>	<u>9,216,293</u>
Less accumulated depreciation for:				
Buildings and improvements	(712,005)	(53,328)	-	(765,333)
Distribution system	(4,032,406)	(191,825)	-	(4,224,231)
Equipment	(346,201)	(22,802)	-	(369,003)
Vehicles and motorized equipment	(92,301)	(2,232)	-	(94,533)
Total	<u>(5,182,913)</u>	<u>(270,187)</u>	<u>-</u>	<u>(5,453,100)</u>
Total capital assets being depreciated, net	<u>4,027,733</u>	<u>(264,540)</u>	<u>-</u>	<u>3,763,193</u>
Water Fund capital assets, net	<u>\$ 4,210,171</u>	<u>\$ (257,774)</u>	<u>\$ -</u>	<u>\$ 3,952,397</u>

## NOTES TO FINANCIAL STATEMENTS

### NOTE 6. CAPITAL ASSETS (CONTINUED)

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Sewer Fund:</b>				
Nondepreciable capital assets:				
Land	\$ 12,651	\$ -	\$ -	\$ 12,651
Total	<u>12,651</u>	<u>-</u>	<u>-</u>	<u>12,651</u>
Capital assets, being depreciated:				
Buildings and improvements	149,072	-	-	149,072
Distribution system	7,950,686	-	-	7,950,686
Equipment	295,335	19,875	-	315,210
Vehicles and motorized equipment	102,849	-	-	102,849
Total	<u>8,497,942</u>	<u>19,875</u>	<u>-</u>	<u>8,517,817</u>
Less accumulated depreciation for:				
Buildings and improvements	(32,166)	(11,693)	-	(43,859)
Distribution system	(3,320,935)	(253,967)	-	(3,574,902)
Equipment	(176,566)	(19,927)	-	(196,493)
Vehicles and motorized equipment	(100,905)	(686)	-	(101,591)
Total	<u>(3,630,572)</u>	<u>(286,273)</u>	<u>-</u>	<u>(3,916,845)</u>
Total capital assets being depreciated, net	<u>4,867,370</u>	<u>(266,398)</u>	<u>-</u>	<u>4,600,972</u>
Sewer Fund capital assets, net	<u>\$ 4,880,021</u>	<u>\$ (266,398)</u>	<u>\$ -</u>	<u>\$ 4,613,623</u>

## NOTES TO FINANCIAL STATEMENTS

### NOTE 6. CAPITAL ASSETS (CONTINUED)

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Electric Fund:</b>				
Nondepreciable capital assets:				
Land	\$ 129,366	\$ -	\$ -	\$ 129,366
Total	<u>129,366</u>	<u>-</u>	<u>-</u>	<u>129,366</u>
Capital assets, being depreciated:				
Buildings and improvements	194,777	-	-	194,777
Equipment	6,738,560	44,259	-	6,782,819
Vehicles and motorized equipment	603,276	157,256	-	760,532
Total	<u>7,536,613</u>	<u>201,515</u>	<u>-</u>	<u>7,738,128</u>
Less accumulated depreciation for:				
Buildings and improvements	(96,649)	(18,921)	-	(115,570)
Equipment	(4,758,472)	(462,091)	-	(5,220,563)
Vehicles and motorized equipment	(550,642)	(47,740)	-	(598,382)
Total	<u>(5,405,763)</u>	<u>(528,752)</u>	<u>-</u>	<u>(5,934,515)</u>
Total capital assets being depreciated, net	<u>2,130,850</u>	<u>(327,237)</u>	<u>-</u>	<u>1,803,613</u>
Electric Fund capital assets, net	<u>\$ 2,260,216</u>	<u>\$ (327,237)</u>	<u>\$ -</u>	<u>\$ 1,932,979</u>

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

<b>Governmental activities:</b>	
General government	\$ 20,612
Public safety	178,866
Transportation	289,613
Cemetery	43,216
Culture and recreation	<u>75,443</u>
Total depreciation expense - governmental activities	<u>\$ 607,750</u>
<b>Business-type activities</b>	
Water	\$ 270,187
Sewer	286,273
Electric	<u>528,752</u>
Total depreciation expense - business-type activities	<u>\$ 1,085,212</u>

## NOTES TO FINANCIAL STATEMENTS

### NOTE 7. LONG-TERM DEBT

Long-term liability activity for the year ended June 30, 2015 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental activities:</b>					
Installment notes	\$ 1,733,074	\$ -	\$ (158,581)	\$ 1,574,493	\$ 135,592
Compensated absences	133,713	56,852	(37,295)	153,270	72,037
Net pension liability (asset)	398,024	2,733	(571,889)	(171,132)	-
Law enforcement officers' SSA pension obligation	122,929	64,362	(55,662)	131,629	-
Net OPEB obligation	693,485	346,741	(49,217)	991,009	-
Governmental activity Long-term liabilities	<u>\$ 3,081,225</u>	<u>\$ 470,688</u>	<u>\$ (872,644)</u>	<u>\$ 2,679,269</u>	<u>\$ 207,629</u>
<b>Business-type activities:</b>					
Installment notes	1,996,225	157,256	(298,189)	1,855,292	256,582
Revenue bonds payable	1,897,000	-	(31,000)	1,866,000	31,000
Net pension liability (asset)	238,420	1,637	(342,566)	(102,509)	-
Compensated absences	73,288	50,552	(38,646)	85,194	40,041
Net OPEB obligation	493,276	71,234	(26,712)	537,798	-
Business-type activity Long-term liabilities	<u>\$ 4,698,209</u>	<u>\$ 280,679</u>	<u>\$ (737,113)</u>	<u>\$ 4,241,775</u>	<u>\$ 327,623</u>

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

### Installment Notes

The Town has various installment notes outstanding for buildings, equipment, and vehicle financing arrangements. The outstanding balances for the notes as of June 30, 2015 are as follows:

	Balance as of June 30, 2015
<b>Governmental activities</b>	
A note issued by RBC Bank for \$525,000 was issued on July 23, 2010 with annual payments of \$52,500 for the purchase of real property. The note bears an interest rate of 5.25% and matures in 2020.	\$ 315,000
A note issued by US Department of Agriculture for \$550,000 was issued on December 6, 2010 with annual payments of \$30,850 for the purchase of real property. The note bears an interest rate of 3.75% and matures in 2040.	506,743
A note issued by US Department of Agriculture for \$375,000 was issued on September 21, 2011 with annual payments of \$22,350 for the purchase of real property. The note bears an interest rate of 4.25% and matures in 2041.	354,935
	<i>continued</i>

## NOTES TO FINANCIAL STATEMENTS

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

#### Installment Notes (Continued)

	Balance as of June 30, 2015
<b><i>Governmental activities (continued)</i></b>	
A note issued by US Department of Agriculture for \$210,000 was issued on September 14, 2010 with annual payments of \$18,890 for the purchase of a fire truck. The note bears an interest rate of 4.00% and matures in 2025.	165,455
A note issued by US Department of Agriculture for \$31,900 was issued on March 21, 2012 with annual payments of \$1,790 for the purchase of real property. The note bears an interest rate of 3.75% and matures in 2042.	30,052
A note issued by First Citizens Bank for \$109,806 was issued on August 23, 2012 with annual payments of \$28,810 for the purchase of mowing equipment. The note bears an interest rate of 1.96% and matures in 2017.	55,983
A note issued by BB&T Bank for \$27,183 was issued on July 13, 2011 with annual payments of \$5,883 for the purchase of financial software. The note bears an interest rate of 2.69% and matures in 2016.	8,481
A note issued by US Department of Agriculture for \$110,000 was issued on March 21, 2012 with annual payments of \$6,170 for the purchase of real property. The note bears an interest rate of 3.75% and matures in 2042.	103,632
A note issued by BB&T Bank for \$82,242 was issued on July 13, 2011 with annual payments of \$17,799 for the purchase of a dump truck. The note bears an interest rate of 2.69% and matures in 2016.	34,212
Total outstanding installment notes payable	<u>\$ 1,574,493</u>

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

	Principal	Interest	Total
Year Ending June 30,			
2016	\$ 135,592	\$ 64,450	\$ 200,042
2017	138,112	59,235	197,347
2018	89,589	53,940	143,529
2019	91,053	49,731	140,784
2020	92,574	45,464	138,038
2021-2025	277,883	177,594	455,477
2026-2030	193,263	131,361	324,624
2031-2035	212,295	93,487	305,782
2036-2040	257,359	48,422	305,781
2041-2042	86,773	4,664	91,437
Total	<u>\$ 1,574,493</u>	<u>\$ 728,348</u>	<u>\$ 2,302,841</u>

## NOTES TO FINANCIAL STATEMENTS

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

#### Installment Notes (Continued)

##### *Business-type activities*

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.

Balance as of  
June 30, 2015

\$ 1,561,427

A note issued by BB&T Bank for \$27,183 was issued on July 13, 2011 with annual payments of \$5,883 for the purchase of financial software. The note bears an interest rate of 2.69% and matures in 2016.

8,591

A note issued by BB&T Bank for \$157,256 was issued on June 29, 2015 with annual payments of \$32,624 for the purchase of an electric utility truck. The note bears an interest rate of 1.24% and matures in 2020.

157,256

A note issued by North Carolina Drinking Water State Revolving Fund for \$261,826 was issued on March 27, 2012 with annual payments of \$13,091 for the purchase of water system improvements. The note is a non-interest bearing note and matures in 2032.

111,276

A note issued by BB&T Bank for \$27,183 was issued on July 13, 2011 with annual payments of \$5,883 for the purchase of financial software. The note bears an interest rate of 2.69% and matures in 2016.

8,371

A note issued by BB&T Bank for \$27,183 was issued on July 13, 2011 with annual payments of \$5,883 for the purchase of financial software. The note bears an interest rate of 2.69% and matures in 2016.

8,371

Total outstanding installment notes payable \$ 1,855,292

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>
2016	\$ 256,582	\$ 57,677	\$ 314,259
2017	296,256	50,626	346,882
2018	292,746	40,909	333,655
2019	302,444	31,211	333,655
2020	312,487	21,169	333,656
2021-2025	349,067	10,771	359,838
2026-2030	32,728	-	32,728
2031-2032	12,982	-	12,982
Total	<u>\$ 1,855,292</u>	<u>\$ 212,363</u>	<u>\$ 2,067,655</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, 2015, \$589,000 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, 2015, \$1,277,000 of the bonds were outstanding. The bonds mature in 2053.

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,			
2016	\$ 31,000	\$ 52,169	\$ 83,169
2017	33,000	51,319	84,319
2018	33,000	50,405	83,405
2019	34,000	49,491	83,491
2020	35,000	48,556	83,556
2021-2025	190,000	227,545	417,545
2026-2030	219,000	199,049	418,049
2031-2035	252,000	165,665	417,665
2036-2040	292,000	126,395	418,395
2041-2045	333,000	80,293	413,293
2046-2050	274,000	32,491	306,491
2051-2053	140,000	5,971	145,971
Total	<u>\$ 1,866,000</u>	<u>\$ 1,089,349</u>	<u>\$ 2,955,349</u>

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. Below is a calculation of the coverage ratio as of June 30, 2015:

Operating revenues	\$ 3,138,262
Non-operating revenues	5,351
Operating expenses	<u>(3,003,327)</u>
Income available for debt service	<u>\$ 140,286</u>
Annual debt service	\$ 117,389
Debt service coverage ratio	119.5%



## NOTES TO FINANCIAL STATEMENTS

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

The composition of interfund balances as of June 30, 2015 is as follows:

Advances to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Water Fund	Sewer Fund	\$ 850,000

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

Interfund transfers:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
General Fund	Nonmajor Governmental Funds	\$ 10,373
Water Fund	Sewer Fund	41,000
		<u>\$ 51,373</u>

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them.

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## NOTES TO FINANCIAL STATEMENTS

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### NOTE 9. PENSION PLANS

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

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

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

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

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 9. PENSION PLANS (CONTINUED)

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

**Contributions.** Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. The Town of Selma employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Town of Selma's contractually required contribution rate for the year ended June 30, 2015, was 7.41% of compensation for law enforcement officers and 7.07% for general employees and firefighters, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Town of Selma were \$199,781 for the year ended June 30, 2015.

*Refunds of Contributions* – City 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***

Effective July 1, 2014, the Town implemented the provision of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, which significantly changed the Town's accounting for pension amounts related to the LGERS. The information disclosed below is presented in accordance with this new standard.

At June 30, 2015, the Town reported an asset of \$273,641 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2014. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2013. The total pension liability was then rolled forward to the measurement date of June 30, 2014 utilizing update procedures incorporating the actuarial assumptions. The Town's proportion of the net pension asset was based on a projection of the Town's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2014, the Town's proportion was 0.0464%, which was a decrease of 0.0064% from its proportion measured as of June 30, 2013.

## NOTES TO FINANCIAL STATEMENTS

### NOTE 9. PENSION PLANS (CONTINUED)

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

For the year ended June 30, 2015, the Town recognized pension expense of \$4,369. At June 30, 2015, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 29,899
Net difference between projected and actual earnings on pension plan investments	-	637,033
Changes in proportion and differences between Town contributions and proportionate share of contributions	-	51,021
Town contributions subsequent to the measurement date	199,781	-
Total	\$ 199,781	\$ 717,953

Town contributions made subsequent to the measurement date of \$199,781 are reported as deferred outflows of resources and will be recognized as an increase of the net pension asset in the year ended June 30, 2016. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

#### Year ended June 30:

2016	\$ (179,539)
2017	(179,539)
2018	(179,539)
2019	(179,336)

**Actuarial Assumptions.** The total pension liability as of June 30, 2014 was determined by the December 31, 2013 actuarial valuation using the following actuarial assumptions, applied to all periods included in the measurement:

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

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.

## NOTES TO FINANCIAL STATEMENTS

### NOTE 9. PENSION PLANS (CONTINUED)

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

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

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

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

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

The information above is based on 30 year expectations developed with the consulting actuary for the 2013 asset liability and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.19%. All rates of return and inflation are annualized.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 9. PENSION PLANS (CONTINUED)

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

A new asset allocation policy was finalized during the fiscal year ended June 30, 2014 to be effective July 1, 2014. The new asset allocation policy utilizes different asset classes, changes in the structure of certain asset classes, and adopts new benchmarks. Using the asset class categories in the preceding table, the new long-term expected arithmetic real rates of return are: Fixed Income 2.2%, Global Equity 5.8%, Real Estate 5.2%, Alternatives 9.8%, Credit 6.8% and Inflation Protection 3.4%.

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

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

	<u>1% Decrease (6.25%)</u>	<u>Discount Rate (7.25%)</u>	<u>1% Increase (8.25%)</u>
Town's proportionate share of the net pension liability (asset)	\$ 928,860	\$ (273,641)	\$ (1,286,110)

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

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 9. PENSION PLANS (CONTINUED)

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

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

All full time law enforcement officers of the Town are covered by the Separation Allowance. At December 31, 2013, the date of the most recent actuarial valuation the Separation Allowance's membership consisted of:

Retirees receiving benefits	3
Active plan members	<u>23</u>
Total	<u><u>26</u></u>

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

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

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

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

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

## NOTES TO FINANCIAL STATEMENTS

### NOTE 9. PENSION PLANS (CONTINUED)

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

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

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

	For The Plan Year Ending June 30, 2015
Annual required contribution	\$ 68,195
Interest on net pension obligation	6,088
Adjustments to annual required contribution	(9,921)
Annual pension cost	64,362
Contributions made	(55,662)
Increase in net pension obligation	8,700
Net pension obligation, beginning of year	122,929
Net pension obligation, end of year	<u>\$ 131,629</u>

Fiscal Year Ended June 30,	Annual Pension Cost (APC)	Actual Pension Contribution	Percentage of APC Contributed	Net Pension Obligation
2015	\$ 64,362	\$ 55,662	86.5 %	\$ 131,629
2014	45,807	44,643	97.5	122,929
2013	48,303	35,865	74.3	121,765

As of December 31, 2013, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and the unfunded actuarial accrued liability (UAAL) was \$561,630. The covered payroll (annual payroll of active employees covered by the plan) was \$941,276, and the ratio of the UAAL to the covered payroll was 59.67 percent.

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



## NOTES TO FINANCIAL STATEMENTS

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### NOTE 9. PENSION PLANS (CONTINUED)

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

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future. Actuarial calculations reflect a long-term perspective. Calculations are based on the substantive plan in effect as of December 31, 2013.

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

**Funding Policy.** Article 12E of G.S. Chapter 143 requires the Town to contribute, each month, an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2015 were \$53,221 which consisted of \$46,831 from the Town and \$6,390 from the law enforcement officers. As of June 30, 2015 there were twenty-one (21) 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 above. 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, 2015 were \$72,665 which consisted of \$51,995 from the Town and \$20,670 from the employees. As of June 30, 2015 there were forty-one (41) participants in the plan.

## NOTES TO FINANCIAL STATEMENTS

### NOTE 10. OTHER POST-EMPLOYMENT BENEFITS

#### Plan Description

Under the terms of a Town resolution, the Town administers a single-employer defined benefit Healthcare Benefits Plan (the "HCB Plan"). As of August 21, 2014, this plan provides post-employment 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 post-employment coverage. Retirees who qualify for coverage receive the same benefits as active employees. Coverage for all retirees who are eligible for Medicare will be transferred to a Medicare Supplemental plan after qualifying for Medicare. The Town Council established and may amend the benefit provisions. A separate report was not issued for the plan.

Membership of the HCB Plan consisted of the following at December 31, 2012, the date of the latest actuarial valuation:

Active participants	93
Retirees and beneficiaries currently receiving benefits	24
Total	<u>117</u>

The following is a schedule of funding progress:

Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b-a) Unfunded Actuarial Accrued Liability (UAAL)	(a/b) Funded Ratio	(c) Covered Payroll	[(b-a)/c] UAAL as a Percentage of Covered Payroll
12/31/12	\$ -	\$ 4,145,737	\$ 4,145,737	0%	\$ 2,826,405	146.7%

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

## NOTES TO FINANCIAL STATEMENTS

### NOTE 10. OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

#### Funding Policy

The Town pays the full cost of coverage for the healthcare benefits paid to qualified retirees under a Town resolution that can be amended by Town Council. The Town's members pay \$125 per month for dependent coverage. The Town has chosen to fund the healthcare benefits on a pay as you go basis.

The current annual required contribution (ARC) rate is 12.7% of annual covered payroll. For the current year, the Town contributed \$75,925 or 2.7% of annual covered payroll. The Town obtains healthcare coverage through private insurers. The Town's required contributions, under a Town resolution, for employees not engaged in law enforcement and for law enforcement officers represented 1.7% and 1.0% of covered payroll, respectively. The Town's contributions totaled \$75,925 in fiscal year 2015. The Town's obligation to contribute to HCB Plan is established and may be amended by the Town Council.

#### Employer Contributions

<u>Fiscal Year Ended June 30,</u>	<u>Annual OPEB Cost (AOPEBC)</u>	<u>Actual OPEB Contribution</u>	<u>Percentage of AOPEBC Contributed</u>	<u>Net OPEB Obligation</u>
2015	\$ 417,970	\$ 75,925	18.2 %	\$ 1,528,807
2014	395,230	96,492	24.4	1,186,762
2013	323,341	108,320	33.5	888,024

#### Annual OPEB Cost and Net OPEB Obligation

	<u>For The Plan Year Ending June 30, 2015</u>
Annual required contribution	\$ 370,500
Interest on net OPEB obligation	47,470
Adjustments to annual required contribution	-
Annual OPEB cost	417,970
Contributions made	(75,925)
Increase in net OPEB obligation	342,045
Net OPEB obligation, beginning of year	1,186,762
Net OPEB obligation, end of year	<u>\$ 1,528,807</u>

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 10. OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

#### Assumptions

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future. Actuarial calculations reflect a long-term perspective. Calculations are based on the substantive plan in effect as of December 31, 2012. The assumptions used in the December 31, 2012 actuarial valuation are as follows:

Cost Method:	Projected Unit Credit
Discount Rate:	4%
Healthcare Cost Trend Rate:	8.5% - 5%, Ultimate Trend in 2018
Amortization Method:	Level Percentage of Pay, Open.
Remaining Amortization Period:	30 years.
Inflation Rate:	3%

### NOTE 11. RISK MANAGEMENT

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

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

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

## NOTES TO FINANCIAL STATEMENTS

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### **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.

### **NOTE 13. JOINTLY GOVERNED ORGANIZATIONS**

The Town, in conjunction with twenty other local governments, is a member of the North Carolina City Electric Agency ("Electric Agency"). The Electric Agency 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 Electric Agency's governing board. The twenty-one members, who receive power from the Electric Agency, have signed power sales agreements to purchase a specified share of the power generated by the Electric Agency. 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, 2015 were \$7,067,561.

## NOTES TO FINANCIAL STATEMENTS

### NOTE 14. RESTATEMENTS

The Town has determined that a restatement to beginning fund balance was required in the Town's General Fund to: (1) recognize prior year tax revenues which were incorrectly deferred as of June 30, 2014, however the levy period was prior to June 30, 2014; (2) remove sales tax revenues which were incorrectly accrued as revenue in the prior year, yet should have been reported as revenues in the current year; and (3) recognize revenues for contributions received by the fire department in prior years. The effect of the restatement resulted in a change to beginning fund balance of the General Fund as follows:

	General Fund
Fund balance, as previously reported	\$ 3,400,291
Recognize improperly deferred property tax revenues	64,113
Remove sales tax revenues improperly accrued in prior year	(70,120)
Recognize fire department contributions considered earned and available as of June 30, 2014	62,500
Fund balance, as restated	<u>\$ 3,456,784</u>

The Town has determined that a restatement to beginning fund balance was required in the Town's Small Business Revolving Loan Fund to report the cash advances to local business as a fund level receivable, as opposed to showing the loans as expenditures of the Fund. The effect of the restatement resulted in a change to beginning fund balance of the Small Business Revolving Loan Fund as follows:

	Small Business Revolving Loan Fund
Fund balance, as previously reported	\$ 37,224
Recognize fund level receivables previously expended	42,654
Fund balance, as restated	<u>\$ 79,878</u>

## NOTES TO FINANCIAL STATEMENTS

### NOTE 14. RESTATEMENTS (Continued)

The Town has determined the following restatements to beginning net position were required in the Town's Governmental Activities: (1) the implementation of GASB Statements No. 68 and 71 requires the retroactive reporting of opening balances, and (2) to correct the revenue recognition of adjustments made in the General Fund of June 30, 2014. The effect of the restatements resulted in change to beginning net position of the Governmental Activities as follows:

	Governmental Activities
Net position, as previously reported	\$ 10,305,351
Restatement for implementation of GASB Statement No. 68:	
Net pension liability as of June 30, 2014	(398,024)
Deferred outflows of resources - contributions subsequent to the measurement date	122,890
Restatement for General Fund adjustments	56,493
Net position, as restated	<u>\$ 10,086,710</u>

The Town has determined the following restatements to beginning net position were required in the Water Fund for the implementation of GASB Statements No. 68 and 71, which requires the retroactive reporting of opening balances as of June 30, 2014. The effect of the restatements resulted in change to beginning net position of the Water Fund as follows:

	Water Fund
Net position, as previously reported	\$ 5,781,712
Restatement for implementation of GASB Statement No. 68:	
Net pension liability as of June 30, 2014	(82,598)
Deferred outflows of resources - contributions subsequent to the measurement date	25,502
Net position, as restated	<u>\$ 5,724,616</u>

## NOTES TO FINANCIAL STATEMENTS

### NOTE 14. RESTATEMENTS (Continued)

The Town has determined the following restatements to beginning net position were required in the Sewer Fund for: (1) the implementation of GASB Statements No. 68 and 71, which requires the retroactive reporting of opening balances as of June 30, 2014, and (2) an adjustment to remove payable balances which have not been adjusted in prior years and were overstating the liabilities. The effect of the restatements resulted in change to beginning net position of the Sewer Fund as follows:

	Sewer Fund
Net position, as previously reported	\$ 3,194,729
Restatement for implementation of GASB Statement No. 68:	
Net pension liability as of June 30, 2014	(49,513)
Deferred outflows of resources - contributions subsequent to the measurement date	15,287
Correction of over accrued interest payable balance	23,562
Net position, as restated	<u>\$ 3,184,065</u>

The Town has determined the following restatements to beginning net position were required in the Electric Fund for the implementation of GASB Statements No. 68 and 71, which requires the retroactive reporting of opening balances as of June 30, 2014. The effect of the restatements resulted in change to beginning net position of the Electric Fund as follows:

	Electric Fund
Net position, as previously reported	\$ 1,689,666
Restatement for implementation of GASB Statement No. 68:	
Net pension liability as of June 30, 2014	(106,309)
Deferred outflows of resources - contributions subsequent to the measurement date	32,823
Net position, as restated	<u>\$ 1,616,180</u>



## NOTES TO FINANCIAL STATEMENTS

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### NOTE 14. RESTATEMENTS (Continued)

The Town has determined the following restatements to beginning net position were required in the business-type activities for: (1) the implementation of GASB Statements No. 68 and 71, which requires the retroactive reporting of opening balances as of June 30, 2014, and (2) an adjustment to remove accrued interest payable balances which have not been adjusted in prior years and were overstating the liabilities. The effect of the restatements resulted in change to beginning net position of the business-type activities as follows:

	Business-type Activities
Net position, as previously reported	\$ 10,666,107
Restatement for implementation of GASB Statement No. 68:	
Net pension liability as of June 30, 2014	(238,420)
Deferred outflows of resources - contributions subsequent to the measurement date	73,612
Correction of overaccrued interest payable balance	23,562
Net position, as restated	<u>\$ 10,524,861</u>

## **REQUIRED SUPPLEMENTARY INFORMATION**

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# TOWN OF SELMA, NORTH CAROLINA

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

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b-a) Unfunded Actuarial Accrued Liability (UAAL)	(a/b) Funded Ratio	(c) Covered Payroll	[(b-a)/c] UAAL as a Percentage of Covered Payroll
12/31/13	\$ -	\$ 561,630	\$ 561,630	0.0%	\$ 941,276	59.67%
12/31/11	-	493,311	493,311	0.0%	898,407	54.91%
12/31/09	-	517,704	517,704	0.0%	914,971	56.58%

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

# TOWN OF SELMA, NORTH CAROLINA

## REQUIRED SUPPLEMENTARY INFORMATION OTHER POST-EMPLOYMENT BENEFITS SCHEDULE OF FUNDING PROGRESS

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

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

**TOWN OF SELMA, NORTH CAROLINA**

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

**LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM**

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

**TOWN OF SELMA, NORTH CAROLINA**

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

**LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM**

	<b>2015</b>	<b>2014</b>
Town's proportion of the net pension liability (asset) (%)	0.04640%	0.05280%
Town's proportion of the net pension liability (asset) (\$)	\$ (273,641)	\$ 636,444
Town's covered-employee payroll	\$ 2,723,487	\$ 2,796,230
Town's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	( 10.05%)	22.76%
Plan fiduciary net position as a percentage of the total pension liability	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**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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***Method and assumptions used in calculations of actuarially determined contributions*** : The actuarially determined contribution rates in the schedule of contributions are calculated as of December 31, one year prior to the end of the fiscal year in which contributions are reported. The following actuarial methods and assumptions were used to determine the contractually required contributions for year ended June 30, 2015 reported in that schedule:

Valuation date	December 31, 2013
Actuarial cost method	Frozen Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	10 years
Asset valuation method	20% of market value plus 80% of expected actuarial value (not greater than 120% of market value and not less than 80% of market value)
Inflation rate	3.00%
Salary increases	4.25 – 8.55%, including inflation
Investment rate of return	7.25%, net of pension plan investment expense, including inflation

## **NONMAJOR GOVERNMENTAL FUNDS**

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### **Special Revenue Funds**

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

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

### **Capital Projects Fund**

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



# TOWN OF SELMA, NORTH CAROLINA

## COMBINING BALANCE SHEET NONMAJOR GOVERNMENTAL FUNDS JUNE 30, 2015

	<u>Special Revenue Funds</u>		<u>Capital Project Fund</u>	<u>Total</u>
	<u>Small Business</u>	<u>ESA Solar Farm</u>	<u>CDBG Harrison</u>	<u>Nonmajor</u>
<b>ASSETS</b>	<b>Revolving Loan Fund</b>	<b>Interconnection Fund</b>	<b>Campus Area</b>	<b>Governmental</b>
			<b>Revitalization Fund</b>	<b>Funds</b>
Accounts receivable	\$ 38,800	\$ 2,616	\$ -	\$ 41,416
Restricted cash and cash equivalents	41,353	51,809	-	93,162
<b>Total assets</b>	<b>\$ 80,153</b>	<b>\$ 54,425</b>	<b>\$ -</b>	<b>\$ 134,578</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts payable	\$ -	\$ 2,429	\$ -	\$ 2,429
<b>Total liabilities</b>	<b>-</b>	<b>2,429</b>	<b>-</b>	<b>2,429</b>
<b>FUND BALANCES</b>				
Restricted for economic development	80,153	51,996	-	132,149
<b>Total fund balances</b>	<b>80,153</b>	<b>51,996</b>	<b>-</b>	<b>132,149</b>
<b>Total liabilities and fund balances</b>	<b>\$ 80,153</b>	<b>\$ 54,425</b>	<b>\$ -</b>	<b>\$ 134,578</b>

# TOWN OF SELMA, NORTH CAROLINA

## COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES NONMAJOR GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2015

	Special Revenue Funds		Capital Project Fund	Total
	Small Business Revolving Loan Fund	ESA Solar Farm Interconnection Fund	CDBG Harrison Campus Area Revitalization Fund	Nonmajor Governmental Funds
<b>REVENUES</b>				
Charges for services	\$ 177	\$ -	\$ -	\$ 177
Contributions	-	158,309	-	158,309
Interest income	98	-	-	98
Total revenues	275	158,309	-	158,584
<b>EXPENDITURES</b>				
Current				
Economic development	-	106,313	-	106,313
Capital outlay	-	-	9,655	9,655
Total expenditures	-	106,313	9,655	115,968
Excess (deficiency) of revenues over expenditures	275	51,996	(9,655)	42,616
<b>OTHER FINANCING USES</b>				
Transfers out	-	-	(10,373)	(10,373)
Total other financing uses	-	-	(10,373)	(10,373)
Net change in fund balances	275	51,996	(20,028)	32,243
<b>FUND BALANCES, beginning of year</b>	79,878	-	20,028	99,906
<b>FUND BALANCES, end of year</b>	<u>\$ 80,153</u>	<u>\$ 51,996</u>	<u>\$ -</u>	<u>\$ 132,149</u>

# TOWN OF SELMA, NORTH CAROLINA

## GENERAL FUND SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (BUDGETARY BASIS) FOR THE YEAR ENDED JUNE 30, 2015

	Budget		Actual	Variance With Final Budget
	Original	Final		
<b>Revenues</b>				
Ad valorem taxes:				
Current year	\$ 2,214,363	\$ 2,214,363	\$ 2,115,931	\$ (98,432)
Prior year	10,000	10,000	10,439	439
Penalties and interest	5,000	7,000	7,960	960
Total ad valorem taxes	2,229,363	2,231,363	2,134,330	(97,033)
Other taxes and licenses:				
Local option sales taxes	690,000	690,000	770,258	80,258
Privilege licenses	-	-	6,135	6,135
Animal licenses	50	50	24	(26)
Total other taxes and licenses	690,050	690,050	776,417	86,367
Unrestricted intergovernmental:				
Local occupancy taxes	80,000	80,000	97,365	17,365
Payments in lieu of taxes (external sources)	11,000	13,113	23,114	10,001
Telecommunications sales tax	-	55,471	59,738	4,267
Fire district tax	142,000	142,000	147,296	5,296
Utilities sales tax	-	246,742	322,366	75,624
Piped natural gas sales tax	-	8,787	11,863	3,076
Video franchise fee	34,000	34,000	34,545	545
Beer and wine tax	25,000	25,000	29,375	4,375
ABC profit distribution	25,000	34,528	40,667	6,139
Total unrestricted intergovernmental	317,000	639,641	766,329	126,688
Restricted intergovernmental:				
Powell Bill allocation	170,000	170,000	167,343	(2,657)
Controlled substance tax	-	10,000	33,143	23,143
On-behalf of payments - Fire and Rescue	-	-	263	263
Local grants	5,000	5,000	5,000	-
State grants	26,000	26,000	21,657	(4,343)
Federal grants	-	-	98,000	98,000
Solid waste disposal tax	-	3,500	3,920	420
Total restricted intergovernmental	201,000	214,500	329,326	114,826
Permits and fees:				
Building permits	1,500	3,112	18,295	15,183
Inspection fees	10,000	10,000	12,425	2,425
Total permits and fees	11,500	13,112	30,720	17,608
Sales and service:				
Cemetery fees	194,242	194,242	157,414	(36,828)
Recreation fees	68,500	68,500	91,572	23,072
Refuse charges	630,000	626,500	640,190	13,690
Rents	15,840	15,840	15,841	1
Other fees	7,000	7,000	4,583	(2,417)
Total sales and service	915,582	912,082	909,600	(2,482)
Investment earnings	10,082	10,082	8,147	(1,935)
Miscellaneous	30,600	35,814	57,086	21,272
Total revenues	4,405,177	4,746,644	5,011,955	265,311

*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, 2015

	Budget		Actual	Variance With Final Budget
	Original	Final		
<b>Expenditures</b>				
<b>Current:</b>				
<b>General government:</b>				
Governing body:				
Salaries and employee benefits	25,860	25,860	18,913	6,947
Professional services	6,500	7,600	8,946	(1,346)
Departmental supplies	1,500	3,000	3,169	(169)
Other operating expenditures	14,160	11,560	7,485	4,075
Total	48,020	48,020	38,513	9,507
Administration:				
Salaries and employee benefits	212,525	212,525	196,802	15,723
Professional services	14,000	14,000	9,371	4,629
Departmental supplies	14,800	14,800	7,929	6,871
Other operating expenditures	44,000	44,000	43,123	877
Repairs and maintenance	500	500	292	208
Total	285,825	285,825	257,517	28,308
Finance:				
Salaries and employee benefits	40,700	40,700	30,843	9,857
Professional services	67,525	70,045	65,871	4,174
Departmental supplies	4,500	4,500	2,373	2,127
Other operating expenditures	10,900	10,900	8,120	2,780
Total	123,625	126,145	107,207	18,938
Public Buildings:				
Professional services	30,000	72,500	68,532	3,968
Departmental supplies	1,500	1,500	594	906
Other operating expenditures	172,500	189,400	192,642	(3,242)
Capital outlay	-	6,771	6,771	-
Repairs and maintenance	3,500	3,500	3,031	469
Total	207,500	273,671	271,570	2,101
Nonprofit Organization Support:				
Other operating expenditures	8,500	5,602	5,206	396
Total	8,500	5,602	5,206	396
Planning and Economic Development:				
Salaries and employee benefits	97,400	97,400	77,390	20,010
Professional services	29,000	29,000	15,563	13,437
Departmental supplies	3,000	3,000	5,606	(2,606)
Other operating expenditures	104,100	101,280	106,519	(5,239)
Repairs and maintenance	500	500	1,484	(984)
Total	234,000	231,180	206,562	24,618
Total general government	907,470	970,443	886,575	83,868

*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, 2015

	Budget			Variance With
	Original	Final	Actual	Final Budget
<b>Public Safety:</b>				
Police:				
Salaries and employee benefits	1,557,500	1,557,500	1,449,570	107,930
Professional services	16,000	16,000	12,671	3,329
Departmental supplies	20,900	48,800	44,835	3,965
Other operating expenditures	93,100	98,100	87,214	10,886
Capital outlay	56,000	50,000	49,677	323
Repairs and maintenance	27,500	29,902	21,054	8,848
Total	1,771,000	1,800,302	1,665,021	135,281
Fire Department:				
Salaries and employee benefits	302,900	302,900	295,606	7,294
Professional services	2,600	2,600	3,438	(838)
Departmental supplies	56,900	154,900	134,735	20,165
Other operating expenditures	21,540	21,540	20,907	633
Repairs and maintenance	28,950	28,950	24,136	4,814
Total	412,890	510,890	478,822	32,068
Total public safety	2,183,890	2,311,192	2,143,843	167,349
<b>Transportation:</b>				
Powell Bill:				
Departmental supplies	5,000	4,527	7,159	(2,632)
Capital outlay	159,000	159,000	99,712	59,288
Repairs and maintenance	15,000	15,000	18,703	(3,703)
Total	179,000	178,527	125,574	52,953
Public Works:				
Salaries and employee benefits	308,000	308,000	298,190	9,810
Professional services	521,500	521,500	543,149	(21,649)
Departmental supplies	31,000	31,000	24,576	6,424
Other operating expenditures	41,250	43,850	33,135	10,715
Repairs and maintenance	25,000	25,000	23,459	1,541
Total	926,750	929,350	922,509	6,841
Total transportation	1,105,750	1,107,877	1,048,083	59,794
<b>Cemetery:</b>				
Salaries and employee benefits	115,100	115,100	109,268	5,832
Professional services	36,500	36,500	26,784	9,716
Departmental supplies	11,200	11,665	7,857	3,808
Other operating expenditures	5,550	5,550	4,289	1,261
Capital outlay	7,500	7,500	7,517	(17)
Repairs and maintenance	4,000	4,000	2,450	1,550
Total	179,850	180,315	158,165	22,150
<b>Culture and Recreation:</b>				
Recreation:				
Salaries and employee benefits	203,300	203,300	196,836	6,464
Professional services	2,500	2,500	1,256	1,244
Departmental supplies	39,200	44,200	38,682	5,518
Other operating expenditures	75,450	75,450	71,091	4,359
Capital outlay	8,000	15,800	10,900	4,900
Repairs and maintenance	14,000	21,000	12,110	8,890
Total	342,450	362,250	330,875	31,375

*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, 2015

	Budget		Actual	Variance With Final Budget
	Original	Final		
<b>Library:</b>				
Salaries and employee benefits	113,500	113,500	111,014	2,486
Professional services	1,000	1,000	583	417
Departmental supplies	36,500	36,500	34,806	1,694
Other operating expenditures	5,700	5,700	5,061	639
Repairs and maintenance	4,000	4,000	2,196	1,804
Total	160,700	160,700	153,660	7,040
Total culture and recreation	503,150	522,950	484,535	38,415
<b>Debt Service:</b>				
Principal	133,223	133,223	158,581	(25,358)
Interest	69,575	69,575	70,331	(756)
Total expenditures	5,082,908	5,295,575	4,950,113	345,462
Excess (deficiency) of revenues over expenditures	(677,731)	(548,931)	61,842	610,773
<b>Other financing sources</b>				
Fund balance appropriation	323,381	194,581	-	(194,581)
Transfers in	354,350	354,350	10,373	(343,977)
Total other financing sources	677,731	548,931	10,373	(538,558)
Net change in fund balances	-	-	72,215	72,215
Fund balance, beginning of year, restated	3,456,784	3,456,784	3,456,784	-
Fund balance, end of year	\$ 3,456,784	\$ 3,456,784	\$ 3,528,999	\$ 72,215

**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, 2015**

	<u>Budget</u>		<u>Actual</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Charges for services	\$ 4,030	\$ 4,030	\$ 177	\$ (3,853)
Interest	<u>16</u>	<u>16</u>	<u>98</u>	<u>82</u>
Total revenues	<u>4,046</u>	<u>4,046</u>	<u>275</u>	<u>(3,771)</u>
<b>EXPENDITURES</b>				
Economic development	<u>-</u>	<u>20,000</u>	<u>-</u>	<u>20,000</u>
Excess (deficiency) of revenues over expenditures	4,046	(15,954)	275	16,229
<b>OTHER FINANCING SOURCES</b>				
Fund balance appropriations	<u>-</u>	<u>15,954</u>	<u>-</u>	<u>(15,954)</u>
Net change in fund balances	4,046	-	275	275
<b>FUND BALANCE, beginning of year</b>	<u>79,878</u>	<u>79,878</u>	<u>79,878</u>	<u>-</u>
<b>FUND BALANCE, end of year</b>	<u>\$ 83,924</u>	<u>\$ 79,878</u>	<u>\$ 80,153</u>	<u>\$ 275</u>

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

**SCHEDULE OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (GAAP BASIS)  
FOR THE YEAR ENDED JUNE 30, 2015**

	Budget		Actual	Variance With Final Budget
	Original	Final		
<b>REVENUES</b>				
Contributions	\$ 158,309	\$ 158,309	\$ 158,309	\$ -
Total revenues	158,309	158,309	158,309	-
<b>EXPENDITURES</b>				
Economic development	158,309	158,309	106,313	51,996
Net change in fund balances	-	-	51,996	51,996
<b>FUND BALANCE, beginning of year</b>	-	-	-	-
<b>FUND BALANCE, end of year</b>	\$ -	\$ -	\$ 51,996	\$ 51,996



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

**SCHEDULE OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (NON-GAAP BASIS)  
FOR THE YEAR ENDED JUNE 30, 2015**

	<u>Budget</u>			<u>Variance With</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Final Budget</u>
<b>REVENUES</b>				
Interest	\$ 10	\$ 60	\$ 52	\$ (8)
Miscellaneous	-	9,000	9,000	-
Total revenues	10	9,060	9,052	(8)
<b>EXPENDITURES</b>				
Public safety	-	33,779	33,779	-
Excess (deficiency) of revenues over expenditures	10	(24,719)	(24,727)	(8)
<b>OTHER FINANCING SOURCES</b>				
Fund balance appropriations	-	24,719	-	(24,719)
Net change in fund balances	10	-	(24,727)	(24,727)
<b>FUND BALANCE, beginning of year, restated</b>	<u>113,770</u>	<u>113,770</u>	<u>113,770</u>	<u>-</u>
<b>FUND BALANCE, end of year</b>	<u>\$ 113,780</u>	<u>\$ 113,770</u>	<u>\$ 89,043</u>	<u>\$ (24,727)</u>

**TOWN OF SELMA, NORTH CAROLINA**  
**CDBG HARRISON CAMPUS AREA REVITALIZATION FUND**

**SCHEDULE OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (NON-GAAP BASIS)**  
**PROJECT LIFE AS OF JUNE 30, 2015**

	Project Budget	Prior Years	Actual Current Year	Total
<b>REVENUES</b>				
Intergovernmental	\$ 500,000	\$ 500,000	\$ -	\$ 500,000
Private grants	5,000	5,000	-	5,000
Contributions	-	20,500	-	20,500
Miscellaneous	45,500	-	-	-
Total revenues	550,500	525,500	-	525,500
<b>EXPENDITURES</b>				
Capital outlay:				
Professional services	50,000	45,054	-	45,054
Construction	455,000	480,439	4,620	485,059
Other	45,500	3,704	5,035	8,739
Total expenditures	550,500	529,197	9,655	538,852
Deficiency of revenues over expenditures	-	(3,697)	(9,655)	(13,352)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	23,725	-	23,725
Transfers out	-	-	(10,373)	(10,373)
Net change in fund balance	-	20,028	(20,028)	-
<b>FUND BALANCE, beginning of year</b>	-	-	20,028	-
<b>FUND BALANCE, end of year</b>	\$ -	\$ 20,028	\$ -	\$ -

**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, 2015**

	<b>Budget</b>			<b>Variance With</b>
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	<b>Final Budget</b>
<b>REVENUES</b>				
Operating revenues				
Water charges	\$ 1,090,000	\$ 1,090,000	\$ 1,071,025	\$ (18,975)
Penalties	78,850	78,850	77,024	(1,826)
Other operating revenues	10,000	13,250	13,461	211
Nonoperating revenues - interest	900	900	4,410	3,510
Total revenues	<u>1,179,750</u>	<u>1,183,000</u>	<u>1,165,920</u>	<u>(17,080)</u>
<b>EXPENDITURES</b>				
Water administration				
Salaries and benefits	281,325	281,325	258,346	22,979
Professional services	26,300	27,800	29,807	(2,007)
Utilities	62,000	60,000	61,731	(1,731)
Insurance	65,000	65,000	53,235	11,765
Printing and postage	7,500	7,500	9,398	(1,898)
Other operating expenditures	35,025	35,468	23,727	11,741
Total water administration	<u>477,150</u>	<u>477,093</u>	<u>436,244</u>	<u>40,849</u>
Water operations				
Salaries and benefits	289,100	289,100	256,514	32,586
Department supplies	11,500	11,500	16,218	(4,718)
Chemicals	45,000	45,000	36,792	8,208
Maintenance and repairs	90,000	90,000	72,098	17,902
Contract services	70,000	73,867	88,035	(14,168)
Purchase for resale	87,000	87,000	88,953	(1,953)
Other operating expenditures	64,500	64,500	10,560	53,940
Total water operations	<u>657,100</u>	<u>660,967</u>	<u>569,170</u>	<u>91,797</u>
				<i>continued</i>

**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, 2015**

	Budget		Actual	Variance With Final Budget
	Original	Final		
Debt service				
Principal	19,621	19,621	15,546	4,075
Interest	25,879	25,879	29,827	(3,948)
Total debt service	45,500	45,500	45,373	127
Total expenditures	1,179,750	1,183,560	1,050,787	132,773
Excess (deficiency) of revenues over expenditures	-	(560)	115,133	115,693
<b>OTHER FINANCING SOURCES</b>				
Budgeted use of fund balance	-	250,000	-	(250,000)
Net change in net position	\$ -	\$ 249,440	115,133	\$ (134,307)
Adjustments to full accrual:				
Capital outlays			12,413	
Payments of debt service - principal			15,546	
Increase in compensated absences			(2,337)	
Increase in OPEB obligation			(48,975)	
Increase in net pension asset			23,796	
Depreciation expense			(270,187)	
Water Capital Reserve Fund			41,151	
Change in net position			\$ (113,460)	

**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, 2015**

	<u>Budget</u>		<u>Actual</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Interest	\$ 26	\$ 166	\$ 151	\$ (15)
<b>OTHER FINANCING SOURCES</b>				
Transfer in	<u>41,000</u>	<u>41,000</u>	<u>41,000</u>	<u>-</u>
Net change in net position	<u>\$ 41,026</u>	<u>\$ 41,166</u>	<u>\$ 41,151</u>	<u>\$ (15)</u>

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

**SCHEDULE OF REVENUES, EXPENDITURES,  
AND CHANGES IN NET POSITION - BUDGET AND ACTUAL (NON-GAAP BASIS)  
FOR THE YEAR ENDED JUNE 30, 2015**

	<b>Budget</b>			<b>Variance With</b>
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	<b>Final Budget</b>
<b>REVENUES</b>				
Operating revenues				
Sewer charges	\$ 1,750,000	\$ 1,800,000	\$ 1,841,801	\$ 41,801
Penalties	83,000	83,000	76,931	(6,069)
Other operating revenues	52,000	54,246	58,020	3,774
Nonoperating revenues - interest	100	695	790	95
Total revenues	<u>1,885,100</u>	<u>1,937,941</u>	<u>1,977,542</u>	<u>39,601</u>
<b>EXPENDITURES</b>				
Sewer administration				
Salaries and benefits	233,725	191,225	174,190	17,035
Professional services	36,300	14,970	17,959	(2,989)
Utilities	60,000	59,720	58,302	1,418
Insurance	35,200	32,200	32,434	(234)
Printing and postage	7,250	6,010	8,544	(2,534)
Maintenance and repairs	-	3,190	3,189	1
Other operating expenditures	10,125	12,728	33,898	(21,170)
Total sewer administration	<u>382,600</u>	<u>320,043</u>	<u>328,516</u>	<u>(8,473)</u>
Sewer operations				
Salaries and benefits	122,700	125,200	84,965	40,235
Department supplies	6,500	6,500	2,835	3,665
Maintenance and repairs	52,000	67,000	45,228	21,772
Transmission and treatment fees	1,176,000	1,441,000	1,497,991	(56,991)
Other operating expenditures	32,187	40,028	20,559	19,469
Total sewer operations	<u>1,389,387</u>	<u>1,679,728</u>	<u>1,651,578</u>	<u>28,150</u>

*continued*

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

**SCHEDULE OF REVENUES, EXPENDITURES,  
AND CHANGES IN NET POSITION - BUDGET AND ACTUAL (NON-GAAP BASIS)  
FOR THE YEAR ENDED JUNE 30, 2015**

	<b>Budget</b>			<b>Variance With</b>
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	<b>Final Budget</b>
Debt service				
Principal	22,000	97,000	40,000	57,000
Interest	32,113	32,113	32,016	97
Total debt service	54,113	129,113	72,016	57,097
Total expenditures	1,826,100	2,128,884	2,052,110	76,774
Excess (deficiency) of revenues over expenditures	59,000	(190,943)	(74,568)	116,375
<b>OTHER FINANCING SOURCES (USES)</b>				
Appropriation of net position	-	159,943	-	(159,943)
Transfers out	(41,000)	(41,000)	(71,768)	(30,768)
Net change in net position	<u>\$ 18,000</u>	<u>\$ (72,000)</u>	(146,336)	<u>\$ (74,336)</u>
Adjustments to full accrual:				
Capital outlays			19,875	
Payments of debt service - principal			40,000	
Increase in compensated absences			(2,354)	
Decrease in OPEB obligation			24,762	
Increase in net pension asset			13,450	
Deprecation expense			(286,273)	
Wastewater System Improvements Capital Fund			(27,681)	
Change in net position			<u>\$ (364,557)</u>	

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

**SCHEDULE OF REVENUES, EXPENDITURES,  
AND CHANGES IN NET POSITION - BUDGET AND ACTUAL (NON-GAAP BASIS)  
FOR THE YEAR ENDED JUNE 30, 2015**

	Budget		Actual	Variance With Final Budget
	Original	Final		
<b>REVENUES</b>				
Contributions	\$ 30,768	\$ 30,768	\$ -	\$ (30,768)
<b>EXPENDITURES</b>				
Administrative	\$ 75,000	\$ 75,000	\$ 58,449	\$ 16,551
Deficiency of revenues over expenditures	(44,232)	(44,232)	(58,449)	(14,217)
<b>OTHER FINANCING SOURCES</b>				
Proceeds from loan	44,232	44,232	-	(44,232)
Transfer in	-	-	30,768	30,768
Total other financing sources	44,232	44,232	30,768	(13,464)
Net change in net position	\$ -	\$ -	\$ (27,681)	\$ (27,681)



**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, 2015**

	<b>Budget</b>			<b>Variance With</b>
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	<b>Final Budget</b>
<b>REVENUES</b>				
Operating revenues				
Electric charges	\$ 8,260,000	\$ 8,260,000	\$ 7,579,264	\$ (680,736)
Other operating revenues	683,000	684,120	598,167	(85,953)
Nonoperating revenues - interest	600	2,400	2,650	250
Total revenues	<u>8,943,600</u>	<u>8,946,520</u>	<u>8,180,081</u>	<u>(766,439)</u>
<b>EXPENDITURES</b>				
Electric administration				
Salaries and benefits	410,325	413,425	394,800	18,625
Contracted services	26,300	16,480	17,333	(853)
Utilities	7,000	7,000	7,473	(473)
Insurance	20,000	20,000	20,839	(839)
Other operating expenditures	46,675	62,375	59,549	2,826
Total electric administration	<u>510,300</u>	<u>519,280</u>	<u>499,994</u>	<u>19,286</u>
Electric operations				
Salaries and benefits	308,000	308,000	297,570	10,430
Department supplies	73,500	73,703	63,402	10,301
Maintenance and repairs	5,000	7,920	104,758	(96,838)
Purchases for inventory	138,000	128,860	-	128,860
Contracted services	75,000	75,000	41,549	33,451
Other operating expenditures	278,100	278,000	216,300	61,700
Total electric operations	<u>877,600</u>	<u>871,483</u>	<u>723,579</u>	<u>147,904</u>
Electric power purchases	<u>7,101,173</u>	<u>7,101,173</u>	<u>7,067,561</u>	<u>33,612</u>
				<i>continued</i>

**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, 2015**

	<b>Budget</b>			<b>Variance With</b>
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	<b>Final Budget</b>
Debt service				
Principal	233,196	233,196	273,643	(40,447)
Interest	65,693	65,693	62,882	2,811
Total debt service	298,889	298,889	336,525	(37,636)
Total expenditures	8,787,962	8,790,825	8,627,659	163,166
Excess (deficiency) of revenues over expenditures	155,638	155,695	(447,578)	(603,273)
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from note payable	160,000	160,000	157,256	(2,744)
Transfers out	(278,000)	(278,000)	-	278,000
Net change in net position	<u>\$ 37,638</u>	<u>\$ 37,695</u>	(290,322)	<u>\$ (328,017)</u>
Adjustments to full accrual:				
Capital outlays			201,514	
Payments of debt service - principal			273,643	
Proceeds from long-term liabilities			(157,256)	
Decrease in accrued interest			6,259	
Increase in compensated absences			(7,214)	
Increase in OPEB obligation			(20,309)	
Increase in net pension asset			33,399	
Deprecation expense			(528,752)	
Wastewater System Improvements Capital Fund			181	
Change in net position			<u>\$ (488,857)</u>	

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

**SCHEDULE OF REVENUES, EXPENDITURES,  
AND CHANGES IN NET POSITION - BUDGET AND ACTUAL (NON-GAAP BASIS)  
FOR THE YEAR ENDED JUNE 30, 2015**

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	<u>Budget</u>			<u>Variance With</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Final Budget</u>
<b>REVENUES</b>				
Interest	\$ 155	\$ 155	\$ 181	\$ 26
Net change in fund balances	<u>\$ 155</u>	<u>\$ 155</u>	<u>\$ 181</u>	<u>\$ 26</u>

**TOWN OF SELMA, NORTH CAROLINA**

**SCHEDULE OF AD VALOREM TAXES RECEIVABLE  
JUNE 30, 2015**

<u>Fiscal Year</u>	<u>Uncollected Balance June 30, 2014</u>	<u>Additions</u>	<u>Collections And Credits</u>	<u>Uncollected Balance June 30, 2015</u>
2014-2015	\$ -	\$ 2,170,604	\$ 2,162,727	\$ 7,877
2013-2014	15,101	-	12,396	2,705
2012-2013	4,488	-	1,177	3,311
2011-2012	5,804	-	2,159	3,645
2010-2011	3,522	-	406	3,116
2009-2010	4,621	-	80	4,541
2008-2009	3,995	-	62	3,933
2007-2008	302	-	-	302
2006-2007	294	-	-	294
2005-2006	263	-	-	263
	<u>\$ 38,390</u>	<u>\$ 2,170,604</u>	<u>\$ 2,179,007</u>	<u>29,987</u>
Less: allowance for uncollectible accounts:				
General Fund				<u>24,601</u>
Ad valorem taxes receivable - net				<u>\$ 5,386</u>
<u>Reconciliation to revenues:</u>				
Ad valorem taxes - General Fund				\$ 2,134,330
Reconciling items:				
Interest collected				(7,960)
Commissions				<u>52,637</u>
Subtotal				<u>44,677</u>
Total collections and credits				<u>\$ 2,179,007</u>

# TOWN OF SELMA, NORTH CAROLINA

## ANALYSIS OF CURRENT TAX LEVY TOWN-WIDE LEVY JUNE 30, 2015

				Total Levy	
	Town - Wide			Property excluding Registered Motor Vehicles	Registered Motor Vehicles
	Property Valuation	Rate	Total Levy		
Original levy:					
Property taxed at current rate	\$ 387,753,432	0.51	\$ 1,977,543	\$ 1,977,538	\$ 5
Penalties	-		7,960	-	-
Total	<u>387,753,432</u>		<u>1,985,503</u>	<u>1,977,538</u>	<u>5</u>
Discoveries:					
Current year taxes	1,089,727	0.51	5,558	5,532	26
Prior year taxes	<u>9,546,808</u>	0.51	<u>48,689</u>	<u>48,689</u>	<u>-</u>
Total	<u>10,636,535</u>		<u>54,246</u>	<u>54,220</u>	<u>26</u>
Abatements	<u>(1,675,500)</u>		<u>(8,545)</u>	<u>(8,545)</u>	<u>-</u>
Total property valuation	<u>\$ 396,714,467</u>				
Net levy			2,031,204	2,023,213	31
Uncollected taxes at June 30, 2015			<u>(7,877)</u>	<u>(7,863)</u>	<u>(14)</u>
Current year's taxes collected			<u>\$2,023,327</u>	<u>\$2,015,350</u>	<u>\$17</u>
Current levy collection percentage			<u>99.61%</u>	<u>99.61%</u>	<u>54.84%</u>

## **COMPLIANCE SECTION**

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Selma, North Carolina (the "Town") as of and for the year ended June 30, 2015, and the related notes to the financial statements which collectively comprise the Town's basic financial statements, and have issued our report thereon dated October 23, 2015. Our report includes a reference to the changes in accounting principle resulting from the implementation of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, as well as Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*.

**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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses, as items 2015-001, 2015-002, and 2015-003 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses, as items 2015-004 and 2015-005, to be significant deficiencies.

#### **Compliance and Other Matters**

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

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

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



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**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.

*Mauldin & Jenkins, LLC*

Atlanta, Georgia  
October 23, 2015

# TOWN OF SELMA, NORTH CAROLINA

## SCHEDULE OF FINDINGS AND RESPONSES FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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### SECTION I SUMMARY OF AUDITOR'S RESULTS

#### **Financial Statements**

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weaknesses identified? ☒ yes ☐ no

Significant deficiencies identified not considered  
to be material weaknesses?

☒ 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, 2015 due to the total amount expended being less than \$500,000.

#### **State Awards**

There was not an audit of major state award programs for the year ended June 30, 2015 due to the total amount expended being less than \$500,000.

# TOWN OF SELMA, NORTH CAROLINA

## SCHEDULE OF FINDINGS AND RESPONSES FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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### SECTION II FINANCIAL STATEMENT FINDINGS AND RESPONSES

#### 2015-001 Revenue Recognition

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

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

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

- An adjustment to the General Fund of approximately \$127,700 was posted to adjust the property tax revenues, receivables, and related allowances for the taxes receivables. Of this entry approximately \$64,000 related to restatement of opening balances of the General Fund for revenues which were improperly deferred as of June 30, 2014.
- An adjustment to the General Fund of approximately \$70,000 was required to remove a current year receivable balance for sales tax collections which was improperly accrued as of June 30, 2014 and was not removed during the year ended June 30, 2015 although collected during the year.
- Adjustments of approximately \$47,000 were required to adjust other revenues and the related receivables in the General Fund.
- An adjustment of \$62,500 was required to recognize revenues which were improperly deferred as of June 30, 2014 and should have been reported as revenues in prior years.
- Adjustments of approximately \$39,000 were needed to adjust the Water Fund's utility receivables and related allowance calculations to agree with the Town's subsidiary ledgers.
- Adjustments of approximately \$76,000 were needed to adjust the Sewer Fund's utility receivables and related allowance calculations to agree with the Town's subsidiary ledgers.
- Adjustments of approximately \$195,000 were needed to adjust the Electric Fund's utility receivables and related allowance calculations to agree with the Town's subsidiary ledgers.

**Effects:** Total misstatements related to revenue recognition and reporting of the related balance sheet accounts were approximately \$617,200 for the year ended June 30, 2015. Additionally, it should be noted that approximately \$196,500 of the entries were necessary to correct opening balances of the General Fund.

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

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

# TOWN OF SELMA, NORTH CAROLINA

## SCHEDULE OF FINDINGS AND RESPONSES FOR THE FISCAL YEAR ENDED JUNE 30, 2015

---

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

#### 2015-002 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, 2015, several misstatements were identified which were generated from the operation of the Town's general ledger software. There were several adjustments required as a result of the audit to correct misstatements, and they are as follows:

- Adjustments were required in the CDBG Harrison Campus Area Revitalization Fund in order to report the current year's activity. The trial balance for the fund was not maintained in accordance with generally accepted accounting principles as the opening balances for the income statement were included in the current year's activity. An entry of approximately \$526,000 was required to report only current year expenditures for the fund.
- An adjustment was required in the Small Business Revolving Loan Fund in order to properly reflect the cash loans made to other entities as a fund level receivable. In prior years the Town was reporting the cash advances as expenditures, and would report the cash repayments or collections as revenues; however, the Town should have reflected the disbursements and collections on the balance sheet of the fund. An adjustment of approximately \$43,000 was required to correctly report the unrecorded receivables.
- Adjustments were required in the Water Fund, the Sewer Fund, and the Electric Fund in order to account for the issuance and repayment of long-term liabilities in accordance with full accrual accounting principles. Adjustments of approximately \$15,500, \$40,000, and \$431,000, respectively, were needed to report the issuance and repayment of long-term liabilities on the balance sheets of the respective funds.
- Adjustments were required in the Water Fund, the Sewer Fund, and the Electric Fund in order to reconcile the subsidiary receivable ledgers to the general ledger as of June 30, 2015. Adjustments of approximately \$12,000, \$7,000, and \$71,000, respectively, were required to reconcile the subsidiary ledgers to the general ledgers.
- Adjustments were required in the Water Fund and the Electric Fund in order to reconcile the inventory subsidiary ledgers to the general ledger as of June 30, 2015. Adjustments of approximately \$68,000 and \$111,000, respectively, were required to the Water Fund and Electric Fund, respectively. The Town is not properly reconciling the inventory subsidiary ledgers to the general ledger throughout the year.

# TOWN OF SELMA, NORTH CAROLINA

## SCHEDULE OF FINDINGS AND RESPONSES FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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

#### 2015-002 General Ledger Maintenance (Continued)

**Effects:** Audit adjustments of approximately \$1,324,500 were needed to correctly report general ledger balances primarily related to the reconciliation of the utility receivable subsidiary ledgers and the general ledger, as well as the utility inventory subsidiary ledgers to the general ledger.

**Recommendation:** We recommend the Town carefully review the financial statements and the underlying transactions involved in the reporting of the Town's subsidiary ledgers, as well as the accruals of expenditures/expenses.

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

# TOWN OF SELMA, NORTH CAROLINA

## SCHEDULE OF FINDINGS AND RESPONSES FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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

#### 2015-003 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 and the related balance sheet accounts.

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

- Adjustments were required in the Water Fund, the Sewer Fund, and the Electric Fund in order to adjust the OPEB obligation liability as of June 30, 2015. The balance had not been adjusted from the prior year's balance and therefore the liability and the related expenses were understated. Adjustments of approximately \$49,000, \$25,000, and \$20,000, respectively, were required to reconcile the subsidiary ledgers to the general ledgers.
- During our testing of the accrued liability balances, adjustments of approximately \$26,000, \$17,500, and \$17,500 were required to remove accrued liabilities and the related expenses which were satisfied prior to June 30, 2015. The adjustments were reported in the Water Fund, the Sewer Fund, and the Electric Fund, respectively.
- During our testing of the accrued interest for the Sewer Fund, an adjustment was required to reduce the liability by approximately \$24,000. The general ledger included accrued interest balances which pertained to a prior fiscal year but had not been reversed once the interest payments were made, thus overstating the liability and understating the Fund's net position.

**Effects:** Audit adjustments totaling approximately \$179,000 was needed to correct the Town's expenditures/expenses and related balance sheet accounts.

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

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

# TOWN OF SELMA, NORTH CAROLINA

## SCHEDULE OF FINDINGS AND RESPONSES FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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

#### 2015-004 Capital Asset Reporting

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

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

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

- Adjustments totaling approximately \$12,000 were required to record capital assets of the Water Fund which were being expensed. The outlays were for capital purchases which met the Town's capitalization policy and should have been capitalized.
- Adjustments totaling approximately \$11,000 were required to record capital assets of the Sewer Fund which were being expensed. The outlays were for capital purchases which met the Town's capitalization policy and should have been capitalized.
- Adjustments totaling approximately \$114,000 were required to record capital assets of the Governmental Activities which were being expensed. The outlays were for capital purchases which met the Town's capitalization policy and should have been capitalized.

**Effects:** Audit adjustments of approximately \$137,000 were needed to correctly report capital asset balances for the Town's capital assets.

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

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

# TOWN OF SELMA, NORTH CAROLINA

## SCHEDULE OF FINDINGS AND RESPONSES FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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

#### 2015-005 Segregation of Duties

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

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

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

- During our inspection, we noted the Finance Director reviews the Bi-weekly Time Sheets to ensure they are supported by the individual time sheets provided by each department; however, the Finance Director is not signing the Bi-Weekly Time Sheets or initialing the sheet. We recommend the review be documented to verify the review occurs each period.
- During our discussion of the control inputs we noted the payroll clerk is responsible for entering in the hours worked for each employee, is responsible for entering in any earnings (hourly or salary) adjustments, as well as for creating new employees in the time keeper software. We would recommend the Town have someone independent of the payroll process periodically review changes to employee's earnings formulas and earnings information in order to mitigate the risk of having one employee responsible for the entire payroll process.
- During our review of the payroll period reconciliations, we noted the person who is entering the information into the system is also the person responsible for reviewing the period totals for any unusual or unexpected fluctuations. While the payroll clerk does keep a summary sheet which provides a brief explanation for any changes noted, we recommend a third party, independent of the payroll process, review the summary sheets each period and investigate any variances which they deem unusual and document their approval of the sheet.
- During our review of the bank reconciliation procedures, we noted there is no documented review and approval of the bank reconciliations. As the person preparing the bank reconciliations also has access to the cash and the general ledger, the Town should strongly consider having a separate review and approval of the bank account reconciliations.
- During our testing of the manual journal entries posted to the Town's general ledger we noted sixteen (16) of our twenty-five (25) selected entries did not include documented review and approval by a person independent of the person who was preparing and posting the entry. Additionally, we identified six (6) of our twenty-five (25) selected entries did not include supporting documentation to verify the basis of the entry.



# TOWN OF SELMA, NORTH CAROLINA

## SCHEDULE OF FINDINGS AND RESPONSES FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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

#### 2015-005      Segregation of Duties (Continued)

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

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

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

# **TOWN OF SELMA, NORTH CAROLINA**

## **SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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