

Town of Fairmont, North Carolina

Audited Financial Statements

**For the Fiscal Year Ended
June 30, 2013**

Town of Fairmont, North Carolina
Audited Financial Statements
For the Fiscal Year Ended June 30, 2013

Charles Kemp, Mayor

Board of Town Commissioners

Kim Ammons

Carol Leak-McKenzie

Wayland Lennon, III

Jeffrey J. McCree

Wade Sealey

Charles Townsend

Linda Vause, Town Manager/Finance Officer

Jenny Larson, Town Clerk

Town of Fairmont, North Carolina
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June 30, 2013

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S. Preston Douglas & Associates, LLP

CERTIFIED PUBLIC ACCOUNTANTS

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Independent Auditor's Report

To the Honorable Mayor and
Board of Town Commissioners
Town of Fairmont, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, the discretely presented component unit, and the aggregate remaining fund information of the Town of Fairmont, North Carolina, as of and for the year ended June 30, 2013, 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 of material misstatement. The financial statements of the Fairmont ABC Board were not audited in accordance with Government Auditing Standards.

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 the 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 financial statement presentation of the financial statements.

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

Opinions

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, the aggregate remaining fund information of the the Town of Fairmont, North Carolina as of June 30, 2013, and the respective changes in financial position and cash flows, where appropriate, thereof and the respective budgetary comparison for the General Fund for the year ended in accordance with accounting principals generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and the Other Postemployment Benefits' Schedules of Funding Progress and Schedules of Employer Contributions be presented to supplement the basic financial statements. Such information, although not a required 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 and opinion or provide any assurance.

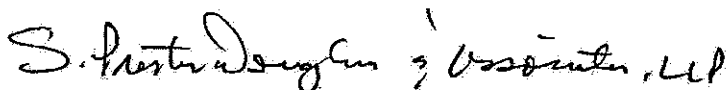
Supplementary and other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the Town of Fairmont, North Carolina. The combining and individual fund statements, budgetary schedules and other schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements, budgetary schedules, and other schedules are the responsibility of management and were derived from and relates 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, based on our audit, the procedures performed as described above, the combining and individual fund financial statements, budgetary schedules, and other schedules are fairly stated in, all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2013 on our our consideration of the Town of Fairmont's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements, and other matters. The purose of the 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 Town of Fairmont's internal control over financial reporting and compliance.



Lumberton, North Carolina
September 30, 2013

Town of Fairmont, North Carolina
Management's Discussion and Analysis
June 30, 2013

Management's Discussion and Analysis

As management of the Town of Fairmont, we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town of Fairmont for the fiscal year ending June 30, 2013. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

Financial Highlights

The assets of the Town of Fairmont exceeded its liabilities at the close of the fiscal year by \$6,946,313.

The government's total net position decreased in the amount of \$440,132.

As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$366,235. Approximately 28.66% of this total amount, or \$104,974, is available for spending at the government's discretion.

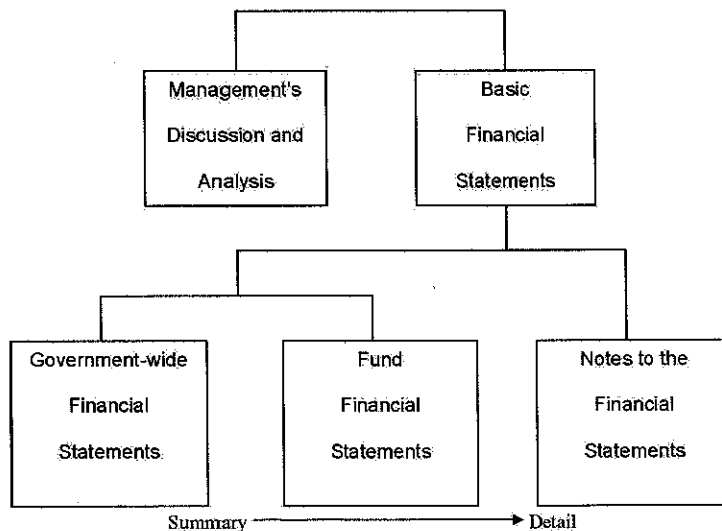
At the end of the current fiscal year, unreserved fund balance for the general fund was \$104,974 or 5.42% of total General Fund expenditures.

Overview of the Financial Statements

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

Required Components of Annual Financial Report

Figure 1



Financial Statements

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

The next statements are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the Town's government. These statements provide more detail than the government-wide statements.

Town of Fairmont, North Carolina
Management's Discussion and Analysis
June 30, 2013

There are three parts to the Fund Financial Statements: 1) the governmental funds statements, 2) the budgetary comparison statements, and 3) the proprietary fund statements.

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

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

The two government-wide statements report the Town's net position and how they have changed. Net position are the difference between the Town's total assets and total liabilities. Measuring net position is one way to gage the Town's financial condition.

The government-wide statements are divided into three categories: 1) governmental activities, 2) business-type activities, and 3) component units. The governmental activities include most of the Town's basic services such as general government, public safety, highways/streets, sanitation, economic development, culture and recreation, and debt service. Property taxes and State and federal grant funds finance most of these activities. The business-type activities are those that the Town charges customers to provide. This includes the water and sewer services offered by the Town of Fairmont. The final category is the component unit. Although legally separate from the Town, the ABC Board is important to the Town because the Town exercises control over the Board by appointing its members, and because the Board is required to distribute a portion of its profits to the Town.

The government-wide financial statements can be found on pages 10 and 11 of this report.

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

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

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

Town of Fairmont, North Carolina
Management's Discussion and Analysis
June 30, 2013

Basic Financial Statements (continued)

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

Proprietary funds. The Town of Fairmont maintains one type of proprietary fund called an Enterprise Fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town uses the enterprise fund to account for its water and sewer activity.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer Fund, which is considered a major fund of the Town.

Notes to financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 19-35 of this report.

Supplementary information. The combining statements, referred to earlier about non-major governmental funds and details of the enterprise fund, can be found on pages 37-50 of this report.

Government-wide Financial Analysis

The Town of Fairmont's Net Position

	Governmental Activities 2013	Governmental Activities 2012	Business-type Activities 2013	Business-type Activities 2012	Totals 2013	Totals 2012
Current and other assets	\$596,786	\$636,320	\$191,070	\$140,610	\$787,856	\$776,930
Capital assets	1,148,409	1,269,182	8,530,759	8,818,815	9,679,168	10,087,997
Total assets	1,745,195	1,905,502	8,721,829	8,959,425	10,467,024	10,864,927
Current liabilities	120,640	126,099	238,535	196,134	359,175	322,233
Non-current liabilities	566,387	481,265	2,595,149	2,674,984	3,161,536	3,156,249
Total liabilities	687,027	607,364	2,833,684	2,871,118	3,520,711	3,478,482
Net position						
Invested in capital assets assets, net of related debt	801,714	926,672	5,855,775	6,067,743	6,657,489	6,994,415
Restricted	262,616	149,679	-	-	262,616	149,679
Unrestricted	-6,162	221,787	32,370	20,564	26,208	242,351
Total net position	\$1,058,168	\$1,298,138	\$5,888,145	\$6,088,307	\$6,946,313	\$7,386,445

Town of Fairmont, North Carolina
Management's Discussion and Analysis
June 30, 2013

Government-wide Financial Analysis (continued)

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The assets of the Town exceeded liabilities by \$6,946,313 at the close of the current fiscal year.

By far the largest portion of the Town's net position, 95.84%, reflects its investment in capital assets (e.g., land, buildings, machinery and equipment, and infrastructure); less any related debt used to acquire those assets that are still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should note that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The restricted portion of net position, 3.78%, represents the Town's resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position is \$26,208 or 0.38% of the total.

Town of Fairmont's Changes in Net Position.

	Governmental Activities 2013	Governmental Activities 2012	Business-type Activities 2013	Business-type Activities 2012	Totals 2013	Totals 2012
Revenues:						
Program revenues						
Charges for services	\$ 247,873	\$ 226,621	\$ 1,089,926	\$ 1,059,850	\$ 1,337,799	\$ 1,286,471
Operating grants and contributions	165,767	166,678	-	-	165,767	166,678
Capital grants and contributions	-	-	-	-	-	-
General revenues						
Property taxes	736,582	789,455	-	-	736,582	789,455
Other taxes	708,744	642,220	-	-	708,744	642,220
Unrestricted revenues	11,281	16,943	-	-	11,281	16,943
Other	22,746	34,885	14	-	22,760	34,885
Total revenues	1,892,993	1,876,802	1,089,940	1,059,850	2,982,933	2,936,652
Expenses:						
General Government	460,123	634,719	-	-	460,123	634,719
Public Safety	1,035,786	1,002,769	-	-	1,035,786	1,002,769
Transportation	282,035	273,357	-	-	282,035	273,357
Environmental Protection	248,126	251,142	-	-	248,126	251,142
Economic Development	102,080	116,338	-	-	102,080	116,338
Interest on long-term debt	4,813	6,305	-	-	4,813	6,305
Water and Sewer	-	-	1,290,102	1,250,092	1,290,102	1,250,092
Total expenses	2,132,963	2,284,630	1,290,102	1,250,092	3,423,065	3,534,722
Change in net position	(239,970)	(407,828)	(200,162)	(190,242)	(440,132)	(598,070)
Net position - Beginning of year	1,298,138	1,705,966	6,088,307	6,278,549	7,386,445	7,984,515
Net position - End of year	\$ 1,058,168	\$ 1,298,138	\$ 5,888,145	\$ 6,088,307	\$ 6,946,313	\$ 7,386,445

Ad Valorem taxes were the largest revenue contributor with 38.91% of total revenues. Other taxes was the next largest at 37.44%.

Town of Fairmont, North Carolina
Management's Discussion and Analysis
June 30, 2013

Government-wide Financial Analysis (continued)

Capital and operating grants for governmental activities furnished resources to support the five functions of the Town: general government, public safety, transportation, environmental protection, and economic and physical development.

Business-type activities. Business-type activities decreased the Town's net position by \$200,162. Key elements of this decrease are as follows:

- User fees were \$1,089,926
- High levels of depreciation expense associated with infrastructure enhancements of \$288,056
- Interest expense associated with bonds in the amount of \$123,095

Financial Analysis of the Government's Funds

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

Governmental Funds. The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the Town's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the Town's governmental funds reported a combined fund balance of \$366,235 to include General and Capital Projects. Of this total amount, \$104,974 constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that funds are not available for spending because these funds have already been committed 1) to liquidate contracts and purchase orders of the prior year, or 2) for a variety of other restricted purposes.

The General Fund is the principal operating fund of the Town of Fairmont. At the end of the fiscal year, unreserved fund balance for the general fund was \$104,974 with a total fund balance of \$270,946. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 5.42% of total General Fund expenditures.

Proprietary Funds. The Town of Fairmont's proprietary fund provides the same type of information found in the governmental-wide financial statements, but in more detail.

Unrestricted net position of the Water and Sewer Fund at the end of the fiscal year amounted to \$32,370. Other factors concerning this fund have been discussed in the Town's business-type activities.

General Fund Budgetary Highlights

During the fiscal year, the Town revised the budget on several occasions. Generally, budget amendments fall into one of three categories:

- Amendments that adjust for the estimates that are prepared for the original budget ordinance, which reflect actual cost.
- Amendments that recognize new funding from external sources, such as federal and State grants.
- Amendments that appropriate increases that becomes necessary to maintain services and obligations from prior years not completed.

Town of Fairmont, North Carolina
Management's Discussion and Analysis
June 30, 2013

Capital Assets and Debt Administration Capital Assets

The Town of Fairmont's investments in capital assets for its governmental and business-type activities as of June 30, 2013, totals \$9,679,168 (net of accumulated depreciation). The investments in capital assets includes land, buildings, improvements, furniture and equipment, infrastructure (including distribution systems), and vehicles.

Town of Fairmont's Capital Assets

	Governmental Activities 2013	Governmental Activities 2012	Business-type Activities 2013	Business-type Activities 2012	Totals 2013	Totals 2012
Land	\$161,046	\$161,046	\$7,091	\$7,091	\$168,137	\$168,137
Buildings & infrastructure	2,153,601	2,153,601	12,755	12,755	2,166,356	2,166,356
Equipment	650,244	636,890	608,393	608,393	1,258,637	1,245,283
Vehicles	952,231	923,275	-	-	952,231	923,275
Water & Sewer infrastructure	-	-	13,073,104	13,073,104	13,073,104	13,073,104
Total depreciable assets	3,756,076	3,713,766	13,694,252	13,694,252	17,450,328	17,408,018
Less – Accumulated dep.	2,768,713	2,605,629	5,170,584	4,882,528	7,939,297	7,488,157
Total depreciable assets, net	987,363	1,108,137	8,523,668	8,811,724	9,511,031	9,919,861
Total capital assets, net	\$1,148,409	\$1,269,183	\$8,530,759	\$8,818,815	\$9,679,168	\$10,087,998

Additional information on the Town's capital assets can be found in the notes on page 26 of this report.

Long-term debt. At the end of the current fiscal year, the Town of Fairmont had total bonded debt outstanding of \$2,604,500.

Town of Fairmont's Outstanding Debt
Water Serial Bonds

	Governmental Activities 2013	Governmental Activities 2012	Business-type Activities 2013	Business-type Activities 2012	Totals 2013	Totals 2012
Water serial bonds	\$ -	\$ -	\$ 2,604,500	\$ 2,652,500	\$ 2,604,500	\$ 2,652,500
Total outstanding debt	\$ -	\$ -	\$ 2,604,500	\$ 2,652,500	\$ 2,604,500	\$ 2,652,500

North Carolina's general statutes limit the amount of general obligation debt that a governmental unit can issue to 8% of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for the Town of Fairmont is presently at \$5,462,562 (the amount of additional debt the town could obligate itself to under NC General Statute).

Additional information pertaining to the Town of Fairmont's long-term debt can be found in the notes on page 32 of this report.

Town of Fairmont, North Carolina
Management's Discussion and Analysis
June 30, 2013

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for the Town and surrounding area is 13.0% at June 30, 2013, which is a decrease from a rate of 13.9% a year ago. This comparison is higher than the state's rate of 8.8% and the national rate of 7.6%.

Request for Information

This financial report is designed to provide a general overview of the Town of Fairmont's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Finance Director, 421 South Main Street, Fairmont NC 28340.

Section II.

Basic Financial Statements

Town of Fairmont, North Carolina

Statement of Net Position

June 30, 2013

	<u>Primary Government</u>			Component
				Unit
	Governmental	Business		ABC
	Activities	Type	Total	Board
	Activities	Activities		
<u>ASSETS</u>				
Current assets:				
Cash and cash equivalents	\$ 135,698	\$ 30,667	\$ 166,365	\$ 98,037
Taxes receivable - net	198,472	-	198,472	-
Accounts receivable - net	40,972	82,326	123,298	-
Due from other governments	80,728	44,580	125,308	-
Inventories	-	33,497	33,497	74,554
Prepaid items	-	-	-	2,226
Restricted cash and cash equivalents	140,916	-	140,916	35,792
Total current assets	596,786	191,070	787,856	210,609
Non-current assets:				
Capital assets:				
Land	161,046	7,091	168,137	26,500
Other capital assets, net of depreciation	987,363	8,523,668	9,511,031	419
Total capital assets	1,148,409	8,530,759	9,679,168	26,919
Total assets	1,745,195	8,721,829	10,467,024	237,528
<u>LIABILITIES</u>				
Current liabilities:				
Accounts payable and accrued expenses	32,079	39,873	71,952	63,554
Current portion of long-term debt	41,049	79,835	120,884	-
Deposits	-	89,097	89,097	-
Compensated absences	47,512	29,730	77,242	-
Total current liabilities	120,640	238,535	359,175	63,554
Long-term liabilities:				
Non-current portion of long-term debt	566,387	2,595,149	3,161,536	-
Total liabilities	687,027	2,833,684	3,520,711	63,554
<u>NET POSITION</u>				
Investments in capital assets, net of related debt	801,714	5,855,775	6,657,489	26,919
Restricted for:				
Stabilization by State Statute	121,700	-	121,700	-
Other functions	140,916	-	140,916	16,630
Unrestricted	(6,162)	32,370	26,208	130,425
Total net position	\$ 1,058,168	\$ 5,888,145	\$ 6,946,313	\$ 173,974

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

Town of Fairmont, North Carolina
Statement of Activities
For the Fiscal Year Ended June 30, 2013

Functions/Programs	Program Revenues				Net Revenue (Expense) and Changes in Net Position			Component Unit	
	Expenses	Charges for Services	Capital Grants and Contributions	Operating Grants and Contributions	Governmental Activities	Primary Government			ABC Board
						Business-type Activities	Total		
Primary Government									
Governmental activities:									
General Government	\$ 460,123	\$ 4,975	\$ -	\$ 69,462	\$ (385,686)	\$ -	\$ (385,686)	\$ -	
Public Safety	1,035,786	-	-	-	(1,035,786)	-	(1,035,786)	-	
Transportation	282,035	-	-	90,238	(191,797)	-	(191,797)	-	
Environmental Protection	248,126	242,898	-	-	(5,228)	-	(5,228)	-	
Economic and Community Dev.	102,080	-	-	6,067	(96,013)	-	(96,013)	-	
Interest on long-term debt	4,813	-	-	-	(4,813)	-	(4,813)	-	
Total governmental activities	<u>2,132,963</u>	<u>247,873</u>	<u>-</u>	<u>165,767</u>	<u>(1,719,323)</u>	<u>-</u>	<u>(1,719,323)</u>	<u>-</u>	
Business-type activities:									
Water and Sewer	1,290,102	1,089,926	-	-	-	(200,176)	(200,176)	-	
Total business-type activities	<u>1,290,102</u>	<u>1,089,926</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(200,176)</u>	<u>(200,176)</u>	<u>-</u>	
Total primary government	<u>\$ 3,423,065</u>	<u>\$ 1,337,799</u>	<u>\$ -</u>	<u>\$ 165,767</u>	<u>(1,719,323)</u>	<u>(200,176)</u>	<u>(1,919,499)</u>	<u>-</u>	
Component unit									
Fairmont ABC Board	560,179	560,701	-	-	-	-	-	522	
Total component unit	<u>\$ 560,179</u>	<u>\$ 560,701</u>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>522</u>	
General revenues:									
Ad Valorem taxes					736,582	-	736,582	-	
Other taxes and licenses					708,744	-	708,744	-	
Unrestricted intergovernmental revenues					11,281	-	11,281	-	
Investment earnings					78	14	92	360	
Other revenue (expense)					22,668	-	22,668	-	
Transfers in (out)					-	-	-	-	
Total general revenues and transfers					<u>1,479,353</u>	<u>14</u>	<u>1,479,367</u>	<u>360</u>	
Change in net position					<u>(239,970)</u>	<u>(200,162)</u>	<u>(440,132)</u>	<u>882</u>	
Net position - Beginning of year					<u>1,298,138</u>	<u>6,088,307</u>	<u>7,386,445</u>	<u>173,092</u>	
Net position - End of year					<u>\$ 1,058,168</u>	<u>\$ 5,888,145</u>	<u>\$ 6,946,313</u>	<u>\$ 173,974</u>	

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

Town of Fairmont, North Carolina
Balance Sheet - Governmental Funds
June 30, 2013

	General	Other Governmental Funds	Total Governmental Funds
<u>ASSETS</u>			
Cash and cash equivalents	\$ 135,698	\$ -	\$ 135,698
Restricted cash	45,627	95,289	140,916
Taxes receivable - net	198,472	-	198,472
Due from other governments	80,728	-	80,728
Accounts receivable - net	40,972	-	40,972
Total assets	501,497	95,289	596,786
<u>LIABILITIES</u>			
Accounts payable and accrued liabilities	32,079	-	32,079
Total liabilities	32,079	-	32,079
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Property taxes receivable	198,472	-	198,472
Total deferred inflows of resources	198,472	-	198,472
<u>FUND BALANCES</u>			
Restricted			
Stabilization by State Statute	121,700	-	121,700
Streets	39,671	-	39,671
Public Safety	4,601	-	4,601
Economic Development	-	95,289	95,289
Unassigned	104,974	-	104,974
Total fund balances	270,946	95,289	366,235
Total liabilities, deferred inflows of resources, and fund balances	\$ 501,497	\$ 95,289	
Amounts reported for governmental activities in the statement of net position are different because:			
Total Fund Balance, Governmental Funds			366,235
Capital assets used in governmental activities are not financial resources and therefore not reported in the funds.			
Gross capital assets at historical cost		\$ 3,917,121	
Accumulated depreciation		(2,768,712)	1,148,409
Liabilities for earned revenues considered deferred inflows of resources in fund statements			198,472
Long-term liabilities used in governmental activities are not financial uses and therefore are not reported in the funds			
Other post employment benefit ARC after adjustments			(260,741)
Gross long-term debt		\$ (386,193)	
Long-term debt included as net position below (includes the addition of long-term debt and principal payments during the year.)		39,498	(346,695)
Compensated absences not expected to be materially liquidated with expendable available resources			(47,512)
Net position of governmental activities			\$ 1,058,168

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

Town of Fairmont, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balance -
Governmental Funds
For the Fiscal Year Ended June 30, 2013

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues			
Ad Valorem taxes	\$ 753,282	\$ -	\$ 753,282
Other taxes and licenses	708,744	-	708,744
Unrestricted intergovernmental revenues	11,281	-	11,281
Restricted intergovernmental revenues	164,675	6,067	170,742
Other general revenue	22,668	-	22,668
Sales and services	242,898	-	242,898
Interest earned on investments	-	78	78
Total revenues	<u>1,903,548</u>	<u>6,145</u>	<u>1,909,693</u>
Expenditures			
General Government	336,797	-	336,797
Public Safety	944,063	-	944,063
Transportation	265,751	-	265,751
Environmental Protection	247,737	-	247,737
Economic and Physical Development	99,897	2,183	102,080
Debt service			
Principal repayment	39,498	-	39,498
Interest	4,813	-	4,813
Total expenditures	<u>1,938,556</u>	<u>2,183</u>	<u>1,940,739</u>
Revenue over (under) expenditures	<u>(35,008)</u>	<u>3,962</u>	<u>(31,046)</u>
Other financing sources (uses)			
Transfer in	-	-	-
Loan proceeds	-	-	-
Fund balance appropriated	-	-	-
Net change in fund balances	<u>(35,008)</u>	<u>3,962</u>	<u>(31,046)</u>
Fund balance - Beginning of year	<u>305,954</u>	<u>91,327</u>	<u>397,281</u>
Fund balance - End of year	<u>\$ 270,946</u>	<u>\$ 95,289</u>	<u>\$ 366,235</u>

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

Town of Fairmont, North Carolina
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2013

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

Net change in fund balances - total governmental funds	\$	(31,046)
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Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period

Capital outlay expenditures which were capitalized	\$ 42,310	
Depreciation expense for governmental assets	<u>(163,083)</u>	(120,773)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Change in deferred revenue for tax revenues		(16,700)
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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 has an effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

New long-term debt issued	(43,683)	
Principal payments on long-term debt	<u>39,498</u>	(4,185)

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.

Compensated absences	15,222	
Net pension obligation	<u>(82,488)</u>	<u>(67,266)</u>

Total change in net position of governmental activities	\$	<u>(239,970)</u>
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The notes to financial statements are an integral part of this statement.

Town of Fairmont, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
General Fund
For the Fiscal Year Ended June 30, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues				
Ad Valorem taxes	\$ 774,276	\$ 749,959	\$ 753,282	\$ 3,323
Other taxes and licenses	663,000	690,140	708,744	18,604
Unrestricted intergovernmental revenues	18,250	11,279	11,281	2
Restricted intergovernmental revenues	175,074	174,545	164,675	(9,870)
Other general revenue	66,000	21,570	22,668	1,098
Sales and services	249,325	242,715	242,898	183
Interest earned on investments	-	-	-	-
Sale of fixed assets	-	-	-	-
Total revenues	<u>1,945,925</u>	<u>1,890,208</u>	<u>1,903,548</u>	<u>13,340</u>
Expenditures				
General Government	348,884	330,063	336,797	(6,734)
Public Safety	940,443	951,807	944,063	7,744
Transportation	256,549	269,126	265,751	3,375
Environmental Protection	238,250	249,665	247,737	1,928
Economic and Physical Dev.	116,435	102,035	99,897	2,138
Debt service				
Principal repayment	39,499	39,499	39,498	1
Interest	5,865	4,813	4,813	-
Total expenditures	<u>1,945,925</u>	<u>1,947,008</u>	<u>1,938,556</u>	<u>8,451</u>
Revenue under expenditures	<u>-</u>	<u>(56,800)</u>	<u>(35,008)</u>	<u>21,792</u>
Other financing sources (uses)				
Transfers in	-	-	-	-
Loan proceeds	-	-	-	-
Fund balance appropriated	-	56,800	-	(56,800)
Total other financing sources (uses)	<u>-</u>	<u>56,800</u>	<u>-</u>	<u>(56,800)</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>(35,008)</u>	<u>\$ (35,008)</u>
Fund balance - Beginning of year			<u>305,954</u>	
Fund balance - End of year			<u>\$ 270,946</u>	

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

Town of Fairmont, North Carolina
Statement of Net Position - Proprietary Fund
June 30, 2013

	Enterprise Fund
	Water and Sewer Fund
<u>ASSETS</u>	
Current assets	
Cash and cash equivalents	\$ 30,667
Accounts receivable - Net	82,326
Due from other governments	44,580
Inventories	33,497
Total current assets	191,070
Non-current assets	
Land	7,091
Depreciable assets - Net	8,523,668
Total non-current assets	8,530,759
Total assets	8,721,829
<u>LIABILITIES</u>	
Current liabilities	
Accounts payable and accrued expenses	39,873
Current portion of long-term debt	79,835
Due to General Fund	-
Meter Deposits	89,097
Total current liabilities	208,805
Non-current liabilities	
Compensated absences	29,730
Non-current portion of long-term debt	2,595,149
Total non-current liabilities	2,624,879
Total liabilities	2,833,684
<u>NET POSITION</u>	
Investments in capital assets, net of related debt	5,855,775
Net position - Unrestricted	32,370
Total net position	\$ 5,888,145

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

Town of Fairmont, North Carolina
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Fund
For the Fiscal Year Ended June 30, 2013

	Enterprise Fund
	Water and Sewer Fund
Operating revenues	
Charges for services	\$ 1,089,926
Other operating revenue	-
Total operating revenues	1,089,926
Operating expenses	
Administration	205,893
Operations - Water treatment	141,192
Operations - Water maintenance	85,238
Operations - Sewer treatment	295,557
Operations - Sewer maintenance	76,841
Operations - Sewer contract operations and maintenance	27,368
Non-departmental	46,862
Depreciation	288,056
Total operating expenses	1,167,007
Operating income (loss)	(77,081)
Non-operating revenue (expenses)	
Interest expense	(123,095)
Interest earned on investments	14
Total non-operating revenue (expenses)	(123,081)
Net income (loss) before operating transfers	(200,162)
Transfers	
Transfers in (out)	-
Capital contributions and grants	-
Total transfers	-
Change in net position	(200,162)
Total net position - Beginning of year	6,088,307
Total net position - End of year	\$ 5,888,145

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

Town of Fairmont, North Carolina
Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended June 30, 2013

	Enterprise Fund
	Water and Sewer Fund
Cash flows from operating activities	
Cash received from customers	\$ 1,092,414
Cash paid for goods and services	(545,907)
Cash paid to employees	(331,598)
Increase (decrease) in meter deposits	676
Net cash provided (used) by operating activities	215,585
Cash flows from non-capital financing activities	
Transfers to other funds	-
Net cash provided (used) by non-capital financing activities	-
Cash flows from capital and related financing activities	
Acquisition and construction of assets	-
Capital contributions and grants	-
Payment of bond-related interest	(123,095)
Debt principal repayment	(76,088)
Net cash provided (used) by capital and related financing activities	(199,183)
Cash flows from investing activities	
Interest on investments	14
Net cash provided (used) by investing activities	14
Net increase (decrease) in cash	16,416
Cash and cash equivalents - Beginning of year	14,251
Cash and cash equivalents - End of year	\$ 30,667
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ (77,081)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities -	
Depreciation	288,056
Change in assets and liabilities:	
(Increase) decrease in accounts receivable	(42,092)
(Increase) decrease in inventory	8,048
(Increase) decrease in prepaid expenses	-
Increase (decrease) in accounts payable and accrued liabilities	37,978
Increase (decrease) in meter deposits	676
Increase (decrease) in compensated absences	-
Total adjustments	292,666
Net cash provided (used) by operating activities	\$ 215,585

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

Town of Fairmont, North Carolina
Notes to Financial Statements
June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Town of Fairmont, North Carolina, and its discretely presented component unit conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant accounting policies.

A - Reporting Entity

The Town of Fairmont is a municipal corporation that is governed by an elected mayor and a six-member council. As required by generally accepted accounting principles, these financial statements present the Town and its component unit, a legally separate entity for which the Town is financially accountable. The discretely presented component unit presented below is reported in a separate column in the Town's financial statements in order to emphasize that it is legally separate from the Town.

Town of Fairmont ABC Board

The Town appoints the members of the ABC Board's governing board. In addition, the ABC Board is required by State statute to distribute its surpluses to the General Fund of the Town. The ABC Board, which has a June 30 year-end, is presented as if it were a Proprietary Fund. Complete financial statements for the ABC Board may be obtained from the entity's administrative offices at Town of Fairmont ABC Board, c/o Town of Fairmont, Post Office Box 248, Fairmont, North Carolina 28340.

B - Basis of Presentation - Fund Accounting

Government-wide Statements: The Statement of Net Position and Statement of Activities display information about the primary government and its component unit. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the governmental and business-type activities of the Town. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The Statement of Activities presents a comparison between direct expenses and program revenues for the different business-type activities of the Town and for each function of the Town's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the Statement of Activities. Program revenues include (a) fees and charges paid by the recipients of goods and services offered by the programs, and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the Town's funds. Separate statements for each fund category – government and proprietary – are presented. The emphasis of the fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as non-major funds.

Proprietary fund operating revenues, such as charges for services, result from the exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

The Town reports the following major Governmental funds:

Town of Fairmont, North Carolina
Notes to Financial Statements
June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B - Basis of Presentation - Fund Accounting (continued)

General Fund - The General Fund is the general operating fund of the Town. The General Fund accounts for all financial resources except those that are required to be accounted for in another fund. The primary revenue sources are Ad Valorem taxes, State grants, and various other taxes and licenses. Primary expenditures are for public safety, street maintenance and construction, and sanitation services.

The Town reports the following non-major Governmental funds

Special Revenue Funds - Special Revenue Funds account for specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes. The Town maintains four Special Revenue Funds -- the Community Development Block Grant Fund, the Rural Business Enterprise Grant Fund, the Cemetery Fund, and the Parks and Recreation Fund.

Proprietary Funds include the following fund type:

Enterprise Funds - Enterprise Funds account for those operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that the periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The Town of Fairmont has one Enterprise Fund, the Water and Sewer Fund.

C - Measurement Focus and Basis of Accounting

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

Government-wide and Proprietary Fund Financial Statements. The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the Town gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

The Town considers all revenues available if they are collected within 60 days after year-end, except for property taxes. Ad Valorem taxes receivable are not accrued as a revenue because the amount is not susceptible to accrual. At June 30, taxes receivable are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of January 1, 1993, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, Robeson County

Town of Fairmont, North Carolina
Notes to Financial Statements
June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C - Measurement Focus and Basis of Accounting (continued)

is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts in the County, including the Town of Fairmont. For motor vehicles registered under the staggered system, property taxes are due the first day of the fourth month after the vehicles are registered. The billed taxes are applicable to the fiscal year in which they become due. Therefore, the Town's vehicle taxes for vehicles registered in Robeson County from March 2012 through February 2013 apply to the fiscal year ended June 30, 2013. Uncollected taxes that were billed during this period are shown as a receivable in these financial statements and are offset by deferred revenue. For vehicles registered under the annual system, taxes are due on May 1 of each year. For those vehicles registered and billed under the annual system, uncollected taxes are reported as a receivable on the financial statements and are offset by deferred revenue because the due date and the date upon which interest begins to accrue passed prior to June 30. Sales taxes collected and held by the State at year-end on behalf of the Town are recognized as revenue. Intergovernmental revenue and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. Grant revenue that is unearned at year-end is recorded as deferred revenue.

Proprietary Funds are presented in the financial statements on the accrual basis of accounting. Under this basis, revenues are recognized in the accounting period when earned and expenses are recognized in the period they are incurred. As permitted by generally accepted accounting principles, the Town has elected to apply only applicable FASB Statements and Interpretations issued before November 30, 1989, in its accounting and reporting practices for its proprietary operations.

D - Budgetary Data

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General and the Enterprise Funds. All annual appropriations lapse at the fiscal year-end. Project ordinances are adopted for the Special Revenue Fund and the Capital Projects Fund. All budgets are prepared using the modified accrual basis of accounting.

Expenditures may not legally exceed appropriations at the departmental level for all annually budgeted funds and at the object level for the multi-year funds. The Town Manager is authorized to transfer appropriations within a fund up to \$2,500; however, the governing board must approve any revisions that alter the total expenditures of any fund or exceed \$2,500. During the year, several amendments to the original budget were necessary, the effects of which were not material.

A budget calendar is included in the North Carolina General Statutes that prescribes the last day on which certain steps of that budget procedure are to be performed. The following schedule lists the tasks to be performed and the date by which each is required to be completed.

- April 30 - Each department head will transmit to the budget officer the budget requests and the revenue estimates for their department for the budget year.
- June 1 - The budget and the budget message shall be submitted to the governing board. The public hearing on the budget shall be scheduled at this time.
- June 30 - The governing board shall adopt the budget ordinance.

Town of Fairmont, North Carolina
Notes to Financial Statements
June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E - Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Fund Equity

Deposits and Investments

All deposits of the Town and of the ABC Board are made in board-designated official depositories and are secured as required by State law [G.S. 159-31]. The Town and the ABC Board may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the Town and the ABC Board may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts, and certificates of deposit.

State law [G.S. 159-30(c)] authorizes the Town and the ABC Board to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by 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 nonguaranteed federal agencies; certain high quality issues of commercial paper and banker's acceptances and the North Carolina Capital Management Trust (NCCMT).

The Town of Fairmont and the ABC Board's investments with a maturity of more than one year at acquisition and non-money market investments are reported at fair value as determined by quoted market prices. The securities of the NCCMT Cash Portfolio, a SEC-registered (2a7) money market mutual fund, are valued at fair value, which is the NCCMT's share price. The NCCMT Term Portfolio's securities are valued at fair value.

Money market investments that have a remaining maturity at the time of purchase of one year or less are reported at amortized cost. Non-participating interest earnings and investment contracts are reported at cost.

In accordance with State law, the Town of Fairmont has invested in securities that are callable and which provide for periodic interest rate increases in specific increments until maturity. These investments are reported at fair value as determined by quoted market prices.

Cash and Cash Equivalents

The Town pools money from several funds to facilitate disbursement and investment and to maximize investment income. Therefore, all cash and investments are essentially demand deposits and are considered cash and cash equivalents. The ABC Board considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash and cash equivalents.

Restricted Assets

Powell Bill funds are classified as restricted cash because it 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.

Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad valorem taxes other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, interest does not accrue until the following January 6. These taxes are based on the assessed values as of January 1, 2011. As allowed by State law, the Town has established a schedule of discounts that apply to taxes that are paid prior to the due date. In the Town's General Fund, ad valorem tax revenue is reported net of such discounts.

Inventory

The inventories of the Town and the ABC Board are valued at cost (first-in, first-out), which approximates market. The Town's General Fund inventory consists of expendable supplies that are recorded as expenditures when purchased.

Town of Fairmont, North Carolina
Notes to Financial Statements
June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E - Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Fund Equity (continued)

The inventories of the Town's Enterprise Funds and those of the Town of Fairmont ABC Board consist of materials and supplies held for consumption. The cost of these inventories is recorded as an expense as the inventories are consumed.

Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain threshold and an estimated life in excess of two years. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair market value at the date of donation. General infrastructure assets acquired prior to July 1, 2004, consist of the road network and water and sewer system assets that were acquired or that received substantial improvements subsequent to July 1, 1980, and are reported at estimated historical cost using deflated replacement cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets' lives are not capitalized.

Capital assets of the Town are depreciated on a class life basis at the following rates:

Buildings	2%
Improvements	10%
Equipment and vehicles	17%

Property, plant, and equipment of the ABC Board are depreciated over their useful lives on a straight-line basis as follows:

	<u>Useful Life</u>
Buildings	25 years
Furniture and equipment	10 years

Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Town has no items that meet this criteria. In addition to liabilities, the statement of financial 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 a future period and so will not be recognized as revenue until then. The Town has only one item that meet the criteria for this category – property taxes receivable.

Long-Term Debt

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, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method that approximates the effective interest method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is 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.

Town of Fairmont, North Carolina
Notes to Financial Statements
June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E - Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Fund Equity (continued)

Compensated Absences

The vacation policies of the Town and the ABC Board provide for the accumulation of up to thirty days of earned vacation leave with such leave being fully vested when earned. For the Town's government-wide and proprietary funds and the ABC Board, an expense and a liability for compensated absences and the salary-related payments are recorded as the leave is earned – when material. The Town has assumed a first-in, first-out method of using accumulated compensated time.

Both the Town and the ABC Board's sick leave policies provide for an unlimited accumulation of earned sick leave. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since neither the Town nor the ABC Board has any obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

Net Position / Fund Balances

Net position in government-wide and proprietary fund financial statements are classified as invested in capital assets, net of related debt; restricted; and unrestricted. Restricted net position represent constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through State statute.

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

The governmental fund types classify fund balances as follows:

Restricted fund balance – This classification includes amounts that are restricted to specific purposes externally imposed by creditors or imposed by law.

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

Restricted for Streets – Powell Bill portion of fund balance that is restricted by revenue source for street construction and maintenance expenditures. This amount represents the balance of the total unexpended Powell Bill funds.

Restricted for Public Safety – portion of fund balance that is restricted by revenue from asset forfeiture funds.

Assigned fund balance – portion of fund balance that the Town of Fairmont intends to use for specific purposes.

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

The Town of Fairmont has a revenue spending policy that provides guidance for programs with multiple revenue sources. The Finance Officer will use resources in the following hierarchy: bond proceeds, federal funds, State funds, local non-town funds, town funds. For purposes of fund balance classification, expenditures are to be spent from restricted fund balance first, followed in-order by committed fund balance, assigned fund balance and, lastly, unassigned fund balance. The Finance Officer has the authority to deviate from this policy if it is in the best interest of the Town.

Town of Fairmont, North Carolina
Notes to Financial Statements
June 30, 2013

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A – Significant violations of Finance-Related Legal and Contractual Provisions

1. Noncompliance with North Carolina General Statutes

The Town is not in compliance with G.S. 159-28(b). See immediately below and attached Schedule of Findings and Responses in connection with this issue.

B – Excess of Expenditures over Appropriations

One department each in the General fund and Water & Sewer fund were over budget due primarily to writing off health insurance-related receivables and year end fluctuations in inventory, respectively. Management and the board will endeavor to make sure the situation will not repeat itself in future years.

NOTE 3 - DETAIL NOTES ON ALL FUNDS

A - Assets

Deposits

All the deposits of the Town and the ABC Board are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the Federal Deposit Insurance Coverage level are collateralized with securities held by the Town's or the ABC Board's agents in these units' names. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town and the ABC Board, these deposits are considered to be held by the Town's and the ABC Board's agents in their names. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Town or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Town or the ABC Board under the Pooling Method, the potential exists for under collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Town and ABC Board have no policy regarding custodial risk for deposits.

Deposits

At June 30, 2013, the Town's deposits had a carrying amount of \$306,431, and a bank balance of \$319,978. Federal Deposit Insurance covered the bank balance of the Town. (Petty cash amounted to \$850.)

At June 30, 2013, the carrying amount of deposits for the ABC Board was \$95,987, and the bank balance was \$98,027. Federal Deposit Insurance covered all of the bank balance.

Investments

At June 30, 2013, the Town's investment balances were as follows:

	Fair Value	Maturity	Rating
North Carolina Capital Management Trust Cash Portfolio	\$ 76,934	N/A	AAAm

Interest Rate Risk. The Town has no policy regarding interest rate risk.

Town of Fairmont, North Carolina
Notes to Financial Statements
June 30, 2013

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

A – Assets (continued)

Investments (continued)

Credit Risk. The Town has no policy regarding credit risk. The Town's investment in the NC Capital Management Trust Cash Portfolio carried a credit rating of AAAM by Standard & Poor's as of June 30, 2013.

Custodial Credit Risk. The Town has no policy on custodial credit risk.

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

At June 30, 2013, the Town had \$76,934 invested with the NC Capital Management Trust's Cash Portfolio which carried a credit rating of AAAM by Standard & Poor's. The Town has no policy regarding credit risk.

Capital Assets

Capital asset activity for the Primary Government for the year ended June 30, 2013, was as follows:

Governmental activities -	Beginning			Ending
Capital assets	Balances	Increases	Decreases	Balances
Land (non-depreciable)	\$ 161,046	\$ -	\$ -	\$ 161,046
Buildings and infrastructure	2,153,601	-	-	2,153,601
Equipment	636,890	13,353	-	650,243
Vehicles/motorized equipment	923,275	28,956	-	952,231
Total capital assets	\$ 3,874,812	\$ 42,309	\$ -	\$ 3,917,121
Less -				
Accumulated depreciation				
Buildings and infrastructure	\$ 1,571,568	\$ 29,917	\$ -	\$ 1,601,485
Equipment	475,916	47,929	-	523,845
Vehicles/motorized equipment	558,145	85,237	-	643,382
Total accumulated depreciation	2,605,629	\$ 163,083	\$ -	2,768,712
Governmental activities -				
Capital assets - Net	\$ 1,269,183			\$ 1,148,409

Town of Fairmont, North Carolina
Notes to Financial Statements
June 30, 2013

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

A – Assets (continued)

Capital Assets (continued)

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

General Government	\$ 12,377
Public Safety	134,033
Transportation	16,284
Environmental Protection	389
Total depreciation expense	\$ 163,083

Business-type activities -				
Water and Sewer Fund -	Beginning			Ending
Capital assets	Balances	Increases	Decreases	Balances
Land (non-depreciable)	\$ 7,091	\$ -	\$ -	\$ 7,091
Public works building	12,755	-	-	12,755
Water and sewer system	13,073,104	-	-	13,073,104
Equipment	608,393	-	-	608,393
Total capital assets	\$ 13,701,343	\$ -	\$ -	\$ 13,701,343
Less -				
Accumulated depreciation				
Public works building	\$ 12,056	\$ 383	\$ -	\$ 12,439
Water and sewer system	4,389,291	259,957	-	4,649,248
Equipment	481,181	27,716	-	508,897
Total accumulated depreciation	4,882,528	\$ 288,056	\$ -	5,170,584
Business-type activities				
Capital assets - Net	\$ 8,818,815			\$ 8,530,759

The following is a summary of Proprietary Fund type fixed assets for the ABC Board at June 30, 2013:

Land	\$ 26,500
Buildings and equipment	176,192
	202,692
Less - Accumulated depreciation	(175,773)
Total ABC fixed assets	\$ 26,919

See Independent Auditor's Report.

Town of Fairmont, North Carolina
Notes to Financial Statements
June 30, 2013

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B – Liabilities

Pension Plan Obligations

Local Governmental Employees' Retirement System

Plan Description. The Town of Fairmont contributes to 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 provides retirement and disability benefits to plan members and beneficiaries. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. 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, or by calling (919) 981-5454.

Funding Policy. Plan members are required to contribute six percent of their annual covered salary. The Town is required to contribute at an actuarially determined rate. The current rates for employees not engaged in law enforcement and for law enforcement officers are 6.41% and 6.52%, respectively, of annual covered payroll. The contribution requirements of members and of the Town of Fairmont are established and may be amended by the North Carolina General Assembly. The Town's contributions to LGERS for the years ended June 30, 2013, 2012, and 2011, were \$59,741, \$60,252, and \$59,183, respectively. The contributions made by the Town equaled the required contributions for each year.

The ABC Board provides a pension plan for all eligible employees by funding a SEP retirement plan with Prudential-Bache. The cost is 11.52% of the employee's annual salary. Contributions to the pension plan for the years ended June 30, 2013, 2012, and 2011, were \$5,443, \$6,038, and \$6,098, respectively.

Law Enforcement Officers' Special Separation Allowance

Plan Description. The Town of Fairmont administers a public employee retirement system (the "Separation Allowance"), a single-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 increase 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.

The Separation Allowance covers all full-time law enforcement officers of the Town. At December 31, 2012, the Separation Allowance's membership consisted of:

Retirees receiving benefits	-
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	12
Total	12

Summary of Significant Accounting Policies

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.

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

Town of Fairmont, North Carolina
Notes to Financial Statements
June 30, 2013

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B – Liabilities (continued)

Pension Plan Obligations (continued)

Contributions

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

Since no formal plan exists at this time, actuarial information is unavailable.

Supplemental Retirement Income Plan for Law Enforcement Officers

Plan Description. The Town contributes to the Supplemental Retirement Income Plan (Plan), a defined contribution pension plan administered by the Department of the State Treasurer and a Board of Trustees. The Plan provides retirement benefits to law enforcement officers employed by the Town. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

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, 2013, were \$44,237, which consisted of \$25,938 from the Town and \$18,298 from the law enforcement officers.

Deferred Outflows and Inflows of Resources

Deferred inflows of resources at year-end is comprised of property taxes receivable of \$198,472.

Other Postemployment Benefit

According to a Town resolution, the Town provides post-employment health care benefits to retirees of the Town, provided they participate in the North Carolina Local Governmental Employees' Retirement System (LGERS) and have at least five years of creditable service with the Town. In addition, the Town pays the full cost of these benefits with a minimum of twenty years of creditable service with the Town. Retirees who do not meet the aforementioned criteria have the option to purchase coverage themselves and their dependents through the Town for eighteen months. The entire cost of this insurance is borne by the retirees. The Town maintains health care coverage through private insurers. Currently, 4 retirees participate in the post retirement health benefits. For the fiscal year ended June 30, 2013, the Town made payments for post-retirement health benefit premiums of \$21,329.

Membership of the Plan consisted of the following at June 30, 2013:

	General Employees	Law Enforcement Officers
Retirees and dependents receiving benefits	3	1
Terminated plan members entitled to, but not yet receiving benefits	-	-
Active plan members	17	12
Total	20	13

Town of Fairmont, North Carolina
Notes to Financial Statements
June 30, 2013

B – Liabilities (continued)

Other Postemployment Benefit (continued)

Funding policy. The Town pays 100% of the cost of the coverage for the health care benefits paid to qualified retirees under a Town resolution that can be amended by the Town Council. The Town's retirees pay the current active employee rate for dependent coverage, if the retiree elects to purchase the coverage. The Town has chosen to fund the healthcare benefits on a pay-as-you-go basis.

The current ARC rate is 9.94% of annual covered payroll. For the current year the Town contributed \$21,329 or 2.10% of annual covered payroll. The Town purchases insurance from a private carrier for health care coverage. There were no contributions made by the employees except for dependent coverage. The Town's obligation to contribute to the Plan is established and may be amended by the Town Council.

Annual OPEB Cost and Net Obligation. The Town's annual OPEB cost (expense) is calculated based on the annual required contribution of the (ARC), an amount determined in accordance with the parameters of GASB statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table show the components of the Town's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Town's net OPEB obligation for the health care benefits:

	Governmental Activities
Annual required contribution	\$ 103,817
Interest on net OPEB obligation	-
Adjustments to annual required	-
Annual OPEB cost (expense)	<u>\$ 103,817</u>
Contributions made	(21,329)
Increase (decrease) in net OPEB	82,488
Net OPEB obligation beginning of year	<u>178,253</u>
Net OPEB obligation, end of year	<u>\$ 260,741</u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2013 were as follows:

Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contrib.	Net OPEB Obligation
2013	\$103,817	20.54%	\$82,488
2012	93,279	29.99%	65,305
2011	90,631	29.25%	63,931
2010	78,773	37.77%	49,017

Fund Status and Funding Progress. As of December 31, 2011, the most recent actuarial valuation date, the plan was not funded. The actuarial liability for benefits and, thus, the unfunded actuarial accrued liability (UAAL) was \$854,520. The covered payroll (annual payroll) of active employees covered by the plan was \$1,017,309 and the ratio of the UAAL to the covered payroll was 84.00%. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about the actuarial accrued liabilities for benefit.

Town of Fairmont, North Carolina
Notes to Financial Statements
June 30, 2013

B – Liabilities (continued)

Other Postemployment Benefit (continued)

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

In the December 31, 2012 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.00 percent investment rate of return (net of administrative expenses), which is the expected long-term investment returns on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual medical cost trend increase of 10.50 to 5.00 percent annually. The investment rate included a 3.75 percent inflation assumption. The actuarial value of assets, if any, was determined using techniques that spread the effects of short-term volatility in the market value of investments over a 5 year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2013, was 27 years.

As of December 31, 2012, management has not decided on the funding options for this outstanding obligation; therefore, OPEB will continue to be funded on a pay-as-you-go basis going into the next fiscal year. Management will continue their efforts to find a way to fund the annual required contribution while maintaining the level of service prioritized by the Town Council.

Other Employment Benefits

The Town has elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Government Employees' Retirement System (Death Benefit Plan), a multi-employer, State-administered, cost sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest months salary in a row during the 24 months prior to the employee's death, but the benefit may not exceed \$50,000 or be less than \$25,000. All death benefit payments are made from the Death Benefit Plan. The Town has no liability beyond the payment of the contributions. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount. The Town considers these contributions to be immaterial.

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 coverage of \$2 million per occurrence, property coverage up to \$20 million per building per occurrence, workers' compensation coverage up to the statutory limits, and employee health coverage up to a \$1 million lifetime limit. The pools are reinsured through commercial companies for single occurrence claims against general liability and auto liability in excess of \$500,000, up to \$500,000 for property, and \$250,000 up to \$5 million for worker's compensation. The pools are reinsured for annual employee health claims in excess of \$150,000. The property liability pool has an aggregate limit of \$1,000,000 for the aggregate losses in a single year. After the property pool has paid out \$1,000,000, then the pool will be liable for a \$10,000 per claim maintenance deductible on future property losses for that year. The remainder of each claim will be borne by the reinsurer.

In accordance with G.S. 159-29, the finance officer and tax collector are individually bonded for \$50,000 and \$10,000, respectively. The remaining employees that have access to cash are covered under a blanket insurance policy.

Town of Fairmont, North Carolina
Notes to Financial Statements
June 30, 2013

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

Risk Management (continued)

The Town carries commercial coverage for all other risks of loss. Settled claims have not exceeded coverage in any of the past three fiscal years. The Town does not carry flood insurance for the simple fact none of its buildings are located in a designated flood area. The Fairmont ABC Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The ABC Board has property, general liability, auto liability, workers' compensation, and employee health coverage. The ABC Board also has liquor legal liability coverage. Claims have not exceeded coverage in any of the past three fiscal years.

Long-Term Obligations

On September 12, 2008, the town arranged with BB&T governmental finance to fund a drainage project. The town borrowed \$120,000 to be repaid in monthly installments of \$1,843 including interest at 3.37% from Powell Bill funds. See below for further description.

Years ending June 30:	Total	Principal	Interest
2014	22,118	21,357	761
2015	12,587	12,480	107
Total	\$ 34,705	\$ 33,837	\$ 868

On October 30, 2006 the town entered in to a Financing Agreement with a bank to purchase a flusher truck for \$233,987 plus interest. The payments began on December 30, 2006, and will be made monthly thereafter for the next nine years, ending October 30, 2015. Future payments will be made from the water/sewer fund. See next page for flusher loan repayment schedule.

On September 2, 2006 the town entered into a loan of \$86,350 from the USDA for a used fire truck. Payments are made annually in the amount of \$11,880, including interest at the rate of 4.5% for the next nine years.

Years ending June 30:	Total	Principal	Interest
2014	11,880	10,410	1,470
2015	11,880	10,878	1,002
2016	11,880	11,369	511
Total	\$ 35,640	\$ 32,657	\$ 2,983

During the 2010-2011 year, the town borrowed \$46,500 from the USDA pertaining to a vehicle purchase, payable in five annual installments of \$10,373, including interest at the rate of 3.75%.

Years ending June 30:	Total	Principal	Interest
2014	10,373	9,282	1,091
2015	10,373	9,697	676
2016	10,373	10,129	244
Total	\$ 31,119	\$ 29,108	\$ 2,011

The Town is repaying a grant from the NC Department of Commerce that was listed as a contingent liability on last year's report. The Town will make four annual payments of \$62,773, non-interest bearing.

Years ending June 30:	Total	Principal	Interest
2014	62,773	62,773	-
2015	62,773	62,773	-
2016	62,773	62,773	-
2017	62,774	62,774	-
Total	\$ 251,093	\$ 251,093	\$ -

Town of Fairmont, North Carolina
Notes to Financial Statements
June 30, 2013

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

Long Term Obligations (continued)

Summary of activity	Beginning Balances	Increase (Decrease)	Ending Balance	Current Portion
BB&T bank loan	\$ 54,487	\$ (20,650)	\$ 33,837	\$ 21,357
USDA loan	42,619	(9,962)	32,657	10,410
New USDA Loan	37,994	(8,886)	29,108	9,282
NC Department of Commerce	207,410	43,683	251,093	-
	<u>\$ 342,510</u>	<u>\$ 4,185</u>	<u>\$ 346,695</u>	<u>\$ 41,049</u>
 OPEB	 <u>\$ 178,253</u>	 <u>\$ 82,488</u>	 <u>\$ 260,741</u>	 <u>\$ -</u>
 Compensated absences	 <u>\$ 62,734</u>	 <u>\$ (15,222)</u>	 <u>\$ 47,512</u>	 <u>\$ -</u>
 Contingent liability	 <u>\$ 207,410</u>	 <u>\$(207,410)</u>	 <u>\$ -</u>	 <u>\$ -</u>

General Obligation Indebtedness

General obligation bonds issued to finance the construction of facilities utilized in the operations of the water and sewer system and which are being retired by its resources are reported as long-term debt in the Water and Sewer Fund. The general obligation bonds are collateralized by the full faith, credit, and taxing power of the Town. Principal and interest requirements are appropriated when due.

Bonds payable at June 30, 2013, are comprised of the following issues:

General Obligation Bonds – Serviced by the Water and Sewer Fund

\$1,250,000 - 2002A Water Serial Bonds due in annual installments ranging from \$14,000 to \$56,000, beginning in 2004 through 2041; interest at 4.5%	\$ 1,086,000
\$1,750,000 - 2002B Water Serial Bonds due in annual installments ranging from \$19,000 to \$76,000, beginning in 2004 through 2041; interest at 4.5%	<u>1,518,500</u>
Total	<u>\$ 2,604,500</u>

Annual debt service requirements to maturity for general obligation bonds, including interest of \$1,991,698 on the Water and Sewer bonds, are as follows:

<u>Years ending June 30:</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2014	167,703	50,500	117,203
2015	166,930	52,000	114,930
2016	167,590	55,000	112,590
2017	167,615	57,500	110,115
2018	167,528	60,000	107,528
2019-2023	835,297	338,500	496,797
2024-2028	835,161	424,500	410,661
2029-2033	836,362	528,000	308,362
2034-2039	820,372	642,500	177,872
2040-2042	431,640	396,000	35,640
Total	<u>\$4,596,198</u>	<u>\$2,604,500</u>	<u>\$1,991,698</u>

See Independent Auditor's Report.

Town of Fairmont, North Carolina
Notes to Financial Statements
June 30, 2013

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

Long-Term Obligations (continued)

Bank loan associated with flusher is described in detail, below:

Years ending June 30:	Total	Principal	Interest
2014	31,821	29,335	2,486
2015	31,820	30,637	1,183
2016	10,607	10,512	95
Total	\$ 74,248	\$ 70,484	\$ 3,764

At June 30, 2013, the Town of Fairmont had a legal debt margin (computed as 8% of assessed property valuations after senior exemptions less any outstanding structured debt) of \$5,462,562.

Changes in Water and Sewer Fund Long-Term Liabilities

Summary of activity	Beginning Balances	Increase (Decrease)	Ending Balance	Current Portion
Bank loan	\$ 98,572	\$ (28,088)	\$ 70,484	\$ 29,335
General obligation bonds	2,652,500	(48,000)	2,604,500	50,500
	\$ 2,751,072	\$ (76,088)	\$2,674,984	\$ 79,835
Compensated absences	\$ 29,730	-	29,730	\$ -

NOTE 4 - RELATED ORGANIZATION

The mayor of the Town of Fairmont appoints the three-member board of the Town of Fairmont Housing Authority. The Town is accountable for the Housing Authority because it appoints the governing board; however, the Town is not financially accountable for the Housing Authority. The Town of Fairmont is also disclosed as a related organization in the notes to the financial statements for the Town of Fairmont Housing Authority.

NOTE 5 - SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES

Federal and State Assisted Programs

The Town has received proceeds from several federal and State grants. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant monies to the grantor agencies. Management believes that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant monies.

NOTE 6 – SUBSEQUENT EVENTS

Subsequent events were evaluated through September 30, 2013, which is the date the financial statements were available to be issued.

Town of Fairmont, North Carolina
Notes to Financial Statements
June 30, 2013

NOTE 7 – CHANGE IN ACCOUNTING PRINCIPLES/RESTATEMENT

The Town implemented Governmental Accounting Standards Board (GASB) Statement 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, and Statement 65, Items Previously reported as Assets and Liabilities, in the fiscal year ended June 30, 2013. In accordance with GASB Statement 63, the Statement of Net Assets has been replaced with the Statement of Net Position. Items on the Statement of Net Position are now classified into Assets, Liabilities, and Net Position.

Required Supplementary Financial Data

This section contains additional information required by generally accepted accounting principles.

Schedule of Funding Progress for Other Post Employment Benefits.

Schedule of Employer Contributions for Other Post Employment Benefits.

Town of Fairmont, North Carolina
Required Supplemental Financial Data
Other Post-Employment Benefits
Schedule of Funding Progress, Employer Contributions and
Notes to the Required Schedules

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
06/30/13		854,520	854,520	0.00%	1,017,309	84.00%
06/30/12	-	807,048	807,048	0.00%	965,105	84.00%
06/30/11	-	732,398	732,398	0.00%	908,967	81.00%
06/30/10	-	625,844	625,844	0.00%	920,032	68.00%

Schedule of Employer Contributions

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2013	103,817	20.54%
2012	93,279	29.99%
2011	90,361	29.25%
2010	78,773	37.77%

Section IV.

Individual Fund Financial Statements Section:

General Fund

Town of Fairmont, North Carolina
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance -
Budget and Actual
For the Fiscal Year Ended June 30, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues				
Ad Valorem taxes				
Current year			\$ 683,743	
Prior years			64,960	
Tax discounts			(5,056)	
Tax penalties			9,635	
Foreclosure fees			-	
Total Ad Valorem taxes	<u>774,276</u>	<u>749,959</u>	<u>753,282</u>	<u>3,323</u>
Other taxes and licenses				
Utility franchise tax			112,511	
Local sales tax			503,180	
Privilege and gaming license			76,000	
Cable tax revenue and franchise fees			16,163	
Zoning permits			890	
Total other taxes and licenses	<u>663,000</u>	<u>690,140</u>	<u>708,744</u>	<u>18,604</u>
Unrestricted intergovernmental				
Beer and wine tax			10,732	
Gasoline tax refunds			-	
Payments in lieu of taxes			-	
ABC profit distribution			549	
Total unrestricted intergovernmental	<u>18,250</u>	<u>11,279</u>	<u>11,281</u>	<u>2</u>
Restricted intergovernmental				
Powell Bill allocation			90,238	
Court fees			4,975	
Grants			69,462	
Total restricted intergovernmental	<u>175,074</u>	<u>174,545</u>	<u>164,675</u>	<u>(9,870)</u>
Other general revenue				
Lot cutting			-	
Fire inspections			1,278	
Park and recreation fees			2,565	
Miscellaneous			925	
Sale of fixed assets			-	
Net equipment and building rental			17,900	
Total other general revenue	<u>\$ 66,000</u>	<u>\$ 21,570</u>	<u>\$ 22,668</u>	<u>\$ 1,098</u>

Town of Fairmont, North Carolina
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance -
Budget and Actual (continued)
For the Fiscal Year Ended June 30, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues (continued)				
Miscellaneous revenue				
Sales and service - Sanitation fees	\$	\$	\$ 242,849	\$
Investment earnings			49	
Total miscellaneous revenue	<u>249,325</u>	<u>242,715</u>	<u>242,898</u>	<u>183</u>
Total revenues	<u>1,945,925</u>	<u>1,890,208</u>	<u>1,903,548</u>	<u>13,340</u>
Expenditures				
General Government-				
Governing body				
Salaries and employee benefits			12,175	
Departmental supplies			264	
Postage			203	
Dues and subscriptions			289	
Total governing body	<u>13,060</u>	<u>12,932</u>	<u>12,931</u>	<u>1</u>
Administration				
Salaries and employee benefits			81,161	
Postage			355	
Auto			3,000	
Departmental supplies			229	
Dues and subscriptions			61	
Total administration	<u>76,965</u>	<u>76,193</u>	<u>84,806</u>	<u>(8,613)</u>
Clerk				
Salaries and employee benefits			52,955	
Training			65	
Postage			226	
Departmental supplies			629	
Dues and subscriptions			195	
Total clerk	<u>55,257</u>	<u>54,077</u>	<u>54,070</u>	<u>7</u>
Elections - supplies	<u>3,500</u>	<u>-</u>	<u>-</u>	<u>-</u>
Finance				
Salaries and employee benefits			-	
Professional services			13,600	
Training			-	
Postage			551	
Maintenance and repairs / rental			3,751	
Advertising			580	
Departmental supplies			1,842	
Dues and subscriptions			50	
Total finance	<u>\$ 23,375</u>	<u>\$ 20,706</u>	<u>\$ 20,374</u>	<u>\$ 332</u>

Town of Fairmont, North Carolina
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance -
Budget and Actual (continued)
For the Fiscal Year Ended June 30, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Expenditures (continued)				
General Government (continued)				
Tax listing				
Salaries and employee benefits	\$	\$	\$ 40,198	\$
Training			16	
Postage			1,157	
Maintenance and repairs - Equipment			-	
Advertising			2,181	
Departmental supplies			614	
Total tax listing	<u>44,676</u>	<u>44,193</u>	<u>44,166</u>	<u>27</u>
Legal				
Professional services	<u>22,500</u>	<u>11,720</u>	<u>10,440</u>	<u>1,280</u>
Planning				
Professional services			350	
Postage			84	
Noise abatement			652	
Total planning	<u>4,800</u>	<u>1,090</u>	<u>1,086</u>	<u>4</u>
Public building				
Salaries and employee benefits			42,195	
Telephone			11,111	
Utilities			26,818	
Maintenance and repairs - Buildings			19,385	
Uniforms			556	
Departmental supplies			8,859	
Total public building	<u>104,751</u>	<u>109,152</u>	<u>108,924</u>	<u>228</u>
Total General Government	<u>\$ 348,884</u>	<u>\$ 330,063</u>	<u>\$ 336,797</u>	<u>\$ (6,734)</u>

Town of Fairmont, North Carolina
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance -
Budget and Actual (continued)
For the Fiscal Year Ended June 30, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Expenditures (continued)				
Public Safety				
Police department				
Salaries and employee benefits	\$	\$	\$ 705,550	\$
Training			2,434	
Postage			5,563	
Maintenance and repairs - Equipment			17,822	
Maintenance agreements			17,883	
Maintenance and repairs - Vehicles			9,162	
Equipment rental			6,491	
Auto supplies			36,444	
Departmental supplies			7,454	
Uniforms			12,370	
Medical exams			1,090	
Dues and subscriptions			125	
Capital outlay			42,310	
Grant-related expenditures			11,958	
Total police department	<u>870,628</u>	<u>877,707</u>	<u>876,656</u>	<u>1,051</u>
Fire department				
Salaries and employee benefits			24,349	
Training			662	
Postage			1,173	
Maintenance and repairs - Equipment			11,922	
Maintenance and repairs - Vehicles			12,135	
Auto supplies			1,346	
Departmental supplies			3,492	
Uniforms			176	
Grant related expenditures			11,252	
Dues			900	
Total fire department	<u>69,815</u>	<u>74,100</u>	<u>67,407</u>	<u>6,693</u>
Total Public Safety	<u>940,443</u>	<u>951,807</u>	<u>944,063</u>	<u>7,744</u>
Transportation				
Powell Bill				
Salaries and employee benefits			51,284	
Repairs and maintenance			19,598	
Total Powell Bill	<u>66,630</u>	<u>73,432</u>	<u>70,882</u>	<u>2,550</u>

Town of Fairmont, North Carolina
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance -
Budget and Actual (continued)
For the Fiscal Year Ended June 30, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Expenditures (continued)				
Transportation (continued)				
Garage				
Salaries and employee benefits	\$	\$	\$ 45,399	\$
Uniforms			456	
Total garage	<u>46,434</u>	<u>45,868</u>	<u>45,855</u>	<u>13</u>
Streets				
Salaries and employee benefits			24,105	
Utilities			70,190	
Maintenance and repairs - Equipment			16,324	
Maintenance and repairs - Vehicles			4,175	
Auto supplies			12,349	
Departmental supplies			13,696	
Uniforms			479	
Mosquito spraying			7,696	
Total streets	<u>143,485</u>	<u>149,826</u>	<u>149,014</u>	<u>812</u>
Total Transportation	<u>256,549</u>	<u>269,126</u>	<u>265,751</u>	<u>3,375</u>
Environmental Protection				
Sanitation				
Salaries and employee benefits			-	
Maintenance and repairs - Equipment			3,139	
Maintenance and repairs - Vehicles			1,672	
Auto supplies			5,999	
Departmental supplies			1,837	
Contracted services			235,090	
Total Environmental Protection	<u>238,250</u>	<u>249,665</u>	<u>247,737</u>	<u>1,928</u>
Economic and Community Development				
Community service				
Salaries and employee benefits			7,861	
Maintenance and repairs - Equipment			10	
Departmental supplies			856	
Dues and subscriptions			3,882	
Insurance			61,211	
Activities			4,333	
Grant-related expenditures			9,500	
Miscellaneous			12,244	
Capital outlay			-	
Total Economic and Community Development	<u>116,435</u>	<u>102,035</u>	<u>99,897</u>	<u>2,138</u>

Town of Fairmont, North Carolina
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance -
Budget and Actual (continued)
For the Fiscal Year Ended June 30, 2013

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Expenditures (continued)				
Debt Service				
Principal repayment			39,498	
Interest			4,813	
Total debt service	45,364	44,312	44,311	1
Total expenditures	\$ 1,945,925	\$ 1,947,008	\$ 1,938,556	\$ 8,452
 Total revenues	 \$ 1,945,925	 \$ 1,890,208	 \$ 1,903,548	 \$ 13,340
 Total expenditures	 1,945,925	 1,947,008	 1,938,556	 8,452
Revenue over (under) expenditures	-	(56,800)	(35,008)	21,792
 Other financing sources (uses)				
Transfers in	-	-	-	-
Loan proceeds	-	-	-	-
Fund balance appropriated	-	56,800	-	(56,800)
Total other financing sources (uses)	-	56,800	-	(56,800)
Revenue and other financing sources over (under) expenditures and other financing uses	\$ -	\$ -	(35,008)	\$ (35,008)
 Fund balance				
Beginning of year			305,954	
End of year			\$ 270,946	

Non-Major Governmental Funds

Special Revenue Funds:

Rural Business Enterprise Grant Fund

Cemetery Fund

Parks and Recreation Fund

Golden Leaf Project Fund

Community Development Fund

Town of Fairmont, North Carolina
Non-Major Governmental Funds
Combining Balance Sheets

June 30, 2013

(With Comparative Totals for June 30, 2012)

	Rural Business Enterprise Grant Fund	Cemetery Fund	Parks and Recreation Fund	Community Development Fund	2013	2012
Assets						
Cash and investments	\$ 76,541	\$ 18,748	\$ -	\$ -	\$ 95,289	\$ 91,327
Grant receivable	-	-	-	-	-	-
Total assets	\$ 76,541	\$ 18,748	\$ -	\$ -	\$ 95,289	\$ 91,327
Liabilities and Fund Balances						
Liabilities	-	-	-	-	-	-
Fund balances	76,541	18,748	-	-	95,289	91,327
Total liabilities and fund balances	\$ 76,541	\$ 18,748	\$ -	\$ -	\$ 95,289	\$ 91,327

Town of Fairmont, North Carolina
Non-Major Governmental Funds
Combining Statements of Revenues, Expenditures, and Changes in Fund Balances
For the Fiscal Year Ended June 30, 2013
(With Comparative Totals for the Fiscal Year Ended June 30, 2012)

	Rural Business Enterprise Grant Fund	Cemetery Fund	Community Development Fund	Totals
	2013	2013	2013	2012
Revenues				
Interest income	\$ 12	\$ 66	-	\$ 78
State Grant	-	-	-	94
CDBG Grant	-	-	-	-
Golden Leaf Grant	-	-	-	-
Local match	-	-	-	-
Contributions	-	-	-	-
Loan repayments	6,067	-	-	3,197
Total revenues	6,079	66	-	6,145
				3,291
Expenditures				
Administration	-	-	-	-
Rehabilitation	-	-	-	6,579
Relocation	-	-	-	-
Other	-	-	-	-
Clearance	-	-	-	-
Community service	2,183	-	-	2,183
Total expenditures	2,183	-	-	4,947
				11,526
Revenue over (under) expenditures	3,896	66	-	3,962
Operating transfer (out)	-	-	-	(8,235)
Fund balances				
Beginning of year	72,645	18,682	-	91,327
End of year	\$ 76,541	\$ 18,748	\$ -	\$ 95,289
				\$ 91,327

Town of Fairmont, North Carolina
Special Revenue Fund - Rural Business Enterprise Grant Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance -
Budget and Actual
For the Fiscal Year Ended June 30, 2013
(With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2012)

	<u>2013</u>		Variance Favorable (Unfavorable)	<u>2012</u>
	<u>Budget</u>	<u>Actual</u>		<u>Actual</u>
Revenue				
Interest	\$ -	\$ 12	\$ -	\$ 16
USDA Loan		-		-
Loan repayments		6,067		3,197
Total revenue	<u>7,055</u>	<u>6,079</u>	<u>(976)</u>	<u>3,213</u>
Expenditures				
Other		183		318
Loans to businesses		2,000		2,000
Total expenditures	<u>7,055</u>	<u>2,183</u>	<u>4,872</u>	<u>2,318</u>
Revenue over (under) expenditures	-	3,896	3,896	895
Other financing sources (uses)				
Fund balance appropriated	-	-	-	-
Revenue and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>3,896</u>	<u>\$ 3,896</u>	<u>895</u>
Fund balance				
Beginning of year		<u>72,645</u>		<u>71,750</u>
End of year		<u>\$ 76,541</u>		<u>\$ 72,645</u>

Town of Fairmont, North Carolina
Special Revenue Fund - Cemetery Fund
Schedules of Revenues, Expenditures, and Changes in Fund Balance -
Budget and Actual
For the Fiscal Year Ended June 30, 2013
(With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2012)

	2013		Variance Favorable (Unfavorable)	2012
	Budget	Actual		Actual
Revenue				
Interest income	\$	\$ 66	\$	\$ 79
Contributions		-		-
Total revenue	-	66	66	79
Expenditures				
Administration		-		-
Total expenditures	18,736	-	18,736	-
Revenue over (under) expenditures	(18,736)	66	18,802	79
Other financing sources (uses)				
Fund balance appropriated	18,736	-	(18,736)	-
Revenue and other financing sources over (under) expenditures and other financing uses	\$ -	66	\$ 66	79
Fund balance				
Beginning of year		18,682		18,603
End of year		\$ 18,748		\$ 18,682

Town of Fairmont, North Carolina
Special Revenue Fund - Parks and Recreation Fund
Schedules of Revenues, Expenditures, and Changes in Fund Balance -
Budget and Actual
For the Fiscal Year Ended June 30, 2013
(With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2012)

	2013		Variance Favorable (Unfavorable)	2012
	Budget	Actual		Actual
Revenue				
Interest income	\$	\$ -	\$	\$ -
Golden Leaf Grant		-		-
Local funds		-		-
Contributions		-		-
Total revenue	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Expenditures				
Community service		-		2,629
Community service - Golden Leaf Funds		-		-
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,629</u>
Revenue over (under) expenditures	-	-	-	(2,629)
Other financing sources (uses)				
Operating transfers in (out)	-	-	-	-
Fund balance appropriated	-	-	-	-
Revenue and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>	<u>(2,629)</u>
Fund balance				
Beginning of year		<u>-</u>		<u>2,629</u>
End of year		<u>\$ -</u>		<u>\$ -</u>

Town of Fairmont, North Carolina
Special Revenue Fund - Community Development
Schedule of Revenues and Expenditures and Changes in Fund Balance
Budget and Actual
From Inception and for the Fiscal Year Ended June 30, 2013

	<u>Project Authorization</u>	<u>Actual</u>			<u>Variance Favorable (Unfavorable)</u>
		<u>Prior Years</u>	<u>Current Year</u>	<u>Total to Date</u>	
Revenue					
	\$ -	\$ -	\$ -	\$ -	\$ -
Total revenue	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Expenditures	-	-	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Revenue over (under) expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other financing sources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Revenue and other sources over (under) expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>	<u>\$ -</u>
Fund balance, beginning			<u>-</u>		
Fund balance, ending			<u>\$ -</u>		

Enterprise Fund:

Water and Sewer Fund

Town of Fairmont, North Carolina
Enterprise Fund - Proprietary Fund Type
Water and Sewer Fund
Schedule of Revenues and Expenditures -
Budget and Actual (Non-GAAP)
For the Fiscal Year Ended June 30, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<u>Revenue</u>				
Operating revenue				
Water sales	\$	\$	\$ 382,763	\$
Sewer sales			672,835	
Water and sewer connections			-	
Late fees			22,156	
Reconnection fees			12,172	
Other operating revenue			-	
Total operating revenue	<u>1,048,750</u>	<u>1,086,790</u>	<u>1,089,926</u>	<u>3,136</u>
Non-operating revenue				
Interest income			14	
Total non-operating revenue	<u>15</u>	<u>14</u>	<u>14</u>	<u>-</u>
Total revenue	<u>1,048,765</u>	<u>1,086,804</u>	<u>1,089,940</u>	<u>3,136</u>
<u>Expenditures</u>				
Water and sewer administration				
Salaries and employee benefits			144,074	
Training			174	
Postage and telephone			9,284	
Utilities			12,283	
Maintenance and repairs - Equipment			6,629	
Maintenance and repairs - Vehicles			3,259	
Equipment rental			4,899	
Advertising			223	
Auto supplies			9,782	
Departmental supplies			13,211	
Uniforms			1,515	
Medical exams			560	
Contracted services			-	
Total water and sewer administration	<u>\$ 207,221</u>	<u>\$ 206,223</u>	<u>\$ 205,893</u>	<u>\$ 330</u>

Town of Fairmont, North Carolina
Enterprise Fund - Proprietary Fund Type
Water and Sewer Fund
Schedule of Revenues and Expenditures -
Budget and Actual (Non-GAAP) (continued)
For the Fiscal Year Ended June 30, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<u>Expenditures (continued)</u>				
Water treatment				
Salaries and employee benefits	\$	\$	\$ 58,660	\$
Training			2,159	
Telephone			4,677	
Utilities			16,446	
Maintenance and repairs - Equipment			51,246	
Departmental supplies			6,626	
Uniforms			753	
Dues			625	
Total water treatment	<u>107,363</u>	<u>149,468</u>	<u>141,192</u>	<u>8,276</u>
Water maintenance				
Salaries and employee benefits			40,297	
Maintenance and repairs - Equipment			2,725	
Maintenance and repairs - Vehicles			4,738	
Auto supplies			17,294	
Departmental supplies			19,604	
Uniforms			580	
Total water maintenance	<u>89,947</u>	<u>78,087</u>	<u>85,238</u>	<u>(7,151)</u>
Sewage treatment				
Salaries and employee benefits			48,020	
Professional services			45,694	
Telephone			9,233	
Utilities			109,644	
Maintenance and repairs - Equipment			67,624	
Departmental supplies			14,771	
Uniforms			559	
Miscellaneous			12	
Total sewage treatment	<u>280,201</u>	<u>295,653</u>	<u>295,557</u>	<u>96</u>
Non-departmental				
Insurance and bonds			40,265	
Vacation			-	
Bad debt expense			1,362	
Building maintenance			3,295	
Professional services			1,940	
Total non-departmental	<u>\$ 47,159</u>	<u>\$ 50,555</u>	<u>\$ 46,862</u>	<u>\$ 3,693</u>

Town of Fairmont, North Carolina
Enterprise Fund - Proprietary Fund Type
Water and Sewer Fund
Schedule of Revenues and Expenditures -
Budget and Actual (Non-GAAP) (continued)
For the Fiscal Year Ended June 30, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<u>Expenditures (continued)</u>				
Sewer maintenance				
Salaries and employee benefits	\$	\$	\$ 40,547	\$
Maintenance and repairs - Equipment			3,424	
Maintenance and repairs - Vehicles			6,893	
Auto supplies			16,162	
Departmental supplies			9,182	
Uniforms			633	
Total sewer maintenance	<u>72,190</u>	<u>122,517</u>	<u>76,841</u>	<u>45,676</u>
Sewer contract operations and maint.				
Other operating expenses	<u>35,500</u>	<u>27,950</u>	<u>27,368</u>	<u>582</u>
Total operating expenditures	<u>839,581</u>	<u>930,453</u>	<u>878,951</u>	<u>51,502</u>
Net capital outlay				
Capital outlay			-	
Net capital outlay	<u>10,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Debt Service				
Principal repayment		-	76,088	
Interest		-	123,095	
Total debt service	<u>199,184</u>	<u>199,184</u>	<u>199,183</u>	<u>1</u>
Total expenditures	<u>1,048,765</u>	<u>1,129,637</u>	<u>1,078,134</u>	<u>51,503</u>
Revenue over (under) expenditures	<u>-</u>	<u>(42,833)</u>	<u>11,806</u>	<u>54,639</u>
Other financing sources (uses)				
Appropriated retained earnings	<u>-</u>	<u>42,833</u>	<u>-</u>	<u>(42,833)</u>
Revenue and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,806</u>	<u>\$ 11,806</u>
Reconciliation from budgetary basis (modified accrual) to full accrual:				
Revenue over (under) expenditures			<u>\$ 11,806</u>	
Reconciling items:				
Capital outlay			-	
Debt principal repayment			76,088	
Capital contribution			-	
Depreciation			(288,056)	
Total reconciling items			<u>(211,968)</u>	
Change in net position			<u>\$ (200,162)</u>	

Town of Fairmont, North Carolina
Water and Sewer Capital Projects Fund
Schedule of Revenues and Expenditures - Budget and Actual (non-GAPP)
From Inception and for the Fiscal Year Ended June 30, 2013

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Actual Current Year</u>	<u>Total to Date</u>	<u>Variance Favorable (Unfavorable)</u>
Revenue:					
Sewer line rehabilitation project					
CWMTF State Grant	\$ 600,000	\$ -	\$ 44,580	\$ 44,580	\$ 555,420
Total revenue	<u>600,000</u>	<u>-</u>	<u>44,580</u>	<u>44,580</u>	<u>555,420</u>
Expenditures:					
Sewer line rehabilitation project					
Construction	737,500	-	-	-	(737,500)
Professional services	188,750	-	44,580	44,580	(144,170)
Contingency	73,750	-	-	-	(73,750)
Total expenditures	<u>1,000,000</u>	<u>-</u>	<u>44,580</u>	<u>44,580</u>	<u>(955,420)</u>
Revenue over (under) expenditures	<u>(400,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(400,000)</u>
Other financing sources:					
Transfers from Water and Sewer Fund	15,000		-	-	15,000
USDA revenue bonds	385,000			-	385,000
Total other sources	<u>400,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>400,000</u>
Revenue and other sources over (under) expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Section V.

Statistical Section

Town of Fairmont, North Carolina
Schedule of Cash and Investments
June 30, 2013

	<u>Cost and Market Values</u>
Cash	
Petty cash	\$ 850
Demand deposit - First Bank	1,182
Demand deposits - Branch Banking & Trust	160,749
Savings account - Branch Banking & Trust	50,000
Savings account - Branch Banking & Trust	-
Certificate of deposit - RBC Centura	17,566
Total cash	<u>230,347</u>
Investments	
North Carolina Capital Management Trust	76,934
Total investments	<u>76,934</u>
Total cash and investments	<u><u>\$ 307,281</u></u>
Distribution by fund:	
General Fund	\$ 181,325
Special Revenue Funds -	
Community Development Block Grant	-
Cemetery Fund	18,748
Parks and Recreation Fund	-
Golden Leaf Project Fund	-
Capital Projects	-
USDA - RBEG Program	76,541
NCHFA	-
Enterprise Fund	30,667
Total	<u><u>\$ 307,281</u></u>

Town of Fairmont, North Carolina
Analysis of Current Year Tax Levy
For the Fiscal Year Ended June 30, 2013

	Town-Wide Levy			Total Levy	
	Property Valuation	Rate	Total Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy					
Property taxed at current year's rate	\$ 106,053,014	0.73	\$ 774,276	\$ 687,206	\$ 87,070
Releases			-	-	-
Net levy			774,276	687,206	87,070
Less-Uncollected taxes at June 30, 2013			90,534	68,989	21,545
Current year's taxes collected			<u>\$ 683,742</u>	<u>\$ 618,217</u>	<u>\$ 65,525</u>
Current levy collection percentage			<u>88.31%</u>	<u>89.96%</u>	<u>75.26%</u>

Town of Fairmont, North Carolina
Schedule of Ad Valorem Taxes Receivable
June 30, 2013

<u>Fiscal Year</u>	<u>Uncollected Balances June 30, 2012</u>	<u>Additions</u>	<u>Collections and Credits</u>	<u>Uncollected Balances June 30, 2013</u>
2012-2013	\$ -	\$ 774,277	\$ 683,743	\$ 90,534
2011-2012	91,262	-	57,376	33,886
2010-2011	43,727	-	23,485	20,242
2009-2010	22,208	-	5,733	16,475
2008-2009	18,018	-	6,267	11,751
2007-2008	15,184	-	5,542	9,642
2006-2007	9,598	-	2,805	6,793
2005-2006	7,321	-	3,470	3,851
2004-2005	4,356	-	639	3,717
2003-2004	1,751	-	170	1,581
2002-2003	1,747	-	1,747	-
Prior years	-	-	-	-
	<u>\$ 215,172</u>	<u>\$ 774,277</u>	<u>\$ 790,977</u>	198,472

Less - Allowance for uncollectible accounts - General Fund

-

Ad valorem taxes receivable - Net

\$ 198,472

Reconciliation with revenue:

Taxes - Ad Valorem - General Fund	\$ 753,282
Penalties	(9,635)
Discoveries	-
Amount written off -	
For tax year 2002-2003 per statute of limitations	1,747
Other	<u>45,583</u>
Total collections and credits	<u>\$ 790,977</u>

Section VI.

Compliance Section

S. Preston Douglas & Associates, LLP

CERTIFIED PUBLIC ACCOUNTANTS

MEMBERS

American Institute of CPAs

N. C. Association of CPAs

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*

Independent Auditor's Report

To the Honorable Mayor and
Board of Town Commissioners
Town of Fairmont, North Carolina

We have audited, 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, the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Fairmont, North Carolina, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprises the Town of Fairmont's basic financial statements and have issued our report thereon dated September 30, 2013. The financial statements of the Fairmont ABC Board were not audited in accordance with *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of Fairmont's internal control over financial reporting 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 of Fairmont's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider significant deficiencies. 2013-01.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Fairmont's financial statements are free of 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 2013-01.

Town of Fairmont's Response to Findings

The Town of Fairmont's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Town's response was not subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion in it.

Purpose of this Report

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

A handwritten signature in black ink that reads "S. Peter Douglas & Associates, LLP". The signature is written in a cursive style.

Lumberton, North Carolina
September 30, 2013

Town of Fairmont, North Carolina
For the Year Ended June 30, 2013

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

Finding 2013-01

The Town is not in compliance with N.C.G.S. 159-28(b) in connection with expenditures over appropriated, budgeted amounts in two departments

Description of Condition

The Town experienced two instances of expenditures over appropriated, budgeted amounts in two departments during the fiscal year ended June 30, 2013.

Cause of condition

The cause was essentially twofold. One, an asset account in the General Fund, connected to employee health insurance, was not routinely and properly relieved and resulted in a debit balance of \$8,616.87 which had to be expensed (the Town's portion) via an adjusting journal entry, at the request of the Finance Officer by the independent accountant after year end. The second instance concerned an inventory adjustment in the Water & Sewer Fund in the amount of \$8,048.22, which corresponds to the difference in cost of inventory on hand at June 30, 2012 and June 30, 2013. Again, at the request of the Finance Officer, the independent accountant adjusted the inventory account downwards via journal entry after year end.

Effect of condition

The Finance Officer, who normally does a great job in connection with the budget process, was at a distinct disadvantage when preparing the amended budget, immediately before year end.

Recommendation

Both the Board and Finance Officer were informed of the the aforementioned conditions, which could be resolved in the first instance by routinely crediting the asset account at month end via a routine recurring internal journal entry, either manually or automatically, and debiting the appropriate expense account(s). In the second instance, the Finance Officer should have a better idea of the cost of inventory on hand by having it counted and extended at cost, defining any reduction in same, prior to preparation of the amended budget.

The Town's response

Essentially agrees with the foregoing.

Auditor's Remarks

We appreciate the Town's efforts and commitment in resolving this finding and thank the Town for its diligent efforts in this matter and its extreme co-operation and assistance during the audit process.

Applicable Laws and Regulations

Noted above.