

Town of Fairmont, North Carolina

Audited Financial Statements

**For the Year Ended
June 30, 2017**

Town of Fairmont, North Carolina

Audited Financial Statements

For the Year Ended June 30, 2017

Charles Townsend, Mayor

Board of Town Commissioners

Terry Evans

Casandra Gaddy

Charles Kemp

Monte McCallum

Jeffrey J. McCree

Felecia McLean-Kesler

Katrina Tatum, Town Manager

Linda Vause, Finance Officer

Jenny Larson, Town Clerk

Town of Fairmont, North Carolina
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Financial Section

S. Preston Douglas & Associates, LLP

CERTIFIED PUBLIC ACCOUNTANTS

MEMBERS

American Institute of CPAs

N. C. Association of CPAs

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, and the aggregate remaining fund information of the Town of Fairmont, North Carolina, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental 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 Town of Fairmont, North Carolina as of June 30, 2017, 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 principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management’s Discussion and Analysis on pages 3 through 9, and the Other Postemployment Benefits’ Schedules of Funding Progress and Schedules of Employer Contributions, on page 43, respectively, the Local Government Employee’s Retirement System’s Schedules of the Proportionate Share of the Net Pension Liability and Contributions, on pages 44 and 45 respectively, and the Law Enforcement Officers’ Special Separation Allowance schedules of the Changes in Total Pension Liability and Total Pension Liability as a Percentage of Covered Payroll on pages 46 and 47 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 an 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, other schedules, and Schedule of Expenditures of Federal and State Awards, as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and the State Single Audit Implementation Act, 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, other schedules, and the Schedule of Expenditures of Federal and State Awards 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, other schedules, and the Schedule of Expenditures of Federal and State Awards, 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 7, 2017 on 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 purpose 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 7, 2017

Town of Fairmont, North Carolina
Management's Discussion and Analysis
June 30, 2017

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, 2017. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

Financial Highlights

The assets of the Town of Fairmont exceeded its liabilities at the close of the fiscal year by \$7,078,513.

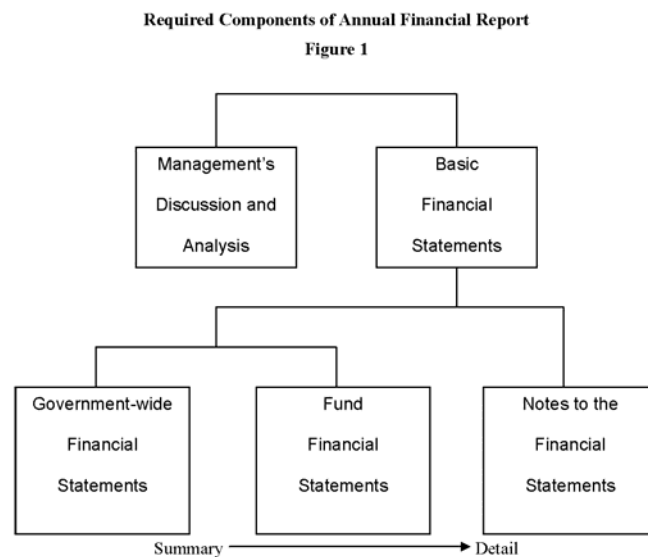
The government's total net position increased in the amount of \$90,674.

As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$775,182. Approximately 67.58% of this total amount, or \$523,849, 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 \$523,849 or 22.07% 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.



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 (continued)
June 30, 2017

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 the 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 is 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 (continued)
June 30, 2017

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 has one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town uses the enterprise fund to account for its water and sewer activity. This fund is the same as those functions show in the business-type activities in the Statement of Net Position and the Statement of Activities.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 19-42 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the Town's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 43.

Interdependence with Other Entities. The Town depends on financial resources flowing from, or associated with, both the federal government and the State of North Carolina. Because of this dependency, The Town is subject to changes in specific flows of intergovernmental revenues based on modifications to federal and State laws and federal and State appropriations. It is also subject to changes in investment earnings and asset values associated with U.S. Treasury Securities because of actions by foreign governments and other holders of publicly held U.S. Treasury Securities.

Government-wide Financial Analysis

The Town of Fairmont's Net Position

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 1,184,783	\$ 910,585	\$ 372,834	\$ 277,611	\$ 1,557,617	\$ 1,188,196
Non-current assets	757,171	1,710,823	8,539,771	8,650,646	9,296,942	10,361,469
Total assets	1,941,954	2,621,408	8,912,605	8,928,257	10,854,559	11,549,665
Deferred Outflows of Resources	165,557	39,522	55,160	13,819	220,717	53,341
Current liabilities	155,898	42,221	210,718	264,719	366,616	306,940
Non-current liabilities	817,290	524,609	2,774,884	2,906,504	3,592,174	3,431,113
Total liabilities	973,188	566,830	2,985,602	3,171,223	3,958,790	3,738,053
Deferred Inflows of Resources	29,085	45,324	8,888	15,925	37,973	61,249
Net position						
Net investment in capital assets	757,171	800,238	5,789,271	5,773,872	6,546,442	6,574,110
Restricted	251,333	288,772	-	-	251,333	288,772
Unrestricted	96,734	49,181	184,004	134,503	280,738	183,684
Total net position	\$ 1,105,238	\$ 1,138,191	\$ 5,973,275	\$ 5,908,375	\$ 7,078,513	\$ 7,046,566

Town of Fairmont, North Carolina
Management's Discussion and Analysis (continued)
June 30, 2017

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The assets and deferred outflows of the Town exceeded liabilities and deferred inflows by \$7,078,513 at the close of the current fiscal year. By far the largest portion of the Town's net position, 92.48%, 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, \$251,333, represents the Town's resources that are subject to external restrictions on how they may be used. The remaining balance, \$280,738, is unrestricted.

Town of Fairmont's Changes in Net Position

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues:						
Program revenues						
Charges for services	\$ 234,866	\$ 241,728	\$ 1,226,704	\$ 1,216,149	\$ 1,461,570	\$ 1,457,877
Operating grants and contributions	509,445	103,843	198,009	-	707,454	103,843
Capital grants and contributions	-	-	156,075	27,000	156,075	27,000
General revenues						
Property taxes	879,942	850,175	-	-	879,942	850,175
Other taxes	165	735,889	-	-	165	735,889
Unrestricted revenues	822,051	35,906	-	-	822,051	35,906
Other	94,097	36,938	-	-	94,097	36,938
Total revenues	2,540,566	2,004,479	1,580,788	1,243,149	4,121,354	3,247,628
Expenses:						
General government	761,536	513,066	-	-	761,536	513,066
Public safety	778,115	830,042	-	-	778,115	830,042
Transportation	525,027	254,580	-	-	525,027	254,580
Environmental protection	303,935	214,286	-	-	303,935	214,286
Economic development	146,179	141,271	-	-	146,179	141,271
Interest on long-term debt	-	640	-	-	-	640
Water and sewer	-	-	1,515,888	1,276,257	1,515,888	1,276,257
Total expenses	2,514,792	1,953,885	1,515,888	1,276,257	4,030,680	3,230,142
Change in net position	25,774	50,594	64,900	(33,108)	90,674	17,486
Net position, beginning	1,138,191	1,050,506	5,908,375	5,978,574	7,046,566	7,029,080
Restatement	(58,727)	37,091	-	(37,091)	(58,727)	-
Net position, beginning, restated	1,079,464	1,087,597	5,908,375	5,941,483	6,987,839	7,029,080
Net position, ending	\$ 1,105,238	\$ 1,138,191	\$ 5,973,275	\$ 5,908,375	\$ 7,078,513	\$ 7,046,566

Town of Fairmont, North Carolina
Management's Discussion and Analysis (continued)
June 30, 2017

Governmental activities. Governmental activities increased the Town's net position by \$25,774. The increase in net position was primarily due to an increase in revenues and control of expenditures compared to the prior year. Ad Valorem taxes were the largest revenue contributor for the governmental funds with 34.64% of total revenues. Unrestricted intergovernmental revenues were the next largest at 32.36%.

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 increased the Town's net position by \$64,900. Key elements of this increase are as follows:

- User fees increased compared to the prior year and totaled \$1,226,704.
- Capital contributions increased compared to the prior year and totaled \$156,075.

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.

At the end of the current fiscal year, the Town's governmental funds reported a combined fund balance of \$775,182. Of this total amount, \$523,849 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 chief operating fund of the Town of Fairmont. At the end of the fiscal year, unreserved fund balance for the general fund was \$523,849 with a total fund balance of \$711,744. 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 22.07% of total General Fund expenditures.

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: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as federal and State grants; and 3) increases in appropriations that become necessary to maintain services.

Proprietary Funds. The Town of Fairmont's proprietary fund provides the same type of information found in the government-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 \$184,004. Other factors concerning this fund have been discussed in the Town's business-type activities.

Town of Fairmont, North Carolina
Management's Discussion and Analysis (continued)
June 30, 2017

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, 2017, totals \$9,296,942 (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		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
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	701,353	677,325	634,555	613,393	1,335,908	1,290,718
Vehicles	1,007,244	989,531	-	-	1,007,244	989,531
Construction in progress	-	-	1,056,662	900,587	1,056,662	900,587
Water & Sewer infrastructure	-	-	13,098,104	13,098,104	13,098,104	13,098,104
Total depreciable assets	3,862,198	3,820,457	14,802,076	14,624,839	18,664,274	18,445,296
Less - accumulated depreciation	3,266,073	3,181,265	6,269,396	5,981,284	9,535,469	9,162,549
Total depreciable assets, net	596,125	639,192	8,532,680	8,643,555	9,128,805	9,282,747
Total capital assets, net	\$757,171	\$800,238	\$8,539,771	\$8,650,646	\$9,296,942	\$9,450,884

Additional information on the Town's capital assets can be found in Note 3, beginning on page 26.

**Town of Fairmont, North Carolina
Management's Discussion and Analysis (continued)
June 30, 2017**

Long-term debt. As of June 30, 2017, the Town of Fairmont had total bonded debt outstanding of \$2,750,500.

Town of Fairmont's Outstanding Debt

	Governmental		Business-type		Total	
	Activities		Activities			
	2017	2016	2017	2016	2017	2016
General obligation bonds	\$ -	\$ -	\$ 2,750,500	\$ 2,814,000	\$ 2,750,500	\$ 2,814,000
Installment debt	-	-	-	62,774	-	62,774
Compensated absences	62,453	62,453	29,730	29,730	92,183	92,183
OPEB	502,808	417,886	-	-	502,808	417,886
Pension related debt (LGERS)	184,961	44,270	61,654	15,554	246,615	59,824
Pension related debt (LEO)	67,068	58,727	-	-	67,068	58,727
Total	\$ 817,290	\$ 583,336	\$ 2,841,884	\$ 2,922,058	\$ 3,659,174	\$ 3,505,394

Town of Fairmont's Outstanding Debt

The Town of Fairmont's total debt increased by \$153,780 (4.20%) during the past fiscal year primarily due to an increase in the OPEB and pension related debt.

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 \$6,200,700 (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 Note 3, beginning on page 38.

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for the Town and surrounding area is 6.2% at June 30, 2017, which is a decrease from a rate of 7.4% a year ago. This comparison is higher than the state's rate of 4.2% and the national rate of 4.4 %.

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.

Basic Financial Statements

Town of Fairmont, North Carolina
Statement of Net Position
June 30, 2017

	<u>Primary Government</u>			Fairmont
	<u>Governmental</u>	<u>Business-type</u>		ABC
	<u>Activities</u>	<u>Activities</u>	<u>Total</u>	<u>Board</u>
<u>ASSETS</u>				
Current assets:				
Cash and cash equivalents	\$ 679,747	\$ 9,157	\$ 688,904	\$ 110,703
Taxes receivable (net)	253,703	-	253,703	-
Accounts receivable (net)	45,964	224,366	270,330	-
Due from other governments	106,522	100,000	206,522	-
Inventories	-	39,311	39,311	102,132
Prepaid items	-	-	-	3,736
Restricted cash and cash equivalents	98,847	-	98,847	35,984
Total current assets	1,184,783	372,834	1,557,617	252,555
Non-current assets:				
Capital assets (Note 3)				
Land	161,046	7,091	168,137	26,500
Other capital assets, net of depreciation	596,125	8,532,680	9,128,805	9,243
Total capital assets	757,171	8,539,771	9,296,942	35,743
Total assets	1,941,954	8,912,605	10,854,559	288,298
<u>DEFERRED OUTFLOWS OF RESOURCES</u>				
Pension deferrals	165,557	55,160	220,717	-
Total deferred outflows of resources	165,557	55,160	220,717	-
<u>LIABILITIES</u>				
Current liabilities:				
Accounts payable and accrued expenses	155,898	53,420	209,318	94,987
Current portion of long-term liabilities	-	67,000	67,000	-
Deposits	-	90,298	90,298	-
Total current liabilities	155,898	210,718	366,616	94,987
Long-term liabilities:				
Net pension liability	184,961	61,654	246,615	-
Total pension liability	67,068	-	67,068	-
Compensated absences	62,453	29,730	92,183	-
Due in more than one year	502,808	2,683,500	3,186,308	-
Total liabilities	973,188	2,985,602	3,958,790	94,987
<u>DEFERRED INFLOWS OF RESOURCES</u>				
Pension deferrals	29,085	8,888	37,973	-
Total deferred inflows of resources	29,085	8,888	37,973	-
<u>NET POSITION</u>				
Net investment in capital assets	757,171	5,789,271	6,546,442	35,743
Restricted for:				
Stabilization by State Statute	152,486	-	152,486	-
Other functions	98,847	-	98,847	20,366
Unrestricted	96,734	184,004	280,738	137,202
Total net position	\$ 1,105,238	\$ 5,973,275	\$ 7,078,513	\$ 193,311

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

Town of Fairmont, North Carolina
Statement of Activities
For the Year Ended June 30, 2017

<u>Functions/Programs</u>	<u>Program Revenues</u>				<u>Net Revenue (Expense) and Changes in Net Position</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Capital Grants and Contributions</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Primary Government Business-type Activities</u>	<u>Total</u>	<u>Fairmont ABC Board</u>
Primary Government								
Governmental activities:								
General government	\$ 761,536	\$ 2,473	\$ -	\$ 414,439	\$ (344,624)	\$ -	\$ (344,624)	\$ -
Public safety	778,115	-	-	-	(778,115)	-	(778,115)	-
Transportation	525,027	-	-	88,981	(436,046)	-	(436,046)	-
Environmental protection	303,935	232,393	-	-	(71,542)	-	(71,542)	-
Economic and community dev.	146,179	-	-	6,025	(140,154)	-	(140,154)	-
Interest on long-term debt	-	-	-	-	-	-	-	-
Total governmental activities	2,514,792	234,866	-	509,445	(1,770,481)	-	(1,770,481)	-
Business-type activities:								
Water and sewer	1,515,888	1,226,704	156,075	198,009	-	64,900	64,900	-
Total business-type activities	1,515,888	1,226,704	156,075	198,009	-	64,900	64,900	-
Total primary government	\$ 4,030,680	\$ 1,461,570	\$ 156,075	\$ 707,454	(1,770,481)	64,900	(1,705,581)	-
Component unit								
Fairmont ABC Board	\$ 686,803	\$ 680,711	\$ -	\$ -	-	-	-	(6,092)
Total component unit	\$ 686,803	\$ 680,711	\$ -	\$ -	-	-	-	(6,092)
General revenues:								
Ad valorem taxes					879,942	-	879,942	-
Other taxes and licenses					165	-	165	-
Grants and contributions not restricted to specific programs					822,051	-	822,051	-
Investment earnings					73	-	73	30
Miscellaneous					94,024	-	94,024	-
Transfers in (out)					-	-	-	-
Total general revenues and transfers					1,796,255	-	1,796,255	30
Change in net position					25,774	64,900	90,674	(6,062)
Net position, beginning, previously reported					1,138,191	5,908,375	7,046,566	199,373
<i>Restatement</i>					<i>(58,727)</i>	<i>-</i>	<i>(58,727)</i>	<i>-</i>
Net position, beginning, restated					1,079,464	5,908,375	6,987,839	199,373
Net position, ending					\$ 1,105,238	\$ 5,973,275	\$ 7,078,513	\$ 193,311

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

Town of Fairmont, North Carolina
Balance Sheet
Governmental Funds
June 30, 2017

	Major Fund General	Nonmajor Funds	Total Governmental Funds
<u>ASSETS</u>			
Cash and cash equivalents	\$ 679,747	\$ -	\$ 679,747
Restricted cash	35,409	63,438	98,847
Taxes receivable - net	253,703	-	253,703
Due from other governments	106,522	-	106,522
Accounts receivable - net	45,964	-	45,964
Total assets	1,121,345	63,438	1,184,783
<u>LIABILITIES</u>			
Accounts payable and accrued liabilities	155,898	-	155,898
Total liabilities	155,898	-	155,898
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Property taxes receivable	253,703	-	253,703
Total deferred inflows of resources	253,703	-	253,703
<u>FUND BALANCES</u>			
Restricted			
Stabilization by State Statute	152,486	-	152,486
Streets	29,959	-	29,959
Public Safety	5,450	-	5,450
Economic Development	-	63,438	63,438
Unassigned	523,849	-	523,849
Total fund balances	711,744	63,438	775,182
Total liabilities, deferred inflows of resources, and fund balances	\$ 1,121,345	\$ 63,438	
Amounts reported for governmental activities in the Statement of Net Position (Page 10) are different because:			
Total Fund Balance, Governmental Funds			775,182
Capital assets used in governmental activities are not financial resources and therefore not reported in the funds.			
Gross capital assets at historical cost		\$ 4,023,244	
Accumulated depreciation		(3,266,073)	757,171
Deferred outflows of resources related to pensions are not reported in the funds			
			165,557
Earned revenues considered deferred inflows of resources in fund statements			
			253,703
Long-term liabilities used in governmental activities are not financial uses and therefore are not reported in the funds			
Gross long-term debt, beginning		\$ (480,339)	
Long-term debt included as net position below (includes the addition of long-term debt and principal payments during the year.)		(84,922)	
Net pension liability		(184,961)	
Total pension liability		(67,068)	(817,290)
Deferred inflows of resources related to pensions are not reported in the funds			
			(29,085)
Net position of governmental activities			\$ 1,105,238

The notes to the 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 Year Ended June 30, 2017

	<u>Major Fund General</u>	<u>Nonmajor Funds</u>	<u>Total Governmental Funds</u>
Revenues			
Ad valorem taxes	\$ 864,357	\$ -	\$ 864,357
Other taxes and licenses	165	-	165
Unrestricted intergovernmental	820,278	-	820,278
Restricted intergovernmental	507,666	6,025	513,691
Permits and fees	1,168	-	1,168
Sales and services	232,393	-	232,393
Investment earnings	46	27	73
Miscellaneous	92,856	-	92,856
Total revenues	<u>2,518,929</u>	<u>6,052</u>	<u>2,524,981</u>
Expenditures			
Current:			
General government	634,948	-	634,948
Public safety	738,296	-	738,296
Transportation	553,576	-	553,576
Environmental protection	307,046	-	307,046
Economic and community development	139,811	6,368	146,179
Debt service			
Principal repayment	-	-	-
Interest	-	-	-
Total expenditures	<u>2,373,677</u>	<u>6,368</u>	<u>2,380,045</u>
Excess (deficiency) of revenues over expenditures	<u>145,252</u>	<u>(316)</u>	<u>144,936</u>
Other financing sources (uses)			
Transfer in	-	-	-
Loan proceeds	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	145,252	(316)	144,936
Fund balances, beginning	<u>566,492</u>	<u>63,754</u>	<u>630,246</u>
Fund balances, ending	<u>\$ 711,744</u>	<u>\$ 63,438</u>	<u>\$ 775,182</u>

The notes to the 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 Balance
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2017

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

Net change in fund balances - total governmental funds	\$	144,936
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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	\$ 41,741	
Depreciation expense for governmental assets	<u>(84,808)</u>	(43,067)

Contributions to the pension plan in the current fiscal year are not included in the Statement of Activities		47,152
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Change in unavailable revenue for tax revenues		15,585
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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.

This amount is the net effect of these differences in the treatment of long-term debt and related items.

New long-term debt issued	-	
Principal payments on long-term debt	<u>-</u>	-

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	-	
Pension expense	(53,910)	
Other postemployment benefits	<u>(84,922)</u>	<u>(138,832)</u>

Total change in net position of governmental activities	\$	<u>25,774</u>
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Town of Fairmont, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual
General Fund
For the Year Ended June 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:				
Ad valorem taxes	\$ 825,000	\$ 822,158	\$ 864,357	\$ 42,199
Other taxes and licenses	-	165	165	-
Unrestricted intergovernmental	760,180	814,022	820,278	6,256
Restricted intergovernmental	94,450	570,615	507,666	(62,949)
Permits and fees	1,950	1,090	1,168	78
Sales and services	235,250	225,268	232,393	7,125
Investment earnings	-	45	46	1
Miscellaneous	23,700	27,939	92,856	64,917
Total revenues	<u>1,940,530</u>	<u>2,461,302</u>	<u>2,518,929</u>	<u>57,627</u>
Expenditures:				
General government	464,353	697,543	634,948	62,595
Public safety	815,525	756,649	738,296	18,353
Transportation	300,700	567,729	553,576	14,153
Environmental protection	235,950	326,531	307,046	19,485
Economic and community development	124,002	160,517	139,811	20,706
Debt service				
Principal repayment	-	-	-	-
Interest	-	-	-	-
Total expenditures	<u>1,940,530</u>	<u>2,508,969</u>	<u>2,373,677</u>	<u>135,292</u>
Revenues under expenditures	<u>-</u>	<u>(47,667)</u>	<u>145,252</u>	<u>192,919</u>
Other financing sources (uses):				
Transfers in	-	-	-	-
Loan proceeds	-	-	-	-
Fund balance appropriated	-	47,667	-	(47,667)
Total other financing sources (uses)	<u>-</u>	<u>47,667</u>	<u>-</u>	<u>(47,667)</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>145,252</u>	<u>\$ 145,252</u>
Fund balance, beginning			<u>566,492</u>	
Fund balance, ending			<u>\$ 711,744</u>	

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

Town of Fairmont, North Carolina
Statement of Fund Net Position
Proprietary Fund
June 30, 2017

	Enterprise Fund
	Water and Sewer Fund
<u>ASSETS</u>	
Current assets:	
Cash and cash equivalents	\$ 9,157
Accounts receivable - net	224,366
Prepaid assets	-
Due from other governments	100,000
Inventories	39,311
Total current assets	372,834
Non-current assets:	
Capital assets:	
Land	7,091
Other capital assets, net of depreciation	8,532,680
Total capital assets	8,539,771
Total assets	8,912,605
<u>DEFERRED OUTFLOWS OF RESOURCES</u>	
Pension deferrals	55,160
Total deferred outflows of resources	55,160
<u>LIABILITIES</u>	
Current liabilities:	
Accounts payable and accrued expenses	53,420
Current portion of long-term liabilities	67,000
Meter Deposits	90,298
Total current liabilities	210,718
Noncurrent liabilities:	
Net pension liability	61,654
Compensated absences	29,730
Noncurrent portion of long-term debt	2,683,500
Total noncurrent liabilities	2,774,884
Total liabilities	2,985,602
<u>DEFERRED INFLOWS OF RESOURCES</u>	
Pension deferrals	8,888
Total deferred inflows of resources	8,888
<u>NET POSITION</u>	
Net investment in capital assets	5,789,271
Unrestricted	184,004
Total net position	\$ 5,973,275

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

Town of Fairmont, North Carolina
Statement of Revenue, Expenses, and Changes in Fund Net Position
Proprietary Fund
For the Year Ended June 30, 2017

	Enterprise Fund
	Water and Sewer Fund
Operating revenues	
Charges for services	\$ 1,226,704
Other operating revenues	-
Total operating revenues	1,226,704
 Operating expenses	
Administration	214,987
Water treatment	108,206
Water maintenance	110,182
Sewer treatment	380,069
Sewer maintenance	230,560
Sewer contract operations and maintenance	27,216
Non-departmental	38,183
Depreciation	288,112
Total operating expenses	1,397,515
 Operating income (loss)	(170,811)
 Non-operating revenues (expenses)	
Interest expense	(118,373)
Grants	198,009
Total non-operating revenues (expenses)	79,636
 Income (loss) before contributions and transfers	(91,175)
 Transfers in (out)	-
Capital contributions	156,075
Total	156,075
 Change in net position	64,900
 Total net position, beginning	5,908,375
Total net position, ending	\$ 5,973,275

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

Town of Fairmont, North Carolina
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2017

	<u>Enterprise Fund</u> <u>Water and Sewer Fund</u>
Cash flows from operating activities	
Cash received from customers	\$ 1,103,845
Cash paid for goods and services	(838,872)
Cash paid to employees	(331,312)
Increase (decrease) in meter deposits	1,959
Net cash provided (used) by operating activities	<u>(64,380)</u>
Cash flows from non-capital financing activities	
FEMA grant income	198,009
Net cash provided (used) by non-capital financing activities	<u>198,009</u>
Cash flows from capital and related financing activities	
Acquisition and construction of assets	(177,237)
Capital contributions and grants	156,075
Payment of debt-related interest - all	(118,373)
Debt principal repayment	(126,274)
Net cash provided (used) by capital and related financing activities	<u>(265,809)</u>
Cash flows from investing activities	
Interest on investments	-
Net cash provided (used) by investing activities	<u>-</u>
Net increase (decrease) in cash	(132,180)
Cash and cash equivalents - Beginning of year	<u>141,337</u>
Cash and cash equivalents - End of year	<u>\$ 9,157</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	<u>\$ (170,811)</u>
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities -	
Depreciation	288,112
Change in assets and liabilities:	
(Increase) decrease in accounts receivable	(222,859)
(Increase) decrease in inventory	(4,544)
Increase in deferred outflows of resources - pensions	(41,341)
Increase in net pension liability	46,100
Decrease in deferred inflows of resources - pensions	(7,037)
Increase (decrease) in accounts payable and accrued liabilities	46,041
Increase (decrease) in meter deposits	1,959
Total adjustments	<u>106,431</u>
Net cash provided (used) by operating activities	<u>\$ (64,380)</u>

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

Town of Fairmont, North Carolina
Notes to the Financial Statements
June 30, 2017

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

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 the Financial Statements (continued)
June 30, 2017

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 for property other than motor vehicles are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of September 1, 2013, 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, the State of North Carolina is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts.

Town of Fairmont, North Carolina
Notes to the Financial Statements (continued)
June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C - Measurement Focus and Basis of Accounting (continued)

Property taxes are due when vehicles are registered. The billed taxes are applicable to the fiscal year in which they are received. Uncollected taxes that were billed in periods prior to September 1, 2013 and for limited registration plates are shown as a receivable in these financial statements and are offset by deferred inflows of resources.

Sales taxes and certain intergovernmental revenues, such as the utilities franchise tax, collected and held by the State at year-end on behalf of the Town are recognized as revenue. Sales taxes are considered a shared revenue for the Town of Fairmont because the tax is levied by Robeson County and then remitted to and distributed by the State. Most 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 inflows of resources.

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.

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).

Town of Fairmont, North Carolina
Notes to the Financial Statements (continued)
June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Deposits and Investments (continued)

The Town's and the ABC Board's investments are reported at fair value. Non-participating interest earning contracts are accounted for at cost. The NCCMT Government Portfolio, a SEC-registered (2 a-7) external investment pool, is measured at amortized cost, 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.

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

Money in the Rural Business Enterprise Grant Fund and Cemetery Fund are classified as restricted assets because its use is restricted to those funds. 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. Restricted cash at June 30, 2017 in the Governmental Activities was \$98,847.

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, 2016. 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. 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 received prior to June 30, 2015 are recorded at their estimated fair market value at the date of donation. Donated capital assets received after June 30, 2015 are recorded at acquisition value. 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.

Town of Fairmont, North Carolina
Notes to the Financial Statements (continued)
June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Capital Assets (continued)

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 one item that meet this criterion – pension related deferrals. 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 two items that meet the criteria for this category – property taxes receivable and pension related deferrals.

Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts, 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.

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.

Town of Fairmont, North Carolina
Notes to the Financial Statements (continued)
June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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 represents 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.

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.

Defined Benefit Cost-Sharing Plans

For purposes of measuring the net pension asset, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Local Governmental Employees' Retirement System (LGERS) and additions to/deductions from LGERS' fiduciary net position have been determined on the same basis as they are reported by LGERS. For this purpose, plan member contributions are recognized in the period in which the contributions are due. The Town of Fairmont's employer contributions are recognized when due and the Town of Fairmont has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of LGERS. Investments are reported at fair value.

Town of Fairmont, North Carolina
Notes to the Financial Statements (continued)
June 30, 2017

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

1. Noncompliance with North Carolina General Statutes

There are no instances of noncompliance with North Carolina General Statutes.

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, 2017, the Town's deposits had a carrying amount of \$775,592, and a bank balance of \$817,165. Of the bank balance, \$250,000 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method. At June 30, 2017, the Town's petty cash fund totaled \$850.

At June 30, 2017, the carrying amount of deposits for the ABC Board was \$146,687, and the bank balance was \$147,434. Federal Deposit Insurance covered all of the bank balance.

Investments

At June 30, 2017, the Town of Fairmont had \$12,159 invested with the North Carolina Capital Management Trust's Governmental Portfolio which carried a credit rating of AAAM by Standard and Poor's. The Town has no policy regarding credit risk.

Receivables – Allowances for Doubtful Accounts

The amounts presented in the Balance Sheet and the Statement of Net Position for the year ended June 30, 2017 are net of the following allowances for doubtful accounts: General Fund – Taxes receivable: \$54,453.

Town of Fairmont, North Carolina
Notes to the Financial Statements (continued)
June 30, 2017

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

A – Assets (continued)

Capital Assets

Capital asset activity for the Primary Government for the year ended June 30, 2017, 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	677,325	24,028	-	701,353
Vehicles/motorized equipment	989,531	17,713	-	1,007,244
	<u>\$ 3,981,503</u>	<u>\$ 41,741</u>	<u>\$ -</u>	<u>\$ 4,023,244</u>
Less accumulated depreciation for:				
Buildings and infrastructure	\$ 1,650,393	\$ 15,107	\$ -	\$ 1,665,500
Equipment	625,389	21,284	-	646,673
Vehicles/motorized equipment	905,483	48,417	-	953,900
	<u>3,181,265</u>	<u>\$ 84,808</u>	<u>\$ -</u>	<u>3,266,073</u>
Governmental activities				
capital assets, net	<u>\$ 800,238</u>			<u>\$ 757,171</u>

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

General Government	\$ 12,031
Public Safety	67,915
Transportation	2,973
Environmental Protection	1,889
	<u>1,889</u>
Total depreciation expense	<u>\$ 84,808</u>

Town of Fairmont, North Carolina
Notes to the Financial Statements (continued)
June 30, 2017

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

A – Assets (continued)

Capital Assets (continued)

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	13,098,104	873,589	-	13,971,693
Equipment	613,393	21,162	-	634,555
Construction in progress	900,587	156,075	873,589	183,073
	<u>\$ 14,631,930</u>	<u>\$1,050,826</u>	<u>\$ 873,589</u>	<u>\$ 14,809,167</u>
Less accumulated depreciation for:				
Public works building	\$ 12,758	\$ -	\$ -	\$ 12,758
Water and sewer system	5,380,008	258,408	-	5,638,416
Equipment	588,518	29,704	-	618,222
	<u>5,981,284</u>	<u>\$ 288,112</u>	<u>\$ -</u>	<u>6,269,396</u>
Business-type activities				
capital assets, net				
	<u>\$ 8,650,646</u>			<u>\$ 8,539,771</u>

Activity for the ABC Board for the year ending June 30, 2017, was as follows:

ABC Board	Beginning			Ending
Capital assets	Balances	Increases	Decreases	Balances
Land (non-depreciable)	\$ 26,500	\$ -	\$ -	\$ 26,500
Buildings	101,945	-	-	101,945
Parking lot improvements	10,875	-	-	10,875
Equipment	74,247	-	-	74,247
	<u>\$ 213,567</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 213,567</u>
Less accumulated depreciation for:				
Buildings	\$ 101,945	\$ -	\$ -	\$ 101,945
Parking lot improvements	1,088	544	-	1,632
Equipment	74,247	-	-	74,247
	<u>177,280</u>	<u>\$ 544</u>	<u>\$ -</u>	<u>177,824</u>
ABC Board				
capital assets, net				
	<u>\$ 36,287</u>			<u>\$ 35,743</u>

Town of Fairmont, North Carolina
Notes to the Financial Statements (continued)
June 30, 2017

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B – Liabilities (continued)

Pension Plan and Postemployment Obligations

Local Governmental Employees' Retirement System

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

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

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

Contributions. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. Town of Fairmont employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Town of Fairmont's contractually required contribution rate for the year ended June 30, 2017, was 7.01% of compensation for law enforcement officers and 6.46% for general employees, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Town of Fairmont were \$62,845 for the year ended June 30, 2017.

Town of Fairmont, North Carolina
Notes to the Financial Statements (continued)
June 30, 2017

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B – Liabilities (continued)

Pension Plan and Postemployment Obligations (continued)

Local Governmental Employees' Retirement System (continued)

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

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

At June 30, 2017, the Town reported a liability of \$246,615 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015. The total pension liability was then rolled forward to the measurement date of June 30, 2016 utilizing update procedures incorporating the actuarial assumptions. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2016, the Town's proportion was 0.01162%, which was a decrease of 0.00171% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the Town recognized pension expense of \$56,563. At June 30, 2017, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 4,633	\$ 8,642
Changes of assumptions	16,891	-
Net difference between projected and actual earnings on pension plan investments	136,348	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	-	26,909
Town contributions subsequent to the measurement date	62,845	-
Total	\$ 220,717	\$ 35,551

\$62,845 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as an decrease of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:		
2018	\$	11,974
2019		12,050
2020		60,438
2021		37,858
2022		-
Thereafter		-
	\$	122,320

Town of Fairmont, North Carolina
Notes to the Financial Statements (continued)
June 30, 2017

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B – Liabilities (continued)

Pension Plan and Postemployment Obligations (continued)

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

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

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

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

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

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

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2016 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	29.0%	1.4%
Global Equity	42.0%	5.3%
Real Estate	8.0%	4.3%
Alternatives	8.0%	8.9%
Credit	7.0%	6.0%
Inflation Protection	6.0%	4.0%
Total	100.0%	

Town of Fairmont, North Carolina
Notes to the Financial Statements (continued)
June 30, 2017

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B – Liabilities (continued)

Pension Plan and Postemployment Obligations (continued)

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

The information above is based on 30 year expectations developed with the consulting actuary for the 2016 asset liability and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.00%. All rates of return and inflation are annualized.

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

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

	1% Decrease (6.25%)	Discount Rate (7.25%)	1% Increase (8.25%)
Town's proportionate share of the net pension liability (asset)	\$ 585,333	\$ 246,615	\$ (36,307)

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

Town of Fairmont, North Carolina
Notes to the Financial Statements (continued)
June 30, 2017

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B – Liabilities (continued)

Pension Plan and Postemployment Obligations (continued)

Law Enforcement Officers Special Separation Allowance

1. 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 under the age of 62 who have completed at least 30 years of creditable service or have attained 55 years of age and have completed five or more years of creditable service. The Separation Allowance is equal to 0.85 percent of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

All full-time County law enforcement officers are covered by the Separation Allowance. At December 31, 2015, the Separation Allowance’s membership consisted of:

Retirees receiving benefits	-
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	11
Total	11

2. 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. Benefits are recognized when due and payable in accordance with the terms of the plan.

The Separation Allowance has no assets accumulated in a trust that meets the criteria which are outlined in GASB Statement 73.

3. Actuarial Assumptions

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

Inflation	3.0 percent
Salary increases	3.50 to 7.35 percent, including inflation and productivity factor
Discount rate	3.71 percent

The discount rate is based on the yield of the S&P Municipal Bond 20 Year High Grade Rate Index as of December 31, 2016.

Mortality rates are based on the RP-2000 Mortality tables with adjustments for mortality improvements based on Scale AA.

Town of Fairmont, North Carolina
Notes to the Financial Statements (continued)
June 30, 2017

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B – Liabilities (continued)

Pension Plan and Postemployment Obligations (continued)

Law Enforcement Officers Special Separation Allowance (continued)

3. Contributions.

The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the amounts necessary to cover the benefits earned on a pay as you go basis through appropriations made in the General Fund operating budget. There were no contributions made by employees. The Town’s obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. Administration costs of the Separation Allowance are financed through investment earnings.

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

At June 30, 2017, the Town reported a total pension liability of \$67,068. The total pension liability was measured as of December 31, 2016 based on a December 31, 2015 actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2016 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2017, the Town recognized pension expense of \$10,763.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	2,422
County benefit payments and plan administrative expense made subsequent to the measurement date	-	-
Total	\$ -	\$ 2,422

Amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:		
2018	\$	386
2019		386
2020		386
2021		386
2022		386
Thereafter		492
	\$	2,422

Town of Fairmont, North Carolina
Notes to the Financial Statements (continued)
June 30, 2017

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B – Liabilities (continued)

Pension Plan and Postemployment Obligations (continued)

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

Sensitivity of the Town's total pension liability to changes in the discount rate. The following presents the Town's total pension liability calculated using the discount rate of 3.71 percent, as well as what the Town's total pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.71 percent) or 1-percentage-point higher (4.71 percent) than the current rate:

	1% Decrease (2.71%)	Discount Rate (3.71%)	1% Increase (4.71%)
Total pension liability	\$ 77,211	\$ 67,068	\$ 58,173

Schedule of Changes in Total Pension Liability
Law Enforcement Officers' Special Separation Allowance

	2017
Beginning balance	\$ 58,727
Service cost	9,052
Interest on the total pension liability	2,097
Changes of benefit terms	-
Differences between expected and actual experience in the measurement of the total pension liability	-
Changes of assumptions of other inputs	(2,808)
Benefit payments	-
Other changes	-
Ending balance of the total pension liability	\$ 67,068

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

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

Town of Fairmont, North Carolina
Notes to the Financial Statements (continued)
June 30, 2017

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B – Liabilities (continued)

Pension Plan and Postemployment Obligations (continued)

Supplemental Retirement Income Plan for Law Enforcement Officers

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

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. The law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2017, were \$60,462, which consisted of \$40,794 from the Town and \$19,668 from the law enforcement officers.

Deferred Outflows and Inflows of Resources

Deferred outflows of resources at year-end is comprised of pension related deferrals of \$220,717.

Deferred inflows of resources at year-end is comprised of property taxes receivable of \$253,703 and pension deferrals of \$37,973.

Other Postemployment Benefits

According to a Town resolution, the Town provides postemployment 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. For the fiscal year ended June 30, 2017, the Town made payments for postemployment health benefit premiums of \$46,206.

Membership of the Plan consisted of the following at December 31, 2015:

	General Employees	Law Enforcement Officers
Retirees and dependents receiving benefits	5	1
Terminated plan members entitled to, but not yet receiving benefits	-	-
Active plan members	12	10
Total	17	11

Town of Fairmont, North Carolina
Notes to the Financial Statements (continued)
June 30, 2017

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B – Liabilities (continued)

Pension Plan and Postemployment Obligations (continued)

Other Postemployment Benefits (continued)

Funding policy: The Town pays the full cost of the coverage for the healthcare 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 annual required contribution (ARC) rate is 18.61% of annual covered payroll. For the current year the Town contributed \$46,206 or 6.60% of annual covered payroll. The Town purchases insurance from a private carrier for healthcare 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 healthcare benefits:

Annual required contribution	\$	130,381
Interest on net OPEB obligation		16,715
Adjustments to annual required contribution		(15,968)
Annual OPEB cost (expense)		131,128
Contributions made		(46,206)
Increase (decrease) in net OPEB obligation		84,922
Net OPEB obligation, beginning of year		417,886
NET OPEB obligation, end of year	\$	502,808

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for as of June 30, 2017 were as follows:

3 Year Trend Information

Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2017	\$ 131,128	35.20%	\$ 502,808
2016	130,967	31.10%	417,886
2015	64,307	61.32%	327,695

Town of Fairmont, North Carolina
Notes to the Financial Statements (continued)
June 30, 2017

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B – Liabilities (continued)

Pension Plan and Postemployment Obligations (continued)

Other Postemployment Benefits (continued)

Fund Status and Funding Progress. As of December 31, 2015, 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 \$1,866,480. The covered payroll (annual payroll) of active employees covered by the plan was \$700,594 and the ratio of the UAAL to the covered payroll was 266.4%. 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.

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, 2015 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 7.75 to 5.00 percent annually. The investment rate included a 3.00 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, 2017, was 30 years.

As of December 31, 2015, 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.

Town of Fairmont, North Carolina
Notes to the Financial Statements (continued)
June 30, 2017

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B – Liabilities (continued)

Risk Management

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

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. 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

General Obligation Indebtedness

General obligation bonds issued to finance the construction of facilities utilized in the operations of the water and sewer system and 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, 2017, 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%	\$ 996,500
\$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%	1,393,000
\$385,000 – 2014 Water Serial Bonds due in various annual installments through 2053; interest at 2.25%	<u>361,000</u>
Total	<u>\$ 2,750,500</u>

Town of Fairmont, North Carolina
Notes to the Financial Statements (continued)
June 30, 2017

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B – Liabilities (continued)

General Obligation Indebtedness (continued)

Annual debt service requirements to maturity for general obligation bonds, including interest of \$1,706,060 on the Water and Sewer bonds, are as follows:

2002A & 2002B Bonds

<u>Years ending June 30:</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 167,528	\$ 60,000	\$ 107,528
2019	167,327	62,500	104,827
2020	167,015	65,000	102,015
2021	167,090	66,000	101,090
2022	167,030	71,000	96,030
2023-2027	835,754	406,500	429,254
2028-2032	835,987	505,000	330,987
2033-2037	831,229	625,500	205,729
2038-2041	587,400	528,000	59,400
Total	<u>\$ 3,926,360</u>	<u>\$ 2,389,500</u>	<u>\$ 1,536,860</u>

2014 Bonds

<u>Years ending June 30:</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 15,123	\$ 7,000	\$ 8,123
2019	14,965	7,000	7,965
2020	14,808	7,000	7,808
2021	14,650	7,000	7,650
2022	14,493	7,000	7,493
2023-2027	73,965	39,000	34,965
2028-2032	73,420	43,000	30,420
2033-2037	73,358	48,000	25,358
2038-2042	73,665	54,000	19,665
2043-2047	74,275	61,000	13,275
2048-2052	73,165	67,000	6,165
2053	14,313	14,000	313
Total	<u>\$ 530,200</u>	<u>\$ 361,000</u>	<u>\$ 169,200</u>

Town of Fairmont, North Carolina
Notes to the Financial Statements (continued)
June 30, 2017

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B – Liabilities (continued)

At June 30, 2017, 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 \$6,200,700.

Summary of activity - Governmental activities	Beginning Balances	Increases	Decreases	Ending Balance	Current Portion
Compensated absences	\$ 62,453	\$ -	\$ -	\$ 62,453	\$ -
Other postemployment benefits	417,886	84,922	-	502,808	-
Net pension liability (LGERS)	44,270	140,691	-	184,961	-
Total pension liability (LEO)	58,727	8,341	-	67,068	-
Total	<u>\$ 583,336</u>	<u>\$ 233,954</u>	<u>\$ -</u>	<u>\$ 817,290</u>	<u>\$ -</u>
Business-type activities					
Compensated absences	\$ 29,730	\$ -	\$ -	\$ 29,730	\$ -
Net pension liability (LGERS)	15,554	46,100	-	61,654	-
2002 Bonds	2,447,000	-	57,500	2,389,500	60,000
2014 Bonds	367,000	-	6,000	361,000	7,000
NC Department of Commerce	62,774	-	62,774	-	-
Total	<u>\$ 2,922,058</u>	<u>\$ 46,100</u>	<u>\$ 126,274</u>	<u>\$2,841,884</u>	<u>\$ 67,000</u>

Town of Fairmont, North Carolina
Notes to the Financial Statements (continued)
June 30, 2017

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 – FUND BALANCE

The following schedule provides management and citizens with information on the portion of General fund balance that is available for appropriation:

Total fund balance-General Fund	\$ 711,744
Less:	
Stabilization by State Statute	152,486
Streets-Powell Bill	29,959
Public Safety	5,450
Remaining Fund Balance	523,849

Town of Fairmont, North Carolina
Notes to the Financial Statements (continued)
June 30, 2017

NOTE 7 – SUBSEQUENT EVENTS

Subsequent events were evaluated through September 7, 2017, which is the date the financial statements were available to be issued.

NOTE 8 – CHANGE IN ACCOUNTING PRINCIPLES/RESTATEMENT

The Town implemented Governmental Accounting Standards Board (GASB) No. Statement 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*, and *Amendments to Certain Provisions of GASB Statements 67 and 68*, in the fiscal year ending June 30, 2017. The implementation of the statement required the Town to record beginning total pension liability and the effects on net position of benefit payments and administrative expenses paid by the Town to the Law Enforcement Officers' Special Separation Allowance during the measurement period (fiscal year ending December 31, 2016). As a result, net position for the governmental activities decreased \$58,772.

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.
- Schedule of Proportionate Share of Net Pension Liability for Local Government Employees' Retirement System
- Schedule of Contributions to Local Government Employees' Retirement System
- Schedule of Changes in Total Pension Liability
- Schedule of Total Pension Liability as a Percentage of Covered Payroll

**Town of Fairmont, North Carolina
Other Postemployment Benefits
Required Supplementary Information**

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)
12/31/15	\$ -	\$ 1,866,480	\$ 1,866,480	0.00%	\$ 700,594	266.40%
06/30/15	-	618,587	618,587	0.00%	831,379	74.00%
06/30/14	-	736,990	736,990	0.00%	932,110	79.00%

Schedule of Employer Contributions

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2017	\$ 130,381	35.44%
2016	130,181	31.27%
2015	64,307	61.32%

Town of Fairmont, North Carolina
Town of Fairmont's Proportionate Share of Net Pension Liability (Asset)
Required Supplementary Information
Last Four Fiscal Years

Local Government Employees' Retirement System

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Fairmont's proportion of the net pension liability (asset) (%)	0.01162%	0.01333%	0.00015%	0.00017%
Fairmont's proportion of the net pension liability (asset) (\$)	\$ 246,615	\$ 59,824	\$ (87,165)	\$ 208,531
Fairmont's covered-employee payroll	\$ 768,386	\$ 708,639	\$ 835,741	\$ 835,741
Fairmont's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	32.10%	8.44%	(10.43%)	24.95%
Plan fiduciary net position as a percentage of the total pension liability.	91.47%	98.09%	102.64%	94.35%

**Town of Fairmont, North Carolina
Town of Fairmont's Contributions
Required Supplementary Information
Last Four Fiscal Years**

Local Government Employees' Retirement System

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 62,845	\$ 53,341	\$ 51,078	\$ 59,849
Contributions in relation to the contractually required contribution	<u>62,845</u>	<u>53,341</u>	<u>51,078</u>	<u>59,849</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Fairmont's covered-employee payroll	\$ 848,630	\$ 768,387	\$ 708,639	\$ 835,741
Contributions as a percentage of covered-employee payroll	7.41%	6.94%	7.21%	7.16%

Town of Fairmont, North Carolina
Schedule of Changes in Total Pension Liability
Law Enforcement Officers' Special Separation Allowance
June 30, 2017

	2017
Beginning balance	\$ 58,727
Service cost	9,052
Interest on the total pension liability	2,097
Changes of benefit terms	-
Differences between expected and actual experience in the measurement of the total pension liability	-
Changes of assumptions or other inputs	(2,808)
Benefit payment	-
Other changes	-
Ending balance of the total pension liability	\$ 67,068

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

Town of Fairmont, North Carolina
Schedule of Total Pension Liability as a Percentage of Covered Payroll
Law Enforcement Officers' Special Separation Allowance
June 30, 2017

	<u>2017</u>
Total pension liability	\$ 67,068
Covered payroll	333,955
Total pension liability as a percentage of covered payroll	20.083%

Notes to the schedules:

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

Individual Fund Statements and Schedules

Town of Fairmont, North Carolina
General Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance –
Budget and Actual
For the Year Ended June 30, 2017

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Ad valorem taxes:			
Taxes	\$ -	\$ 864,357	\$ -
Total	<u>822,158</u>	<u>864,357</u>	<u>42,199</u>
Other taxes and licenses:			
Privilege and gaming license	<u>165</u>	<u>165</u>	<u>-</u>
Unrestricted intergovernmental:			
Local option sales taxes		633,493	
Utilities franchise tax		143,271	
Video franchise fee		15,447	
Beer and wine tax		11,926	
ABC profit distribution		16,141	
Total	<u>814,022</u>	<u>820,278</u>	<u>6,256</u>
Restricted intergovernmental:			
Powell Bill allocation		88,981	
Court fees		2,473	
Solid waste disposal tax		1,773	
Grants		414,439	
Total	<u>570,615</u>	<u>507,666</u>	<u>(62,949)</u>
Permits and fees:			
Fire inspection fees		143	
Zoning permits		1,025	
Total	<u>1,090</u>	<u>1,168</u>	<u>78</u>
Sales and services:			
Sanitation fees	<u>225,268</u>	<u>232,393</u>	<u>7,125</u>
Investment earnings:			
	<u>45</u>	<u>46</u>	<u>1</u>
Miscellaneous:			
Lot cutting		1,000	
Insurance reimbursement		63,357	
Miscellaneous		2,082	
Sale of fixed assets		2,800	
Net equipment and building rental		23,617	
Total	<u>27,939</u>	<u>92,856</u>	<u>64,917</u>
Total revenues	<u>\$ 2,461,302</u>	<u>\$ 2,518,929</u>	<u>\$ 57,627</u>

Town of Fairmont, North Carolina
General Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance –
Budget and Actual (continued)
For the Year Ended June 30, 2017

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Expenditures:			
General government:			
Salaries and employee benefits	\$ -	\$ 12,017	\$ -
Other operating expenditures		918	
Total	<u>12,978</u>	<u>12,935</u>	<u>43</u>
Administration:			
Salaries and employee benefits		87,852	
Auto		4,800	
Other operating expenditures		853	
Total	<u>93,767</u>	<u>93,505</u>	<u>262</u>
Clerk:			
Salaries and employee benefits		55,912	
Other operating expenditures		1,422	
Total	<u>57,844</u>	<u>57,334</u>	<u>510</u>
Finance:			
Salaries and employee benefits		105,649	
Professional services		16,925	
Maintenance and equipment rental		7,138	
Other operating expenditures		5,535	
Total	<u>135,782</u>	<u>\$ 135,247</u>	<u>\$ 535</u>
Taxes:			
Robeson County collections fee		21,067	
Other operating expenditures		155	
Total	<u>21,925</u>	<u>21,222</u>	<u>703</u>
Legal:			
Contracted services	13,000	11,169	1,831
Planning:			
Nuisance abatement		12,198	
Other operating expenditures		743	
Total	<u>\$ 12,950</u>	<u>\$ 12,941</u>	<u>\$ 9</u>

Town of Fairmont, North Carolina
General Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance –
Budget and Actual (continued)
For the Year Ended June 30, 2017

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Public buildings:			
Salaries and employee benefits	\$ -	\$ 48,095	\$ -
Utilities and telephone		60,736	
Maintenance and repairs		167,118	
Other operating expenditures		14,646	
Total	<u>349,297</u>	<u>290,595</u>	<u>58,702</u>
Total general government	<u>697,543</u>	<u>634,948</u>	<u>62,595</u>
Public safety:			
Police:			
Salaries and employee benefits		520,286	
Robeson County communications		39,870	
Vehicle maintenance		18,044	
Maintenance and repairs		17,615	
Auto supplies		27,241	
Other operating expenditures		40,638	
Capital outlay		10,213	
Total	<u>691,864</u>	<u>673,907</u>	<u>17,957</u>
Fire:			
Salaries and employee benefits		27,519	
Vehicle maintenance		9,124	
Maintenance and repairs		7,347	
Other operating expenditures		20,399	
Total	<u>64,785</u>	<u>64,389</u>	<u>396</u>
Total public safety	<u>\$ 756,649</u>	<u>\$ 738,296</u>	<u>\$ 18,353</u>

Town of Fairmont, North Carolina
General Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance –
Budget and Actual (continued)
For the Year Ended June 30, 2017

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Transportation:			
Powell Bill:			
Salaries and employee benefits	\$ -	\$ 52,235	\$ -
Maintenance and repairs		79,402	
Capital outlay		5,000	
Total	<u>136,648</u>	<u>136,637</u>	<u>11</u>
Garage:			
Salaries and employee benefits		52,060	
Other operating expenditures		517	
Total	<u>52,639</u>	<u>52,577</u>	<u>62</u>
Streets:			
Salaries and employee benefits		36,790	
Street lights		68,265	
Vehicle maintenance		4,932	
Maintenance and repairs		202,492	
Auto supplies		15,684	
Other operating expenditures		14,671	
Capital outlay		21,528	
Total	<u>378,442</u>	<u>364,362</u>	<u>14,080</u>
Total transportation	<u>567,729</u>	<u>553,576</u>	<u>14,153</u>
Environmental protection:			
Sanitation:			
Contracted services		204,634	
Vehicle maintenance		5,229	
Maintenance and repairs		60,110	
Landfill		28,000	
Other operating expenditures		4,073	
Capital outlay		5,000	
Total environmental protection	<u>\$ 326,531</u>	<u>\$ 307,046</u>	<u>\$ 19,485</u>

Town of Fairmont, North Carolina
General Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance –
Budget and Actual (continued)
For the Year Ended June 30, 2017

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Economic and community development:			
Community service:			
Salaries and employee benefits	\$ -	\$ 8,639	\$ -
Maintenance and repairs		6,942	
Other operating expenditures		46,193	
Insurance		78,037	
Total economic and community development	<u>160,517</u>	<u>139,811</u>	<u>20,706</u>
Debt Service			
Principal repayment		-	
Interest		-	
Total debt service	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>2,508,969</u>	<u>2,373,677</u>	<u>135,292</u>
Revenues over (under) expenditures	(47,667)	145,252	192,919
Other financing sources (uses)			
Transfers in	-	-	-
Loan proceeds	-	-	-
Fund balance appropriated	47,667	-	(47,667)
Total	<u>47,667</u>	<u>-</u>	<u>(47,667)</u>
Net change in fund balance	<u>\$ -</u>	145,252	<u>\$ 145,252</u>
Fund balance, beginning		<u>566,492</u>	
Fund balance, ending		<u>\$ 711,744</u>	

Town of Fairmont, North Carolina
Nonmajor Governmental Funds
Combining Balance Sheets
June 30, 2017

	<u>Rural Business Enterprise Grant Fund</u>	<u>Cemetery Fund</u>	<u>Total Nonmajor Governmental Funds</u>
<u>Assets</u>			
Cash and investments	\$ 44,575	\$ 18,863	\$ 63,438
Total assets	<u>\$ 44,575</u>	<u>\$ 18,863</u>	<u>\$ 63,438</u>
 <u>Liabilities and Fund Balances</u>			
Liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Fund balances	<u>44,575</u>	<u>18,863</u>	<u>63,438</u>
Total liabilities and fund balances	<u>\$ 44,575</u>	<u>\$ 18,863</u>	<u>\$ 63,438</u>

Town of Fairmont, North Carolina
Nonmajor Governmental Funds
Combining Statements of Revenues, Expenditures, and Changes in Fund Balances
For the Year Ended June 30, 2017

	Rural Business Enterprise Grant Fund	Cemetery Fund	Total Nonmajor Governmental Funds
Revenues:			
Interest income	\$ -	\$ 27	\$ 27
Loan repayments	6,025	-	6,025
Total revenues	<u>6,025</u>	<u>27</u>	<u>6,052</u>
Expenditures:			
Community service	6,368	-	6,368
Total expenditures	<u>6,368</u>	<u>-</u>	<u>6,368</u>
Revenue over (under) expenditures	(343)	27	(316)
Fund balance, beginning	44,918	18,836	63,754
Fund balance, ending	<u>\$ 44,575</u>	<u>\$ 18,863</u>	<u>\$ 63,438</u>

Town of Fairmont, North Carolina
Special Revenue Fund – Rural Business Enterprise Grant Fund
Schedules of Revenues, Expenditures, and Changes in Fund Balance -
Budget and Actual
For the Year Ended June 30, 2017

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Interest	\$ -	\$ -	\$ -
Loan repayments		6,025	
Total revenues	<u>6,500</u>	<u>6,025</u>	<u>(475)</u>
Expenditures:			
Loans to businesses		6,368	
Total expenditures	<u>6,500</u>	<u>6,368</u>	<u>132</u>
Revenues over (under) expenditures	<u>\$ -</u>	(343)	<u>\$ (343)</u>
Fund balance, beginning		<u>44,918</u>	
Fund balance, ending		<u>\$ 44,575</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 Year Ended June 30, 2017

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Interest income	\$ -	\$ 27	\$ -
Total revenues	<u>-</u>	<u>27</u>	<u>27</u>
 Expenditures:			
Administration	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>
 Revenues over (under)			
expenditures	<u>\$ -</u>	<u>27</u>	<u>\$ 27</u>
 Fund balance, beginning		<u>18,836</u>	
Fund balance, ending		<u>\$ 18,863</u>	

Town of Fairmont, North Carolina
Water and Sewer Fund
Schedule of Revenues, Expenditures
Budget and Actual (Non – GAAP)
For the Year Ended June 30, 2017

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Operating revenue			
Water sales	\$ -	\$ 382,033	\$
Sewer sales		802,268	
Late fees		20,565	
Reconnection fees		18,336	
Other operating revenue		3,502	
Total operating revenues	<u>1,415,260</u>	<u>1,226,704</u>	<u>(188,556)</u>
Nonoperating revenues			
Grants		198,009	
Total nonoperating revenues	<u>-</u>	<u>198,009</u>	<u>198,009</u>
Total revenues	<u>1,415,260</u>	<u>1,424,713</u>	<u>9,453</u>
Expenditures:			
Water and sewer administration			
Salaries and employee benefits		159,997	
Telephone		12,199	
Utilities		9,111	
Maintenance and repairs - equipment		10,059	
Maintenance and repairs - vehicles		1,933	
Equipment rental		4,030	
Auto supplies		6,234	
Departmental supplies		16,917	
Other operating expenditures		2,875	
Total water and sewer administration	<u>\$ 239,240</u>	<u>\$ 223,355</u>	<u>\$ 15,885</u>

Town of Fairmont, North Carolina
Water and Sewer Fund
Schedule of Revenues, Expenditures
Budget and Actual (Non – GAAP) (continued)
For the Year Ended June 30, 2017

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Expenditures (continued)			
Water treatment			
Salaries and employee benefits	\$	\$ 30,295	\$
Professional services		6,199	
Training		2,172	
Telephone		15,862	
Utilities		23,589	
Maintenance and repairs - equipment		26,489	
Departmental supplies		3,403	
Other operating expenditures		1,263	
Total water treatment	<u>119,692</u>	<u>109,272</u>	<u>10,420</u>
Water maintenance			
Salaries and employee benefits		43,423	
Maintenance and repairs - equipment		13,956	
Maintenance and repairs - vehicles		9,842	
Auto supplies		13,574	
Departmental supplies		31,059	
Other operating expenditures		654	
Total water maintenance	<u>114,503</u>	<u>112,508</u>	<u>1,995</u>
Sewage treatment			
Salaries and employee benefits		95,955	
Professional services		61,171	
Telephone		16,606	
Utilities		114,101	
Maintenance and repairs - equipment		81,318	
Departmental supplies		13,469	
Other operating expenditures		1,381	
Total sewage treatment	<u>384,861</u>	<u>384,001</u>	<u>860</u>
Nondepartmental			
Insurance and bonds		18,738	
Professional services		2,193	
Building maintenance		3,170	
Other operating expenditures		668	
Total nondepartmental	<u>\$ 25,945</u>	<u>\$ 24,769</u>	<u>\$ 1,176</u>

Town of Fairmont, North Carolina
Water and Sewer Fund
Schedule of Revenues, Expenditures
Budget and Actual (Non – GAAP) (continued)
For the Year Ended June 30, 2017

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Expenditures (continued)			
Sewer maintenance			
Salaries and employee benefits	\$	\$ 1,642	\$
Maintenance and repairs - equipment		197,861	
Maintenance and repairs - vehicles		13,463	
Auto supplies		7,544	
Departmental supplies		10,050	
Total sewer maintenance	<u>236,209</u>	<u>230,560</u>	<u>5,649</u>
Sewer contract operations and maintenance			
Other operating expenses	<u>29,000</u>	<u>27,216</u>	<u>1,784</u>
Total operating expenditures	<u>1,149,450</u>	<u>1,111,681</u>	<u>37,769</u>
Capital outlay	<u>21,162</u>	<u>21,162</u>	<u>-</u>
Debt Service			
Principal repayment		126,274	
Interest		118,373	
Total debt service	<u>244,648</u>	<u>244,647</u>	<u>1</u>
Total expenditures	<u>1,415,260</u>	<u>1,377,490</u>	<u>37,770</u>
Revenues over (under) expenditures	-	47,223	47,223
Other financing sources (uses)			
Appropriated retained earnings	<u>-</u>	<u>-</u>	<u>-</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ 47,223</u>	<u>\$ 47,223</u>

Reconciliation from budgetary basis (modified accrual) to full accrual:

Revenues over (under) expenditures \$ 47,223

Reconciling items:

Principal retirement	126,274
Capital outlay	21,162
Increase in deferred outflows of resources - pensions	41,341
Increase in net pension liability	(46,100)
Decrease in deferred inflows of resources - pensions	7,037
Depreciation	(288,112)
Capital contributions	156,075
Total reconciling items	<u>17,677</u>

Change in net position \$ 64,900

Town of Fairmont, North Carolina
Water and Sewer Capital Projects Fund
Schedule of Revenues, Expenditures
Budget and Actual (Non – GAAP) (continued)
From Inception and for the Year Ended June 30, 2017

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Actual Current Year</u>	<u>Total to Date</u>	<u>Variance Positive (Negative)</u>
Revenues:					
Waster mater treatment project					
CDBG	\$ 1,554,205	\$ 27,000	\$ 156,075	\$ 183,075	\$ 1,371,130
Interest income	-	-	-	-	-
Total revenues	<u>1,554,205</u>	<u>27,000</u>	<u>156,075</u>	<u>183,075</u>	<u>1,371,130</u>
Expenditures:					
Administration	100,525	11,000	14,000	25,000	75,525
Preliminary engineering	-	-	-	-	-
Engineering and design	-	-	-	-	-
Bid and award	-	-	-	-	-
Construction management	82,000	-	-	-	82,000
Surveying	-	-	-	-	-
Construction	1,371,680	16,000	142,075	158,075	1,213,605
Total expenditures	<u>1,554,205</u>	<u>27,000</u>	<u>156,075</u>	<u>183,075</u>	<u>1,371,130</u>
Revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other financing sources:					
Other	-	-	-	-	-
Total other sources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Revenues and other sources over (under) expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Other Schedules

Town of Fairmont, North Carolina
Schedule of Ad Valorem Taxes Receivable
June 30, 2017

<u>Fiscal Year</u>	<u>Uncollected Balances June 30, 2016</u>	<u>Additions</u>	<u>Collections and Credits</u>	<u>Uncollected Balances June 30, 2017</u>
2016-2017	\$ -	\$ 816,797	\$ 758,386	\$ 58,411
2015-2016	61,372	-	15,935	45,437
2014-2015	49,001	-	9,156	39,845
2013-2014	35,716	-	6,814	28,902
2012-2013	46,973	-	1,768	45,205
2011-2012	32,645	-	684	31,961
2010-2011	22,828	-	208	22,620
2009-2010	14,678	-	435	14,243
2008-2009	11,666	-	190	11,476
2007-2008	10,213	-	157	10,056
2006-2008	7,479	-	7,479	-
	<u>\$ 292,571</u>	<u>\$ 816,797</u>	<u>\$ 801,212</u>	<u>308,156</u>

Less: allowance for uncollectible accounts - General Fund 54,453

Ad valorem taxes receivable - net \$ 253,703

Reconciliation to revenues:

Ad valorem taxes - General Fund	\$ 864,357
Penalties collected on ad valorem taxes	(12,335)
Reconciling items:	
Discounts allowed	7,840
Taxes written off	7,479
Discoveries	<u>(66,129)</u>
Total collections and credits	<u>\$ 801,212</u>

Town of Fairmont, North Carolina
Analysis of Current Year Tax Levy
For the Year Ended June 30, 2017

	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	\$ 111,890,000	0.73	\$ 816,797	\$ 718,166	\$ 98,631
Releases			-	-	-
Net levy			816,797	718,166	98,631
Less - uncollected taxes at June 30, 2016			58,411	58,335	76
Current year's taxes collected			<u>\$ 758,386</u>	<u>\$ 659,831</u>	<u>\$ 98,555</u>
Current levy collection percentage			<u>92.85%</u>	<u>91.88%</u>	<u>99.92%</u>

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*

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, 2017, 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 7, 2017. 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. 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 were not identified.

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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Purpose of this Report

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

S. Preston Douglas & Associates, LLP

Lumberton, North Carolina
September 7, 2017

S. Preston Douglas & Associates, LLP

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MEMBERS

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N. C. Association of CPAs

Report on Compliance for Each Major Program; Report on Internal Control Over Compliance; With OMB Uniform Guidance

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

Report on Compliance for Each Major Federal Program

We have audited Town of Fairmont, North Carolina's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Town of Fairmont, North Carolina's major federal programs for the year ended June 30, 2017. The Town of Fairmont, North Carolina's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, Town of Fairmont, North Carolina complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control over Compliance

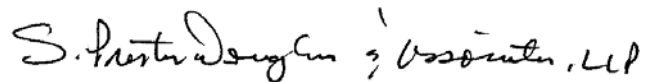
Management of Town of Fairmont, North Carolina is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Town of Fairmont, North Carolina's internal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

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

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

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

A handwritten signature in black ink that reads "S. Preston Douglas, III, CPA". The signature is written in a cursive style with a small flourish at the end.

Lumberton, North Carolina
September 7, 2017

Town of Fairmont, North Carolina
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2017

Section I. Summary of Auditor's Results
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Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	_____ yes <u> X </u> no
• Significant deficiency(s) identified that are not considered to be material weaknesses	_____ yes <u> X </u> none reported
• Noncompliance material to financial statements	_____ yes <u> X </u> no

• ***Federal Awards***

Type of auditor's report issued on compliance for major federal programs:	Unmodified
Internal control over major federal programs:	
• Material weakness(es) identified?	_____ yes <u> X </u> no
• Significant deficiency(s) identified that are not considered to be material weaknesses	_____ yes <u> X </u> none reported
• Noncompliance material to federal awards	_____ yes <u> X </u> no
• Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516 (a)	_____ yes <u> X </u> no

Identification of major federal programs:

CFDA Numbers

14.228

97.036

Names of Federal Program or Cluster

Community Development Block Grant,
State's Program

Disaster Grants – Public Assistance
(Presidentially Declared Disasters)

Dollar Threshold used to distinguish between Type A and Type B programs

\$750,000

Auditee qualified as low-risk auditee?	_____ yes <u> X </u> no
--	---------------------------

Town of Fairmont, North Carolina
Schedule of Findings and Questioned Costs (continued)
For the Year Ended June 30, 2017

Section II. Financial Statement Findings

None reported

Section III. Federal Award Findings and Questioned Costs

None reported

Town of Fairmont, North Carolina
Corrective Action Plan
For the Year Ended June 30, 2017

Section II. Financial Statement Findings

None reported

Section III. Federal Award Findings and Questioned Costs

None reported

Town of Fairmont, North Carolina
Summary Schedule of Prior Year Audit Findings
For the Year Ended June 30, 2017

There were no prior year findings.

Town of Fairmont, North Carolina
Schedule of Expenditures of Federal and State Awards
For the Year Ended June 30, 2017

<u>Grantor/Pass - through Grant/Program Title</u>	<u>Federal CFDA Number</u>	<u>Award number/State Pass-through Grantor's Number</u>	<u>Federal (Direct Pass- through) Expenditures</u>	<u>State Expenditures</u>
Federal Grants:				
Cash Assistance:				
Major Programs				
<u>U.S. Department of Homeland Security</u>				
Passed through NC Dept of Public Safety Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036		\$ 609,790	\$ -
<u>U.S. Department of Housing and Urban Development</u>				
Passed through NC Dept of Environmental Quality Community Development Block Grant, State's program	14.228		<u>156,075</u>	-
Total Major Programs			<u>765,865</u>	
State Grants:				
Cash Assistance:				
<u>N.C. Department of Public Safety</u>				
Emergency Management - Disaster Recovery	N/A		-	2,252
<u>N.C. Department of Transportation</u>				
Powell Bill	N/A		<u>-</u>	<u>136,637</u>
Total federal and State awards			<u>\$ 765,865</u>	<u>\$ 138,889</u>

Notes to the Schedule of Expenditures of federal and State Awards:

The schedule of expenditures of federal and State awards includes the federal and State grant activity of Town of Fairmont, North Carolina, and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U. S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal awards (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

Town of Fairmont, North Carolina, has elected not to use the 10-percent de minimis indirect rate as allowed under the Uniform Guidance.