

**Town of East Spencer
East Spencer, North Carolina
For the year ended
June 30, 2019**

**Independent Auditor's Reports
Basic Financial Statements
And
Information Accompanying the
Basic Financial Statements**

Town of East Spencer

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June 30, 2019

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EDDIE CARRICK, CPA, PC

Certified Public Accountant

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor
And Town Board
Town of East Spencer, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and aggregate remaining fund information of the Town of East Spencer, North Carolina, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and aggregate remaining fund information of the Town of East Spencer, North Carolina, as of June 30, 2019, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison of the General Fund for the year then 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 the management's discussion and analysis on pages 3 through 12, the Law Enforcement Officers' Special Separation Allowance Schedule of Changes in Pension Liability and Pension Liability as a Percentage of Covered Payroll on page 46, and the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Asset (Liability) and Contributions, on page 47, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of East Spencer, North Carolina's basic financial statements. Individual fund statements, budgetary schedules and other schedules, as well as the accompanying schedule of expenditures of federal and state awards as required by Title 2 U.S. Code of Federal Regulation (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and State Single Audit Implementation Act are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Individual fund 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 relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit, the procedures performed as describe above, the Individual fund 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.

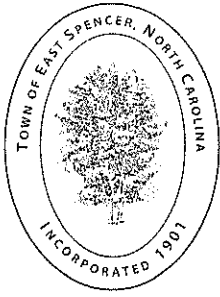
Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 2019, on our consideration of the Town of East Spencer, North Carolina's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town of East Spencer, North Carolina's internal control over financial reporting and compliance.

Eddie Carrick, CPA, PC



Lexington, North Carolina
November 26, 2019



TOWN OF EAST SPENCER

"Home of Heritage & Promise"

Management's Discussion and Analysis

As management of the Town of East Spencer, we offer the readers of the Town of East Spencer's financial statements this narrative overview and analysis of the financial activities of the Town of East Spencer for the fiscal year ended June 30, 2019. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

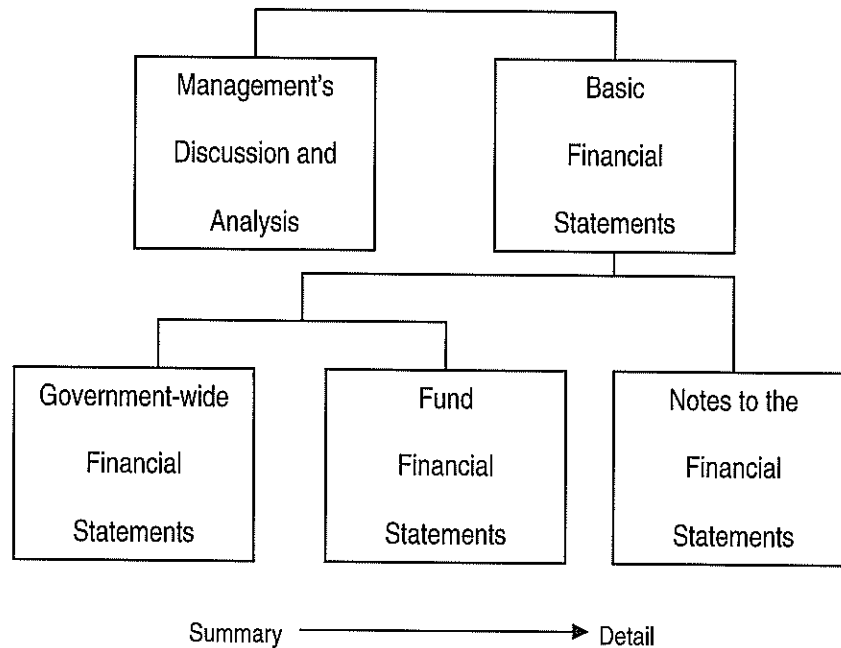
Financial highlights

- The assets and deferred outflows of resources of the Town of East Spencer exceeded its liabilities deferred inflows of resources at the close of the fiscal year by \$4,991,277 (*net position*).
- The government's total net position increased by \$1,435,646, primarily due to an increase in business- type activities.
- As of the close of the current fiscal year, the Town of East Spencer's governmental funds reported combined ending fund balances of \$1,543,582 with a net decrease of \$341,762 in fund balance. Approximately 88% of this total amount, or \$1,353,004, restricted or assigned.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$190,578, or 9% of total general fund expenditures for the fiscal year.
- The Town of East Spencer's total debt and other long-term liabilities increased by \$325,358 due to principal payments of \$82,600 on the bonds and installment purchases, new debt of \$428,000, a decrease in net pension liability (LERS) of \$46,048, an increase in net pension obligation (LEO) of \$20,367, and an increase of \$5,639 in compensated absences.

Overview of the Financial Statements

This discussion and analysis is intended to serve as introduction to the Town of East Spencer's basic financial statements. The Town's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (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 contains other supplemental information that will enhance the reader's understanding of the financial condition of the Town of East Spencer.

Required Components of Annual Financial Report
Figure 1



Basic Financial Statements

The first two statements (Exhibits 1 and 2) 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 (Exhibit 3 through 9) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the Town's government. These statements provide more detail than the government-wide statements. There are three parts to the Fund Financial Statements: 1) the governmental fund statements 2) the budgetary comparison statements and 3) the proprietary fund statements.

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

Government-Wide Financial Statements

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

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

The government-wide statements are divided into two categories: 1) governmental activities and 2) business-type activities. The governmental activities include most of the Town's basic services such as safety and security, transportation and administration. Property tax and state shared revenues finance these activities. The business-type activities are those that the Town charges customers to provide. These include water and sewer services offered by the Town.

The government-wide financial statements are on Exhibits 1 and 2 of this report.

Fund Financial Statements

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

Governmental Funds – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the Town's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting* which provides a short term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him 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 part of the fund financial statements.

Governmental Funds (continued)

The Town of East Spencer adopts an annual budget for the 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 the 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 in the same format, language and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the board 2) the final budget as amended by the board 3) the actual resources, charges to appropriations, and ending balances in the General Fund, and 4) the differences or variance between the final budget and actual resources and charges. To account for the difference between the budgetary basis of accounting and the modified accrual basis, a reconciliation showing the differences in the reported activities is shown at the end of the budgetary statement.

Proprietary funds – The Town of East Spencer 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 an enterprise fund to account for its water and sewer activity. This fund is the same as the functions shown in the business-type activities in the Statement of Net Position and Statement of Activities.

Notes to the Financial Statements – The notes provide additional information that is essential to the full understanding of data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 22 of this report.

Other Information – In addition to the basic financial statements and accompanying notes, this report includes certain supplemental information detailing the information provided in the basic financial statements and is presented to allow the reader to gain an in-depth understanding of the financial information presented.

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 government and other holders of publicly held U.S. Treasury Securities.

Management Discussion and Analysis
Town of East Spencer

Town of East Spencer's Net Position (Figure 2)

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	<i>2019</i>	<i>2018</i>	<i>2019</i>	<i>2018</i>	<i>2019</i>	<i>2018</i>
Current assets	\$ 1,814,205	\$2,118,185	\$ (568,258)	\$ (323,112)	\$ 1,245,947	\$ 1,795,073
Other assets	1,891,248	658,179	3,903,439	2,932,932	5,794,687	3,591,111
Deferred outflow of resources	102,212	105,081	-	-	102,212	105,081
Total assets	3,807,665	\$2,881,445	3,335,181	\$2,609,820	7,142,846	\$5,491,265
Long-term liabilities	536,265	164,546	1,457,000	1,509,000	1,993,265	1,673,546
Other liabilities	20,732	15,093	-	-	20,732	15,093
Current liabilities	82,562	57,489	21,400	183,067	103,962	240,556
Deferred inflow of resources	33,610	6,436	-	-	33,610	6,436
Total liabilities	673,169	243,564	1,478,400	1,692,067	2,151,569	1,935,631
Net position:						
Net investment in capital assets	1,485,848	650,176	2,446,439	1,423,932	3,932,287	2,074,108
Restricted:						
Stabilization by State Statute	1,040,656	1,124,903	-	-	1,040,656	1,124,903
Streets	343,988	289,366	-	-	343,988	289,366
Unrestricted	264,004	573,433	(589,658)	(506,179)	(325,654)	67,254
Total net position	\$ 3,134,496	\$ 2,637,877	\$ 1,856,781	\$ 917,752	\$ 4,991,277	\$ 3,555,629

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets and deferred outflows of the Town exceeded liabilities and deferred inflows by \$4,991,277 as of June 30, 2019. The Town's net position increased by \$1,435,646 for the fiscal year ended June 30, 2019. However, a large portion \$3,932,287 or 79% reflects the Town's net investment in capital assets (road improvements, equipment, machinery, utility plant). The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's net investment in its capital assets is reported net of the outstanding debt, the resources needed to repay that debt must be provided by other sources, since capital assets cannot be used to liquidate these liabilities. An additional portion of the Town's net position, \$1,384,644, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$(325,654) is unrestricted.

Management Discussion and Analysis
Town of East Spencer

Several particular aspects of the Town's financial operations positively influenced the total unrestricted government net position:

- Conservative spending by management.
- Improvements and replacements in the Town's water system that resulted in lower costs of purchased water and sewer processing.
- Capital grants

Town of East Spencer's Changes in Net Position (Figure 3)

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>	
	<i>2019</i>	<i>2018</i>	<i>2019</i>	<i>2018</i>	<i>2019</i>	<i>2018</i>
Revenues						
Program revenues:						
Charges for services	\$ 98,537	\$ 102,370	\$ 819,829	\$ 819,513	\$ 918,366	\$ 921,883
Grants and contributions	272,310	142,476	-	-	272,310	142,476
Capital grants and contributions	307,343	366,880	1,048,957	999,401	1,356,300	1,366,281
General revenues:						
Property taxes	822,348	778,532	-	-	822,348	778,532
Other taxes	1,653	1,538	-	-	1,653	1,538
Unrestricted intergovernmental	492,181	462,052	-	-	492,181	462,052
Other	71,998	31,202	2,747	1,605	74,745	32,807
Total revenues	2,066,370	1,885,050	1,871,533	1,820,519	3,937,903	3,705,569
Expenses:						
General government	416,480	380,613	-	-	416,480	380,613
Zoning	29,630	58,931	-	-	29,630	58,931
Public safety	770,956	748,344	-	-	770,956	748,344
Public works	163,570	180,417	-	-	163,570	180,417
Environmental protection	69,620	65,634	-	-	69,620	65,634
Cultural and recreational	60,670	19,524	-	-	60,670	19,524
Projects	44,917	258,622	-	-	44,917	258,622
Interest on long-term debt	13,910	327	-	-	13,910	327
Water and sewer	-	-	932,504	784,258	932,504	784,258
Total expenses	1,569,753	1,712,411	932,504	784,258	2,502,257	2,496,670
Increase (decrease) in net position	496,618	172,638	939,028	1,036,261	1,435,646	1,208,899
Net position, July 1	2,637,877	2,465,238	917,752	(118,509)	3,555,629	2,346,729
Net position, June 30	\$ 3,134,496	\$ 2,637,877	\$ 1,856,781	\$ 917,752	\$ 4,991,277	\$ 3,555,629

Governmental activities. Governmental activities increased the Town's net position by \$496,618, thereby accounting for 35% of the total increase in net position of the Town. The increase in net position was the result of a concerted effort to control costs and manage.

Management believes healthy investment in the Town will result in additional revenues, and in that vein added to the Town's net position by investing in capital assets which were largely funded by cultural and recreational and economic development grant revenues. Increased efforts to maximize tax collections also

Management Discussion and Analysis
Town of East Spencer

contributed to the favorable net position. Town management acknowledges that 2019 was a successful year and plans on improving upon these approaches as a long-term strategy to realize continued fiscal health.

Key elements of this increase are as follows:

- Tax revenues remained steady.
- Grant revenues
- Park project expenditures

Business-type activities: Business-type activities increased the Town's net position by \$939,028, accounting for 65% of the total increase in the government's net position. Key elements of this increase are as follows:

- Construction in progress additions of \$1,046,746 funded by grants
- Increase in water purchase costs

Financial Analysis of the Town's Funds

As noted earlier, the Town 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. Specifically, unreserved fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the chief operating fund of the Town. At the end of the current fiscal year, the Town of East Spencer's fund balance available in the General Fund was \$190,578, while total fund balance reached \$1,575,222. The Town currently has an available fund balance of 9% of general fund expenditures, while total fund balance represents 73% of the same amount.

At June 30, 2019, the governmental funds of the Town reported a combined fund balance of \$1,543,583 with a net decrease in fund balance of \$341,762. Included in this change in fund balance are decreases in fund balance in the General Fund as well as decrease in fund balance for all the capital project funds.

General Fund Budgetary Highlights: During the fiscal year, the Town made several revisions to the budget. 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.

Revenues were more than the budgeted amounts primarily because the Town received a donation of land. Expenditures were held in check to comply with its budgetary requirements.

Management Discussion and Analysis
Town of East Spencer

Proprietary Funds: The Town's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net position in the Water and Sewer Fund at the end of the fiscal year amounted to (\$589,658). The total increase in net position was \$939,028. Other factors concerning the finances of this fund have already been addressed in the discussion of the Town's business-type activities.

Capital Asset and Debt Administration

Capital assets. The Town's investment in capital assets for its governmental and business-type activities as of June 30, 2019, totals \$5,794,687 (net of accumulated depreciation). These assets include buildings, land, roads, machinery and equipment, and construction in progress.

Major capital assets transactions during the year include the following:

- Land \$95,993
- Public safety vehicles \$460,900
- Equipment \$90,863
- Park construction in progress \$580,594
- Water and Sewer Fund construction in progress \$1,046,746

Town of East Spencer's Capital Assets (net of depreciation) (Figure 4)

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>	
	<i>2019</i>	<i>2018</i>	<i>2019</i>	<i>2018</i>	<i>2019</i>	<i>2018</i>
Land and CIP	\$ 1,118,605	\$ 408,224	\$ 2,175,852	\$ 1,129,106	\$ 3,294,457	\$ 1,537,330
Buildings	81,482	8,566	-	-	81,482	8,566
Vehicles	539,824	124,677	-	-	539,824	124,677
Equipment	151,337	116,709	-	-	151,337	116,709
Plant and distribution	-	-	1,727,587	1,803,826	1,727,587	1,803,826
	<u>\$ 1,891,248</u>	<u>\$ 658,176</u>	<u>\$ 3,903,439</u>	<u>\$ 2,932,932</u>	<u>\$ 5,794,687</u>	<u>\$ 3,591,108</u>

Additional information on the Town's capital assets can be found in the Note III.A.3 to the Basic Financial Statements.

Management Discussion and Analysis
Town of East Spencer

Long-term Debt and Liabilities. As of June 30, 2019, the Town had General Fund debt obligations of \$405,400. As of June 30, 2019, the Town had Water and Sewer debt obligations of \$1,457,000.

Town of East Spencer's Long-term Debt and Liabilities (Figure 5)

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>	
	<i>2019</i>	<i>2018</i>	<i>2019</i>	<i>2018</i>	<i>2019</i>	<i>2018</i>
General obligation bonds	\$ -	\$ -	\$ -	\$ 13,000	\$ -	\$ 13,000
Installment purchase	405,400	8,000	-	-	405,400	8,000
USDA loan	-	-	1,457,000	1,496,000	1,457,000	1,496,000
Net pension liability (LGERS)	85,642	131,690	-	-	85,642	131,690
Net pension obligation (LEO)	45,223	24,856	-	-	45,223	24,856
Compensated absences	20,732	15,093	-	-	20,732	15,093
	<u>\$ 556,997</u>	<u>\$ 179,639</u>	<u>\$ 1,457,000</u>	<u>\$ 1,509,000</u>	<u>\$ 2,013,997</u>	<u>\$ 1,688,639</u>

Town of East Spencer's Outstanding Debt and Other Long-term Liabilities.

The Town of East Spencer's total debt and other long-term liabilities increased by \$325,358 due to principal payments of \$82,600 on the bonds and installment purchases, new debt of \$428,000, a decrease in net pension liability (LGERS) of \$46,048, an increase in net pension obligation (LEO) of \$20,367, and an increase of \$5,639 in compensated absences.

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of property located within that government's boundaries. The legal debt margin for the Town is \$10,542,895.

Additional information regarding the Town's long-term debt can be found in Note III.B.4 of this report.

Economic Factors and Next Year's Budgets and Rates

The following key economic indicators reflect the lack of growth of the Town.

- Continued slow economic conditions and business activity
- Ongoing unemployment in the Rowan County area (4.4%)
- Decline in population from approximately 1,800 in 2000 to 1,534 (2010 US Census)
- Continued high levels of vacant housing units
- Aging Population

Economic Factors and Next Year's Budgets and Rates (continued)

- With the multi-lane project that will be completed on I-85 in the next year the economic factors are on the rise for the Rowan County Area. Rowan County has been the only county in the region that has had zero growth in the past several years. With better access to the Charlotte Area our growth is looking brighter with the issuance of permitting for new housing in the coming years for the Town of East Spencer.

Budget Highlights for the Fiscal Year Ending June 30, 2020

Governmental Activities:

- The Town was awarded a grant through CDBG of \$750,000 for neighborhood revitalization programs. This will be used for rehabbing sewer and the removal of a pump station
- The Town was awarded the EPA Brownfield grant of \$400,000 to identify sites needing remediation in order to be cleared for future development and inspections have commenced
- The Town has developed a corridor study for the main corridor to help encourage growth in housing, recreation, commercial and industrial locations. The Town, working with the Rowan County EDC, has identified properties and have sought and will continue to seek written sells options to be held by the Rowan EDC for the development of land along the I-85 (Gateway) Corridor

The Town has chosen not to appropriate fund balance in the fiscal year 2020 budget. Management believes that increased revenues and continued restrictions on spending will maintain the Town's financial position. As the Town considers future revenue sources, it has determined that a \$0.01 increase in the property tax rate will result in additional revenues of approximately \$12,633 at current values and collection rate. Though management believes current growth will generate enough revenue to support Town operations, a careful analysis of property tax revenue will be considered in future years' budgets.

Business-type Activities:

The Town is in the final engineering stages on the \$ 2.2 million water loss improvements project, which will provide new lines, valves and meters, as well as a secondary supply of water along Choate Road. This project will be completed by the summer of 2020.

Requests for Information

This report is designed to provide an overview of the Town's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Town Administrator, Town of East Spencer, PO Box 339, East Spencer, NC 28039. You can also call (704)-636-7111, or send an email to admin@townofeastspencer.org for more information.

Town of East Spencer, North Carolina
Statement of Net Position
June 30, 2019

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents - unrestricted	\$ 263,975	\$ 62,450	\$ 326,425
Property taxes receivable (net)	188,060	-	188,060
Internal balances	910,653	(910,653)	-
Due from other governments	88,709	-	88,709
Accounts receivable	-	258,544	258,544
Accounts receivable-projects	-	-	-
Restricted cash and cash equivalents	362,809	21,400	384,209
	<u>1,814,205</u>	<u>(568,258)</u>	<u>1,245,947</u>
Capital assets:			
Land and construction in progress	1,118,605	2,175,852	3,294,457
Capital assets, net of depreciation	772,643	1,727,587	2,500,230
Total capital assets	<u>1,891,248</u>	<u>3,903,439</u>	<u>5,794,687</u>
 Total assets	 <u>3,705,453</u>	 <u>3,335,181</u>	 <u>7,040,634</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension deferrals - LGERS	85,359	-	85,359
Pension deferrals - LEO	16,853	-	16,853
Total deferred inflows of resources	<u>102,212</u>	<u>-</u>	<u>102,212</u>
LIABILITIES			
Current liabilities:			
Accounts payable	41,282	-	41,282
Accounts payable-project	9,165	-	9,165
Accrued salaries	32,115	-	32,115
Accrued vacation	20,732	-	20,732
Current portion of long-term liabilities	23,334	27,000	50,334
Payable from restricted assets	-	21,400	21,400
Long-term liabilities:			
Net pension liability - LGERS	85,642	-	85,642
LEO separation allowance	45,223	-	45,223
Due in more than one year	382,066	1,430,000	1,812,066
Total liabilities	<u>639,559</u>	<u>1,478,400</u>	<u>2,117,959</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred pension inflows - LGERS	30,394	-	30,394
Deferred pension inflows - LEO	3,216	-	3,216
Total deferred inflows of resources	<u>33,610</u>	<u>-</u>	<u>33,610</u>
NET POSITION			
Net investment in capital assets	1,485,848	2,446,439	3,932,287
Restricted for:			
Stabilization by State Statute	1,040,656	-	1,040,656
Streets	343,988	-	343,988
Unrestricted	264,004	(589,658)	(325,654)
Total net position	<u>\$ 3,134,496</u>	<u>\$ 1,856,781</u>	<u>\$ 4,991,277</u>

The accompanying notes are an integral part of the financial statements

Town of East Spencer, North Carolina

EXHIBIT 2

Statement of Activities

For the year ended June 30, 2019

Function / Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
General government	\$ 416,480	\$ -	\$ 184,434	\$ (2,162)	\$ (234,208)	\$ -	\$ (234,208)
Zoning	29,630	-	-	-	(29,630)	-	(29,630)
Public safety	770,956	-	29,451	-	(741,504.85)	-	(741,505)
Public works	163,570	-	58,425	-	(105,144.78)	-	(105,145)
Environmental protection	69,620	98,537	-	-	28,917.06	-	28,917
Cultural and recreational	60,670	-	-	309,505	248,834.73	-	248,835
Projects	44,917	-	-	-	(44,917.03)	-	(44,917)
Interest on long-term debt	13,910	-	-	-	(13,910)	-	(13,910)
Total governmental activities	<u>1,569,753</u>	<u>98,537</u>	<u>272,310</u>	<u>307,343</u>	<u>(891,563)</u>	<u>-</u>	<u>(891,563)</u>
Business-type activities							
Water and sewer	<u>932,504</u>	<u>819,829</u>	<u>-</u>	<u>1,048,957</u>	<u>-</u>	<u>936,282</u>	<u>936,282</u>
Total business activities	<u>932,504</u>	<u>819,829</u>	<u>-</u>	<u>1,048,957</u>	<u>-</u>	<u>936,282</u>	<u>936,282</u>
Total government	<u>\$ 2,502,257</u>	<u>\$ 918,366</u>	<u>\$ 272,310</u>	<u>\$ 1,356,300</u>	<u>(891,563)</u>	<u>936,282</u>	<u>981,000</u>
General revenues:							
Taxes:							
Property taxes levied for general purposes					822,348	-	822,348
Other taxes					1,653	-	1,653
Unrestricted investment earnings					7,596	2,747	10,343
Unrestricted intergovernmental revenues					484,585	-	484,585
Other unrestricted revenues					71,998	-	71,998
Transfers					-	-	-
Total general government revenues and transfers					<u>1,388,181</u>	<u>2,747</u>	<u>1,390,927</u>
Change in net position					496,618	939,028	1,435,646
Net position, beginning					<u>2,637,877</u>	<u>917,752</u>	<u>3,555,629</u>
Net position, ending					<u>\$ 3,134,496</u>	<u>\$ 1,856,781</u>	<u>\$ 4,991,277</u>

The accompanying notes are an integral part of the financial statements

Town of East Spencer, North Carolina
Balance Sheet
Governmental Fund
June 30, 2019

	Major Funds		Non-major		Total
	General	Capital Project Park Project	Capital Project Brownsfield	Capital Project Revitalization	Governmental Fund
ASSETS					
Cash and investments	\$ 263,975	\$ -	\$ -	\$ -	\$ 263,975
Cash - restricted	343,988	18,802	19	-	362,809
Taxes receivable, net	188,060	-	-	-	188,060
Accounts receivable-projects	-	-	-	-	-
Due (to) from other funds	951,947	(49,997)	8,703	-	910,653
Due from other governmental units	88,709	-	-	-	88,709
Total assets	<u>\$ 1,836,678</u>	<u>\$ (31,196)</u>	<u>\$ 8,722</u>	<u>\$ -</u>	<u>\$ 1,814,205</u>
LIABILITIES AND FUND BALANCE					
Liabilities:					
Accounts payable	\$ 41,282	\$ -	\$ 9,165	\$ -	\$ 50,447
Accrued salaries	32,115	-	-	-	32,115
Total current liabilities	<u>73,397</u>	<u>-</u>	<u>9,165</u>	<u>-</u>	<u>82,562</u>
DEFERRED INFLOWS OF RESOURCES					
Property taxes receivable	188,060	-	-	-	188,060
Total deferred inflows of resources	<u>188,060</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>188,060</u>
Fund balance:					
Restricted:					
Stabilization by State Statute	1,040,656	-	-	-	1,040,656
Streets	343,988	-	-	-	343,988
Assigned:					
Capital project	-	(31,196)	(443)	-	(31,640)
Subsequent year's expenditures	-	-	-	-	-
Unassigned	190,578	-	-	-	190,578
Total fund balance	<u>1,575,222</u>	<u>(31,196)</u>	<u>(443)</u>	<u>-</u>	<u>1,543,583</u>
Total liabilities and fund balance	<u>\$ 1,836,678</u>	<u>\$ (31,196)</u>	<u>\$ 8,722</u>	<u>\$ -</u>	
Amounts reported for governmental activities in the statement of net position (Exhibit 1) are different because:					
Capital assets used in governmental activities are not financial and therefore are not reported in the funds.					1,891,248
Deferred outflows of resources related to pensions are not reported in the funds					102,212
Liabilities for earned revenues considered deferred inflows of resources in fund statements					188,060
Long-term liabilities used in governmental activities are not financial uses and therefore are not reported in the funds.					
Long-term debt				\$ (405,400)	
Net pension liability				(85,642)	
LEO separation allowance				(45,223)	
Compensated absences				(20,732)	(556,997)
Deferred inflows of resources related to pensions are not reported in the funds					(33,610)
Net position of governmental activities					<u>\$ 3,134,496</u>

The accompanying notes are an integral part of the financial statements

Town of East Spencer, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2019

	Major Funds		Non-major		Total
	General	Capital Project Park Project	Capital Project Brownsfield	Capital Project Revitalization	Governmental Fund
REVENUES					
Ad valorem taxes	\$ 809,639	\$ -	\$ -	\$ -	\$ 809,639
Other taxes, licenses and fees	100,190	-	-	-	100,190
Unrestricted intergovernmental revenues	484,585	-	-	-	484,585
Restricted intergovernmental revenues	87,876	309,505	104,043	(106,206)	395,218
Sales and services	-	-	-	-	-
Other general	263,350	-	-	-	263,350
Total revenues	<u>1,745,640</u>	<u>309,505</u>	<u>104,043</u>	<u>(106,206)</u>	<u>2,052,982</u>
EXPENDITURES					
General government	614,218	-	-	-	614,218
Zoning	29,630	-	-	-	29,630
Public Safety	1,194,475	-	-	-	1,194,475
Public works	153,409	-	-	-	153,409
Environmental protection	69,620	-	-	-	69,620
Cultural and recreation	58,257	-	-	-	58,257
Capital projects	-	580,594	112,911	(34,200)	659,305
Debt service	44,510	-	-	-	44,510
Total expenditures	<u>2,164,119</u>	<u>580,594</u>	<u>112,911</u>	<u>(34,200)</u>	<u>2,823,424</u>
Revenues over expenditures	<u>(418,479)</u>	<u>(271,089)</u>	<u>(8,868)</u>	<u>(72,006)</u>	<u>(770,442)</u>
OTHER SOURCES (USES)					
Interest income	-	648	31	-	679
Debt proceeds	428,000	-	-	-	428,000
Transfers (to) from other funds	-	-	-	-	-
Transfers (to) from capital projects	(61,242)	60,000	-	1,242	-
	<u>366,758</u>	<u>60,648</u>	<u>31</u>	<u>1,242</u>	<u>428,679</u>
Revenues and other financing sources over (under) expenditures	(51,720)	(210,442)	(8,837)	(70,763)	(341,762)
Fund balance - beginning of year	<u>1,626,942</u>	<u>179,246</u>	<u>8,394</u>	<u>70,763</u>	<u>1,885,344</u>
Fund balance - end of year	<u>\$ 1,575,222</u>	<u>\$ (31,196)</u>	<u>\$ (443)</u>	<u>\$ -</u>	<u>\$ 1,543,583</u>

The accompanying notes are an integral part of the financial statements

Town of East Spencer, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2019

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

Net changes in fund balances - total governmental funds	\$	(341,762)
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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	\$ 614,388		
Construction in progress	741,311		
Depreciation	<u>(122,627)</u>		1,233,072

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 revenue		12,709
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Change in pension expense

Changes in net pension asset-LGERS	-		
Changes in deferred outflows - LGERS	(14,310)		
Changes in net pension liability-LGERS	46,048		
Changes in deferred inflows-LGERS	<u>(23,958)</u>		7,780

Changes in deferred outflows - LEO	11,441		
Changes in net pension liability-LEO	(20,367)		
Changes in deferred inflows-LEO	<u>(3,216)</u>		(12,142)

The issuance of long-term debt provides current financial resource to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Principal payments on debt		30,600
Proceeds from long-term debt		(428,000)

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		<u>(5,639)</u>
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Total changes in net assets of governmental activities	\$	<u><u>496,618</u></u>
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*Town of East Spencer, North Carolina***General Fund****Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the Year Ended June 30, 2019**

	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget- Positive (Negative)</u>
REVENUES:				
Ad valorem taxes	\$ 776,600	\$ 776,600	\$ 809,639	\$ 33,039
Other taxes, licenses and fees	103,950	103,950	100,190	(3,760)
Unrestricted intergovernmental	441,500	441,500	484,585	43,085
Restricted intergovernmental	52,000	52,000	87,876	35,876
Sales and services	-	-	-	-
Other general revenues	67,900	180,168	263,350	83,182
Total revenues	<u>1,441,950</u>	<u>1,554,218</u>	<u>1,745,640</u>	<u>191,422</u>
EXPENDITURES:				
General government	336,406	439,058	614,218	(175,160)
Zoning	43,600	43,700	29,630	14,070
Public safety	683,226	783,942	1,194,475	(410,533)
Public works	235,327	383,299	153,409	229,890
Environmental protection	69,000	69,000	69,620	(620)
Cultural and recreation	39,691	54,691	58,257	(3,566)
Debt service	44,510	44,510	44,510	-
Total expenditures	<u>1,451,760</u>	<u>1,818,200</u>	<u>2,164,119</u>	<u>(345,919)</u>
Revenues over (under) expenditures	<u>(9,810)</u>	<u>(263,982)</u>	<u>(418,479)</u>	<u>(154,497)</u>
OTHER SOURCES (USES):				
Debt proceeds	-	-	428,000	428,000
Transfers to Capital Project Funds	(90,500)	71,160	(61,242)	(132,402)
Other sources (uses)	71,160	-	-	-
Appropriated Fund Balance	29,150	192,822	-	(192,822)
Total other financing sources (uses)	<u>9,810</u>	<u>263,982</u>	<u>366,758</u>	<u>102,776</u>
Revenues and other financing sources over (under) expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>(51,720)</u>	<u>\$ (51,720)</u>
Fund balance, beginning of year			<u>1,626,942</u>	
Fund balance, end of year			<u>\$ 1,575,222</u>	

The accompanying notes are an integral part of the financial statements

Town of East Spencer, North Carolina
Statement of Fund Net Position
Proprietary Fund
June 30, 2019

ASSETS

Current assets:

Cash and investments - unrestricted	\$ 62,450
Cash and investments - restricted	21,400
Accounts receivable (net)	258,544
Accounts receivable-project	-
	<u>342,395</u>

Capital assets:

Construction in progress	2,175,852
Other capital assets, net of depreciation	1,727,587
	<u>3,903,439</u>

Total assets	<u>4,245,834</u>
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LIABILITIES

Current liabilities:

Accounts payable	-
Accounts payable-project	-

Other liabilities:

Due to other funds	910,653
Liabilities payable from restricted assets:	
Customer deposits	21,400

Long-term debt:

Due within one year	27,000
Due in more than one year	1,430,000
Total liabilities	<u>2,389,053</u>

NET POSITION

Net investment in capital assets	2,446,439
Restricted for other uses	-
Unrestricted	<u>(589,658)</u>
Total net position	<u>\$ 1,856,781</u>

Town of East Spencer, North Carolina
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Fund
For the Year Ended June 30, 2019

	<u>Actual</u>
REVENUES:	
Operating revenues:	
Water charges	\$ 422,713
Sewer charges	389,954
Other charges	<u>7,161</u>
Total operating revenue	<u>819,829</u>
 EXPENSES:	
Operations	
Water purchases	681,167
Service and maintenance	125,738
Depreciation	76,239
Other operating expenses	<u>-</u>
Total operating expenses	<u>883,144</u>
Operating income (loss)	<u>(63,316)</u>
 Nonoperating revenues (expenses):	
Interest earned	2,747
CDBG grant	1,048,957
Interest on long-term debt	<u>(49,360)</u>
	<u>1,002,344</u>
Income (loss) before transfers	939,028
Transfers to other funds	<u>-</u>
Change in net position	939,028
Net position, beginning of year	<u>917,752</u>
Net position, end of year	<u><u>\$ 1,856,781</u></u>

Town of East Spencer, North Carolina
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2019

Cash flows from operating activities:

Cash received from customers	\$ 823,104
Cash payment to suppliers of goods and services	(826,705)
Net Cash Used By Operating Activities	<u>(3,601)</u>

Cash flows from noncapital financial activities:

Repayment of interfund receivables	(69,487)
Transfer to other funds	-
Net Cash Provided by Noncapital Financing Activities	<u>(69,487)</u>

Cash from capital and related financing activities:

Grants received	1,049,381
Acquisition and construction of capital assets	-
Construction in progress	(1,046,746)
Payments on notes payable	(52,000)
Interest paid	(49,360)
Net Cash Used by Capital and Related Financing Activities	<u>(98,725)</u>

Cash flows from investing activities:

Interest on investments	2,747
Net Cash Provided by Investing Activities	<u>2,747</u>

Net Increase (Decrease) In Cash (169,066)

Cash - Beginning of Year, July 1 252,917

Cash - End of Year, June 30 \$ 83,850

**Adjustments to Reconcile Net Operating Income
to Net Cash Used by Operating Activities:**

Net Operating Income	\$ (63,316)
Depreciation	76,239
Changes in Current Assets and Liabilities:	
(Increase) decrease in accounts receivable	5,440
Increase (Decrease) in accounts payable	(19,800)
Increase (Decrease) in customer deposits	(2,165)
Net Cash Used By Operating Activities	<u><u>\$ (3,601)</u></u>

Interest paid \$ 49,360

Town of East Spencer, North Carolina

***NOTES TO FINANCIAL STATEMENTS
As of or for the Fiscal Year Ended June 30, 2019***

I. Summary of Significant Accounting Policies

The accounting policies of the Town of East Spencer 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 East Spencer is a municipal corporation governed by an elected mayor and a six-member board of commissioners. 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. For the year ended June 30, 2019 the Town had no component units.

B. Basis of presentation

Government-wide Statements: The statement of net position and the statement of activities display the information about the primary government. These statements include the 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 business-type activities 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 – *governmental* and *proprietary* – are presented. The emphasis of 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 exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially the same values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

NOTES TO THE FINANCIAL STATEMENTS (continued)

B. Basis of presentation (continued)

The Town reports the following major governmental funds:

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. The primary expenditures are for public safety, street maintenance and construction, and sanitation services.

General Capital Projects- Park Project Project: These funds are used to account for grants fund expended over more than one year.

The Town reports the following non- major governmental funds:

General Capital Project – Brownsfield and Revitalization: These funds are used to account for grants fund expended over more than one year.

The Town reports the following major enterprise funds:

Water and Sewer Fund: This fund is used to account for the Town's water and sewer operations. A Water and Sewer Capital Projects Fund has been consolidated into the Water and Sewer Fund for financial reporting purposes. The budgetary comparison for the Water and Sewer Capital Projects Fund has been included in the supplemental information.

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 Statements. The government-wide financial statements are reported using the economic resources measurement focus. The government-wide financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time 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 for which all eligibility requirements have been satisfied.

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Town enterprise fund are charges to customers for sales and services. The Town also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the water and sewer system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

NOTES TO THE FINANCIAL STATEMENTS (continued)

C. Measurement Focus and Basis of Accounting (continued)

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 revenue available if they are collected within 90 days after year end, except for property taxes. Ad valorem taxes receivable are not accrued as revenues 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. 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 beer and wine tax, collected and held by the State at year-end on behalf of the Town are recognized as revenue. Sales taxes are considered shared revenue for the Town because the tax is levied by Rowan County and then remitted to and distributed by the State. Most intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. All taxes, including those dedicated for specific purposes are reported as general revenues rather than program revenues. Under the terms of grant agreements, the Town funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there is both restricted and unrestricted net position available to finance the program. It is the Town's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then general revenues.

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 Fund. All annual appropriations lapse at the fiscal-year end. Project Ordinances are adopted for the Capital Projects Fund which is consolidated with the operating funds for reporting purposes. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the object level for the multi-year funds. Amendments are required for any revisions that alter total expenditures of any fund or that change functional appropriations. All amendments must be approved by the governing board. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

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

1. Deposits and Investments

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. Deposits and Investments

All deposits of the Town are made in board-designated official depositories and are secured as required by State law [G.S. 159-31]. The Town Board may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the Town 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 to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States, obligations of the State of North Carolina, bonds and notes of any North Carolina local government or public authority, obligations of certain non-guaranteed federal agencies, certain high quality issues of commercial paper and bankers' acceptances, and the North Carolina Capital Management Trust (NCCMT). The Town's investments are reported at fair value. Non-participating interest earning investment contracts are accounted for at cost. The NCCMT Government Portfolio, a SEC-registered (2a-7) external investment pool, is measured at fair value. The NCCMT- Term Portfolio is bond fund, has no rating and is measured at fair value. As of June 30, 2019, The Term portfolio has a duration of .11 years. Because the NCCMT Government and Term Portfolios have a weighted average maturity of less than 90 days, they are presented as an investment with a maturity of less than 6 months. The Town does not have a formal investment or credit risk policy.

2. Cash and Cash Equivalents

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

3. Prepaid Items

Certain payments to vendor reflect costs applicable to future accounting periods and are recorded as prepaid items.

4 Restricted Assets

Grant money is classified as restricted cash because its use is restricted for specific capital projects. Customer deposits held by the Town before any services are supplied are restricted to the service for which the deposit was collected. Powell Bill funds are also 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

Governmental Activities		
General Fund	Streets	\$343,988
	Capital projects	18,821
Total governmental activities		<u>362,809</u>
Business-type Activities		
Water and Sewer Fund	Customer deposits	21,400
Total Business-type Activities		<u>21,400</u>
Total Restricted Cash		<u><u>\$384,209</u></u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

5. 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 on property 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, 2018. As allowed by State law, the Town has established a schedule of discounts that apply to taxes which are paid prior to the due date. In the Town's General Fund, ad valorem tax revenues are reported net of such discounts.

6. Allowances for Doubtful Accounts

All receivables that historically experience uncollectible accounts are shown net of an allowance for doubtful accounts. This amount is estimated by analyzing the percentage of receivables that were written off in prior years.

7. Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. Minimum capitalization cost is \$1,000 for all asset classes. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. The Town has elected not to capitalize general infrastructure assets acquired prior to July 1, 2003. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Life</u>
Infrastructure	30
Buildings	20
Improvements	25
Vehicles	7-10
Furniture and equipment	10
Computer equipment	3

8. 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, contributions made to the pension plan in the 2019 fiscal year and other pension 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 criterion for this category – property taxes receivable and deferrals of pension expense that result from the implementation of GASB Statement 68.

NOTES TO THE FINANCIAL STATEMENTS (continued)

9. Long-Term Obligations

In the government-wide 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. The Town's long-term debt for water and sewer purposes is carried in the General Fund. The debt service requirements for the water and sewer debt are being met by the Town of Salisbury lease payments, but the taxing power of the Town is pledged to make these payments if lease and other payments should ever be insufficient. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line 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. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance cost 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. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual net proceeds received, are reported as debt service expenditures.

10. Compensated Absences

The vacation policy of the Town provides for the accumulation of up to thirty days earned vacation leave with such leave being fully vested when earned. For the Town's government-wide funds and proprietary funds, an expense and liability for compensated absences and the salary-related payments are recorded as the leave is earned. The Town has not recognized a current liability due to the immaterial nature of this liability.

The Town'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 the Town does not have any obligation for the accumulation of sick leave until it is actually taken, no accrual for sick leave has been made.

11. Net position / Fund Balances

Net position

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

Fund Balances

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

11. Net position / Fund Balances (continued)

The governmental fund types classify fund balances as follows:

Nonspendable Fund Balance – This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Prepaid Items - portion of fund balance that is not an available resource because it represents the year-end balance of prepaid deposit on a police car which is not a spendable resource.

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 - North Carolina G.S. 159-8 prohibits units of government from budgeting or spending a portion of their fund balance. This is one of several statutes enacted by the North Carolina State Legislature in the 1930's that were designed to improve and maintain the fiscal health of local government units. Restricted by State statute (RSS), is calculated at the end of each fiscal year for all annually budgeted funds. The calculation in G.S. 159-8(a) provides a formula for determining what portion of fund balance is available for appropriation. The amount of fund balance not available for appropriation is what is known as "restricted by State statute". *Appropriated fund balance in any fund shall not exceed the sum of cash and investments minus the sum of liabilities, encumbrances, and deferred revenues arising from cash receipts, as those figures stand at the close of the fiscal year next preceding the budget.* Per GASB guidance, RSS is considered a resource upon which a restriction is "imposed by law through constitutional provisions or enabling legislation." RSS is reduced by inventories and prepaids as they are classified as nonspendable. Outstanding Encumbrances are included within RSS. RSS is included as a component of Restricted Net position and Restricted fund balance on the face of the balance sheet.

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.

Committed Fund Balance –portion of fund balance that can only be used for specific purposes imposed by majority vote by quorum of the Town of East Spencer's governing body (highest level of decision-making authority). The governing body can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Assigned fund balance – *Assigned for Capital Project* - portion of fund balance that the Town of East Spencer intends to use for the rehabilitation project.

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

The Town of East Spencer 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

12. Pensions

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's employer contributions are recognized when due and the Town 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.

II. Stewardship, Compliance, and Accountability

A. Material Violations of Finance-Related Legal and Contractual Provisions:

The Town exceeded budgeted disbursements in the General Fund administration, Fire, Police, Solid Waste, and Parks departments, as well as the Water and Sewer Funds. This is in violation of General Statute Chapter 159, Article 3 – The Local Government Budget and Fiscal Control Act. This is also in violation of the pre-audit certification required by this act.

B. Deficit in Fund Balance or Net position of Individual Funds:

The following individual funds reported deficits in fund balance at June 30, 2019:

The General Fund Park and Brownsfield capital projects reported fund balance deficits of \$31,196 and \$443, respectively. The deficit fund balances are a result of a delay in receipt of grant funding and transfers from the General Fund. The receipt of these funds are anticipated in the beginning of the 2019-2020 fiscal year as invoices are processed by the Town.

C. Excess of Expenditures over Appropriation:

The Town exceeded budgeted disbursements in the General Fund administration, Fire, Police, Solid Waste, and Parks departments, as well as the Water and Sewer Funds. This is in violation of General Statute Chapter 159, Article 3 – The Local Government Budget and Fiscal Control Act. This is also in violation of the pre-audit certification required by this act.

These violations incurred because the Town did not adjust their budget for donated property, the purchase of a fire truck, park equipment, year-end accounts payable, and water purchases.

Line item budgeted amounts will be monitored timely and budget adjustments made prior to expenditures exceeding budgeted amounts. The Town is considering implementing an encumbrance system to more effectively monitor expenditures.

NOTES TO THE FINANCIAL STATEMENTS (continued)

III. Detail Notes on All Funds

A. Assets:

1. Deposits

All the deposits of the Town are either insured or collateralized by using the Pooling Method. 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, these deposits are considered to be held by the Town's agents in their names. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing 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 under the Pooling Method, the potential exists for under-collateralization, and the 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 has no policy regarding credit risk for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The Town complies with provisions of GS 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2019, the Town's deposits had a carrying amount of \$298,460 and a bank balance of \$330,213. All of the bank balance was covered by federal depository insurance.

2. Investments

At June 30, 2019, the Town's investment balances were as follows:

Investment by Type	Valuation Measurment Method	Book Value at 6/30/2019	Maturity	Rating
NC Capital Management Trust - Government Portfolio	Fair Value Level 1	\$ 412,174	N/A	AAAm

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

Level of fair value hierarchy: Level 1 debt securities are valued using directly observable, quoted prices (unadjusted) in active markets for identical assets.

Interest Rate Risk. The Town has no formal investment policy regarding interest rate risk. As a means of limiting its exposure to fair value losses arising from rising interest rates, the Town's internal investment policy limits at least half of the Town's investment portfolio to maturities of less than 12 months.

Credit risk. The Town has no formal policy regarding credit risk but has internal management procedures that limits the Town's investments to the provisions of G.S. 159-30 and restricts the purchase of securities to the highest possible ratings whenever particular types of securities are rated. The Town's investment in the NC Capital Management Trust Government Portfolio carried a credit rating of AAAm by Standard & Poor's as of June 30, 2019. The Term Portfolio is authorized to invest in obligations of the U.S. government and agencies, and in high grade money market instruments as permitted under North Carolina General Statutes 159-30 as amended.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. Capital Assets

Capital asset activity for the Town for the year ended June 30, 2019, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated				
Land	\$ 231,696	\$ 95,993	\$ -	\$ 327,689
Construction in progress	176,528	614,388	-	790,916
Total capital assets not being depreciated	408,224	710,381	-	1,118,605
Capital assets being depreciated:				
Buildings	768,631	77,121	-	845,752
Equipment	850,215	107,297	-	957,512
Vehicles and motorized equipment	818,580	460,900	-	1,279,480
Total capital assets being depreciated	2,437,426	645,318	-	3,082,744
Less accumulated depreciation for:				
Buildings	760,064	4,206	-	764,270
Equipment	733,507	72,668	-	806,175
Vehicles and motorized equipment	693,903	45,753	-	739,656
Total accumulated depreciation	2,187,474	122,627	-	2,310,101
Total capital assets being depreciated, net	249,952	522,691	-	772,643
Governmental activity capital assets, net	\$ 658,176	\$ 1,233,072	\$ -	\$ 1,891,248

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

General government	\$ 10,873
Public safety	98,214
Public works	11,127
Cultural and recreational	2,413
Total depreciation expense	<u>\$122,627</u>

Business-type activities:	Beginning Balances	Increases	Decreases	Ending Balances
Water and sewer fund:				
Capital assets not being depreciated:				
Construction in progress	\$ 1,129,106	\$ 1,046,746	\$ -	\$ 2,175,852
Capital assets being depreciated:				
Water system	2,854,374	-	-	2,854,374
Sewer system	727,796	-	-	727,796
Equipment	46,433	-	-	46,433
Total capital assets being depreciated:	3,628,603	-	-	3,628,603
Less, accumulated depreciation for:				
Water system	1,139,981	62,693	-	1,202,674
Sewer system	624,817	13,545	-	638,362
Equipment	59,978	-	-	59,978
Total accumulated depreciation	1,824,776	76,238	-	1,901,014
Total capital assets being depreciated, net	1,803,827	(76,238)	-	1,727,589
Business-type activity capital assets, net	\$ 2,932,932	\$ 970,508	\$ -	\$ 3,903,439

NOTES TO THE FINANCIAL STATEMENTS (continued)

B. Liabilities:

1. Pension Plan Obligations:

a. Local Governmental Employees' Retirement System

Plan Description. The Town 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 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's contractually required contribution rate for the year ended June 30, 2019, was 8.25% of compensation for law enforcement officers and 7.50% for general employees and firefighters, actuarially

NOTES TO THE FINANCIAL STATEMENTS (continued)

a. Local Governmental Employees' Retirement System (continued)

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 were \$31,597 for the year ended June 30, 2019.

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, 2019, the Town reported a liability of \$85,642 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2017. The total pension liability was then rolled forward to the measurement date of June 30, 2018 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, 2018 (measurement date), the Town's proportion was 0.00361%, which was a decrease of 0.005010% from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the Town recognized pension expense of \$23,817. At June 30, 2019, 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	\$ 13,212	\$ 443
Changes of assumptions	22,726	-
Net difference between projected and actual earnings on pension plan investments	11,756	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	6,068	29,951
Town contributions subsequent to the measurement date	31,597	-
Total	<u>\$ 85,359</u>	<u>\$ 30,394</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

a. Local Governmental Employees' Retirement System (continued)

\$31,597 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as an increase of the net pension asset in the year ended June 30, 2020. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2020	\$	21,102
2021		7,150
2022		(4,671)
2023		(213)
2024		-
	\$	<u>23,368</u>

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

Inflation	3.0 percent
Salary increases	3.50 to 8.10 percent, including inflation and productivity factor
Investment rate of return	7.00 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, 2017 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

a. Local Governmental Employees' Retirement System (continued)

The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2018 are summarized in the following table:

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

The information above is based on 30 year expectations developed with the consulting actuary for the 2017 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 7.00%. 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 asset calculated using the discount rate of 7.00 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 (6.00 percent) or one percentage point higher (8.00 percent) than the current rate:

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Town's proportionate share of the net pension liability (asset)	\$ 205,718	\$ 85,642	\$ (14,697)

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

b. Law Enforcement Officers' Special Separation Allowance

1. Plan description. The Town 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 .85% 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 GS Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

All full-time law enforcement officers of the Town are covered by the Separation Allowance. At December 31, 2018 the Separation Allowance's membership consisted of:

Retirees receiving benefits	0
Terminated plan members entitled to but not yet receiving benefits	0
Active plan members	<u>7</u>
	7

A separate report was not issued for the plan.

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

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

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

Inflation	2.50 percent
Salary increases	3.50 to 7.35 percent, including inflation and productivity factor
Discount rate	3.64 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, 2017.

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

4. 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. The Town paid \$0 as benefits came due for the reporting period.

NOTES TO THE FINANCIAL STATEMENTS (continued)

b. Law Enforcement Officers' Special Separation Allowance (continued)

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

At June 30, 2019, the Town reported a total pension liability of \$45,223. The total pension liability was measured as of December 31, 2018 based on a December 31, 2017 actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2018 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2019, the Town recognized pension expense of \$12,142.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 12,411	\$ -
Changes of assumptions	4,442	3,216
Benefit payments and plan administrative expense made subsequent to the measurement date	-	-
Total	<u>\$ 16,853</u>	<u>\$ 3,216</u>

\$0 reported as deferred outflows of resources related to pensions resulting from benefit payments made and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total pension liability in the year ended June 30, 2019. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	Deferred Outflows of Resources	Deferred Inflows of Resources	Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense
2020	\$ 3,611	\$ 684	\$ 2,927
2021	3,611	684	2,927
2022	3,611	684	2,927
2023	3,611	684	2,927
2024	2,409	480	1,929
Thereafter	-	-	-

\$0 paid as benefits came due and \$0 of administrative expenses subsequent to the measurement date are reported as deferred outflows of resources.

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 3.46 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 (2.46 percent) or 1-percentage-point higher (4.46 percent) than the current rate:

	1% Decrease (2.46%)	Discount Rate (3.46%)	1% Increase (4.46%)
Total pension liability	\$ 48,372	\$ 45,223	\$ 42,261

NOTES TO THE FINANCIAL STATEMENTS (continued)

b. Law Enforcement Officers' Special Separation Allowance (continued)

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

	2019
Beginning balance	\$ 24,856
Service Cost	6,112
Interest on the total pension liability	3,103
Changes of benefit terms	-
Differences between expected and actual experience in the measurement of the total pension liability	15,052
Changes of assumptions or other inputs	(3,900)
Benefit payments	-
Other changes	-
Net changes	20,367
Ending balance of the total pension liability	\$ 45,223

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, 2017 valuation were based on the results of an actuarial experience study completed by the Actuary for the Local Government Employees' Retirement System for the five year period ending December 31, 2014.

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

Following is information related to the proportionate share and pension expense for all pension plans:

	LGERS	LEOSSA	Total
Pension Expense	\$ 23,817	\$ 12,142	\$ 35,959
Pension Liability	85,642	45,223	130,865
Proportionate share of the net pension liability	0.00361%	n/a	
Deferred of Outflows of Resources			
Differences between expected and actual experience	13,212	12,411	25,623
Changes of assumptions	22,726	4,442	27,168
Net difference between projected and actual earnings on plan investments	11,756	-	11,756
Changes in proportion and differences between contributions and proportionate share of contributions	6,068	-	6,068
Benefit payments and administrative costs paid subsequent to the measurement date	31,597	-	31,597
Deferred of Inflows of Resources			
Differences between expected and actual experience	443	-	443
Changes of assumptions	-	3,216	3,216
Net difference between projected and actual earnings on plan investments	-	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	29,951	-	29,951

c. Supplemental Retirement Income Plan for Law Enforcement Officers and General Employees

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 and general employees employed by the Town. Article 5 of GS Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

Funding Policy. Article 12E of GS Chapter 143 requires the Town to contribute each month an amount equal to five percent of each officer's salary and an amount of up to two percent of each general employee, and all amounts contributed are vested immediately. Also, the law enforcement officers and general employees may make voluntary contributions to the plan.

The Town made contributions of \$13,843 for the reporting year. No amounts were forfeited.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. Other Employment Benefits

The Town has elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-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. Because all death benefit payments are made from the Death Benefit Plan and not by the Town, the Town does not determine the number of eligible participants. The Town has no liability beyond the payment of monthly contributions. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount. Contributions are determined as a percentage of monthly payroll based upon rates established annually by the State. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. The Town considers these contributions to be immaterial.

3. Deferred Outflows and Inflows of Resources

The Town has one deferred outflows of resources. Deferred outflows of resources are comprised of the following:

Source	Amount
Differences between expected and actual experience	\$ 25,623
Changes in assumptions	27,168
Net difference between projected and actual earnings on pension plan investments	11,756
Changes in proportion and differences between employer contributions and proportionate share of contributions	6,068
Town contribution subsequent to the measurement date	31,597
Total	<u>\$ 102,212</u>

Deferred inflows of resources at year-end are comprised of the following:

	Statement of Net Position	General Fund Balance Sheet
Taxes Receivable, less penalties (General Fund)	\$ -	\$ 188,060
Changes in assumptions	3,216	-
Differences between expected and actual experience	443	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	29,951	-
Total	<u>\$ 33,610</u>	<u>\$ 188,060</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

4. Risk Management

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

The Town carries commercial coverage for all other risks of loss. The Town has had no claims during this year or the prior two years. The Town is covered by flood insurance based on the fair value of buildings and property eligible. The finance officer is covered by a \$200,000 fidelity bond and the tax collector by a \$100,000 bond. All other eligible employees are covered by a blanket bond of \$15,000.

5. Long-Term Obligations

a. Installment Purchases – General Fund

In July 2018, the Town entered into a direct placement installment purchase contract with LGFCU Financial Partners, LLC to purchase a new fire truck. The financing contract was for \$428,000 with an interest rate of 3.25%. The first of 15 annual principal and interest payments of \$36,510 was due on June 12, 2019. The final payment is due on June 12, 2033. The installment purchase is collateralized by the vehicle. The note is callable if the Town becomes substantially past due on required payments.

The future minimum payments of the installment purchase as of June 30, 2019, including \$105,618 of interest, are as follows:

Year Ending June 30	Principal	Interest	Total
2020	\$ 23,334	13,176	\$ 36,510
2021	24,093	12,417	36,510
2022	24,876	11,634	36,510
2023	25,684	10,826	36,510
2024	26,519	9,991	36,510
2025-2029	146,096	36,453	182,549
2030-2033	134,798	11,121	145,919
	<u>\$ 405,400</u>	<u>\$ 105,618</u>	<u>\$ 511,018</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

5. Long-Term Obligations (continued)

b. General Obligation Bonds

The Town's general obligation bonds serviced by the enterprise fund were issued to finance the construction of facilities utilized in the operations of the water and sewer system and which are being retired by its resources are reported as long-term debt in the Water and Sewer Fund. All 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, 2018, are comprised of the following:

Serviced by Water and Sewer Fund

\$1,652,724 USDA financing, interest rate at 4.125%,
Principal and interest due annually on June 1, due serially to 2049. \$1,457,000

Future maturities of long-term debt, including \$1,081,206 of interest, are as follows as of June 30, 2019:

Year Ending June 30	Business Type Activities	
	Principal	Interest
2020	\$ 27,000	\$ 60,638
2021	28,000	59,524
2022	29,000	58,369
2023	31,000	57,173
2024	32,000	55,894
2025-29	179,000	258,720
2030-34	221,000	218,460
2035-39	270,000	168,919
2040-44	330,000	108,529
2045-49	310,000	34,980
	<u>\$ 1,457,000</u>	<u>\$ 1,081,206</u>

At June 30, 2019, the Town of East Spencer had no authorized but unissued bonds and a legal debt margin of \$ 10,542,895.

NOTES TO THE FINANCIAL STATEMENTS (continued)

c. Changes in Long-Term Liabilities

	Balance June 30, 2018	Increases	Decreases	Balance June 30, 2019	Current Portion
Governmental activities:					
Direct placement:					
Installment purchase	\$ 8,000	\$ -	\$ 8,000	\$ -	\$ -
Installment purchase	-	428,000	22,600	405,400	23,334
Net pension liability (LGERS)	131,690	-	46,048	85,642	-
Net pension obligation (LEO)	24,856	20,367	-	45,223	-
Compensated absences	15,093	5,639	-	20,732	-
	<u>179,639</u>	<u>454,006</u>	<u>76,648</u>	<u>556,997</u>	<u>23,334</u>
Business-type activities:					
USDA loan	1,496,000	-	39,000	1,457,000	27,000
General obligation bonds	13,000	-	13,000	-	-
	<u>1,509,000</u>	<u>-</u>	<u>52,000</u>	<u>1,457,000</u>	<u>27,000</u>
Total	<u>\$ 1,688,639</u>	<u>\$ 454,006</u>	<u>\$ 128,648</u>	<u>\$ 2,013,997</u>	<u>\$ 50,334</u>

Compensated absences for governmental activities have typically been liquidated in the General Fund.

C Interfund Balances and Activity

Balances due to/from other funds at June 30, 2019, consist of the following:

Due to/from other funds:

To	General Fund	\$ 951,947
From	General Fund Park Project	\$ 49,997
To	General Fund Brownsfield Project	\$ 8,703
To	Water and Sewer Fund Capital Project	\$ 2,425
From	Water and Sewer Fund	\$ 913,077

The interfund balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Transfers to/from other funds at June 30, 2019 consist of the following:

From General Fund to the General Fund Capital Park Project	\$60,000
From General Fund to the General Fund Revitalization Capital Project	1,242

Transfers are used to move unrestricted revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations.

NOTES TO THE FINANCIAL STATEMENTS (continued)

D. On-Behalf of Payments for Fringe Benefits and Salaries

The Town has recognized as revenue and an expenditure, on-behalf payments for fringe benefits and salaries of \$10,544 for the salary supplement and stipend benefits paid to eligible firemen by the local board of trustees of the Firemen's Relief Fund during the fiscal year ended June 30, 2019. Under State law the local board of trustees for the Fund receives an amount each year, which the board may use at its own discretion for eligible firemen or their departments.

E. Construction Commitments

The Town has active construction projects as of June 30, 2019. At year-end, the Town's commitments with contractors are as follows:

Project	Spent-to-date	Remaining Commitment
Revitalization	\$ 623,038	\$ 56,962
Park Project	747,122	-
Brownsfield Project	354,730	120,270
Pump Station	2,175,852	231,148
Total	<u>\$ 3,900,741</u>	<u>\$ 408,380</u>

F. Net Investment in Capital Assets

	Governmental	Business-type
Capital Assets	\$ 1,891,248	\$ 3,903,439
less: long-term debt	405,400	1,457,000
add: unexpended debt proceeds	-	-
Net investment in capital assets	<u>\$ 1,485,848</u>	<u>\$ 2,446,439</u>

G. 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	\$ 1,575,222
Less:	
Prepaid Items	-
Stabilization by State Statute	1,040,656
Streets - Powell Bill	343,988
Subsequent year's expenditures	-
Remaining Fund Balance	\$ 190,578

NOTES TO THE FINANCIAL STATEMENTS (continued)

The outstanding encumbrances are amounts needed to pay any commitments related to purchase orders and contracts that remain unperformed at year-end.

<i>Encumbrances</i>	<i>General Fund</i>	<i>Non-Major Funds</i>
	\$0	

IV. Summary of 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 moneys 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.

V. Significant Effects of Subsequent Events

Subsequent events occurring after the statement of financial position date have been evaluated through November 26, 2019, which is the date the financial statements were available to be issued. There were no subsequent events that came to our attention after the audit that would have a significant effect on the Town.

Town of East Spencer, North Carolina
Law Enforcement Officers' Special Separation Allowance
Required Supplementary Information
June 30, 2019

Schedule of Changes in Total Pension Liability

	2019	2018	2017
Beginning balance	\$ 24,856	\$ 9,102	\$ 4,551
Service Cost	6,112	6,190	12,441
Interest on total pension liability	3,103	3,182	
Changes of benefit terms	-	-	-
Differences between expected and actual experience in the measurement of the total pension liability	15,052	-	-
Changes of assumptions or other inputs	(3,900)	6,382	(7,890)
Benefit payments	-	-	-
Other changes	-	-	-
Ending balance of the total pension liability	<u>\$ 45,223</u>	<u>\$ 24,856</u>	<u>\$ 9,102</u>

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

Schedule of Total Pension Liability as a Percentage of Covered Payroll

	2019	2018	2017
Total pension liability	\$ 45,223	\$ 24,856	\$ 9,102
Covered payroll	250,096	277,062	329,521
Total pension liability as a percentage of covered payroll	18.08%	8.97%	2.76%

Notes to the schedules:

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

Town of East Spencer, North Carolina
Town of East Spencer's Contributions
Required Supplementary Information
Last Six Fiscal Years

Local Government Employees' Retirement System

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 31,597	\$ 27,832	\$ 29,220	\$ 29,044	\$ 21,767	\$ 17,183
Contributions in relation to the contractually required contribution	<u>\$ 31,597</u>	<u>\$ 27,832</u>	<u>\$ 29,220</u>	<u>\$ 29,044</u>	<u>\$ 21,767</u>	<u>\$ 17,183</u>
Contribution deficiency (excess)	<u> </u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
East Spencer's covered-employee payroll	\$381,546	\$344,798	\$375,271	\$413,130	\$279,494	\$302,863
Contributions as a percentage of covered-employee payroll	8.28%	8.07%	7.79%	7.03%	7.79%	7.14%

Proportionate Share of Net Pension Liability (Asset)

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
East Spencer's proportion of the net pension liability (asset) (%)	0.00361%	0.00862%	0.00751%	0.00741%	0.00324%	0.00350%
East Spencer's proportion of the net pension liability (asset) (\$)	\$ 85,642	\$131,690	\$159,387	\$ 33,256	\$ (19,106)	\$ 41,131
East Spencer's covered-employee payroll	\$344,798	\$375,271	\$413,130	\$279,494	\$302,863	\$254,355
East Spencer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	24.84%	35.09%	38.58%	11.90%	(6.31%)	16.17%
Plan fiduciary net position as a percentage of the total pension liability**	91.63%	94.18%	91.47%	98.09%	102.64%	94.35%

* The amounts presented for each fiscal year were determined as of the prior fiscal year ending June 30.

** This will be the same percentage for all participant employers in the LGERS plan.

Town of East Spencer, North Carolina
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the Year Ended June 30, 2019
(With Comparative Actual Amounts for the Year Ended June 30, 2018)

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>Actual Year ended June 30, 2018</u>
REVENUES:				
Ad valorem taxes				
Current year collections		\$ 802,417		\$ 763,656
Penalties and interest		7,222		30,361
	<u>\$ 776,600</u>	<u>809,639</u>	<u>\$ 33,039</u>	<u>794,017</u>
Other taxes, licenses and fees				
Landfill fees		98,537		102,370
Other fees, taxes and licenses		1,653		1,538
	<u>103,950</u>	<u>100,190</u>	<u>(3,760)</u>	<u>103,908</u>
Unrestricted intergovernmental				
Local option sales tax		355,780		332,219
Beer and wine tax		11,275		11,211
Utility franchise tax		117,530		114,810
	<u>441,500</u>	<u>484,585</u>	<u>43,085</u>	<u>458,240</u>
Restricted intergovernmental				
Powell Bill allocation		53,334		54,238
Powell Bill interest earned		5,091		1,876
On-behalf of payments - fire fighters		10,544		15,344
Fire grants		18,908		45,826
	<u>52,000</u>	<u>87,876</u>	<u>35,876</u>	<u>117,284</u>
Sales and services				
Other charges for services		-		-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other general revenues				
Investment earnings		7,596		3,812
Insurance proceeds		15,209		10,406
Donations		11,320		13,719
Donation of land		173,114		-
Sale of assets		2,500		-
Sales tax refund		24,607		-
Miscellaneous		29,004		19,595
	<u>180,168</u>	<u>263,350</u>	<u>83,182</u>	<u>47,531</u>
Total revenues	<u>1,554,218</u>	<u>1,745,640</u>	<u>191,422</u>	<u>1,520,980</u>

Town of East Spencer, North Carolina
General Fund (Continued)
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the Year Ended June 30, 2019
(With Comparative Actual Amounts for the Year Ended June 30, 2018)

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>Actual Year ended June 30, 2018</u>
EXPENDITURES:				
General Government				
Town Commissioners				
Salaries and benefits		\$ 23,202		\$ 23,839
Special events		8,982		-
Other operating expenditures		16,058		12,383
	<u>\$ 57,221</u>	<u>48,242</u>	<u>\$ 8,979</u>	<u>36,223</u>
Administration				
Salaries and benefits		157,925		159,416
Operating expenses		203,308		176,388
Capital outlay		204,742		-
	<u>381,837</u>	<u>565,975</u>	<u>(184,138)</u>	<u>335,804</u>
Total general government	<u>439,058</u>	<u>614,218</u>	<u>(175,160)</u>	<u>372,027</u>
Zoning				
Salaries and employee benefits		23,635		1,920
Operating expenses		895		23,952
Demolition and Rehabilitation		5,100		33,059
Capital outlay		-		-
	<u>43,700</u>	<u>29,630</u>	<u>14,070</u>	<u>58,931</u>
Public Safety				
Fire				
Salaries and benefits		115,024		97,464
Operating expenses		91,851		135,241
On-behalf payments		10,544		15,344
Capital outlay		503,669		80,946
	<u>313,088</u>	<u>721,088</u>	<u>(408,000)</u>	<u>328,996</u>
Police				
Salaries and employee benefits		362,181		336,537
Operating expenses		78,306		82,400
Capital outlay		32,900		15,899
	<u>470,854</u>	<u>473,387</u>	<u>(2,533)</u>	<u>434,836</u>
Total public safety	<u>783,942</u>	<u>1,194,475</u>	<u>(410,533)</u>	<u>763,832</u>
Public Works				
Streets and highways				
Salaries and benefits		93,527		95,491
Operating expenses		59,179		69,214
Powell Bill - capital outlay		-		-
Powell Bill - other		703		-
Capital outlay		-		17,488
Total transportation	<u>383,299</u>	<u>153,409</u>	<u>229,890</u>	<u>182,193</u>

Town of East Spencer, North Carolina
General Fund (Continued)
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the Year Ended June 30, 2019
(With Comparative Actual Amounts for the Year Ended June 30, 2018)

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>Actual Year ended June 30, 2018</u>
EXPENDITURES:				
Environmental Protection				
Solid Waste				
Operating expenses		\$ 69,620		\$ 65,634
Capital outlay		-		-
Total environmental	<u>\$ 69,000</u>	<u>69,620</u>	<u>\$ (620)</u>	<u>65,634</u>
Culture and Recreation				
Parks and recreation				
Salaries and benefits		-		7,287
Operating expenses		24,463		9,687
Capital outlay		33,794		4,000
	<u>54,691</u>	<u>58,257</u>	<u>(3,566)</u>	<u>20,974</u>
Debt service				
Principal		30,600		9,198
Interest		13,910		327
	<u>44,510</u>	<u>44,510</u>	<u>-</u>	<u>9,525</u>
Total expenditures	<u>1,818,200</u>	<u>2,164,119</u>	<u>(345,919)</u>	<u>1,473,116</u>
Revenues over expenditures	<u>(263,982)</u>	<u>(418,479)</u>	<u>(154,497)</u>	<u>47,864</u>
OTHER SOURCES (USES)				
Debt proceeds	-	428,000	428,000	-
Operating transfers:				
Transfer to capital project funds	71,160	(61,242)	(132,402)	-
Transfer (to) from other funds	-	-	-	-
Appropriated Fund Balance	<u>192,822</u>	<u>-</u>	<u>(192,822)</u>	<u>-</u>
	<u>263,982</u>	<u>366,758</u>	<u>102,776</u>	<u>-</u>
Revenues and other financing sources over (under) expenditures	<u>\$ -</u>	<u>(51,720)</u>	<u>\$ (51,720)</u>	<u>47,864</u>
Fund balances - beginning of year		<u>1,626,942</u>		<u>1,579,078</u>
Fund balances - end of year		<u>\$ 1,575,222</u>		<u>\$ 1,626,942</u>

Town of East Spencer, North Carolina
General Non-Major Capital Projects Fund - Revitalization
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
From inception and for the fiscal year ended June 30, 2019

	Project Authorization	Prior Year	Actual Current Year	Total to Date	Variance Favorable (Unfavorable)
Revenues:					
Restricted intergovernmental					
USDA Grant	\$ 75,000	\$ 75,000	\$ -	\$ 75,000	\$ -
CDBG Grant	500,000	606,205	(106,206)	500,000	-
Total revenues	575,000	681,205	(106,206)	575,000	-
Expenditures:					
Rehabilitation of buildings -CDBG	450,000	549,751	(34,200)	515,551	(65,551)
Rehabilitation of buildings - USDA	165,000	75,000	-	75,000	90,000
Planning - CDBG	7,000	5,701	-	5,701	1,299
Administration - USDA	15,000	13,575	-	13,575	1,425
Administration - CDBG	43,000	13,211	-	13,211	29,789
Equipment	-	-	-	-	-
Total	680,000	657,238	(34,200)	623,038	56,962
Total expenditures	680,000	657,238	(34,200)	623,038	56,962
Revenues over expenditures	(105,000)	23,967	(72,006)	(48,039)	(56,961)
Other financing sources (uses):					
Interest earned		285	-	285	285
Transfer from general fund	105,000	46,512	1,242	47,754	(57,246)
Total other financing sources	105,000	46,797	1,242	48,039	(56,961)
Net change in fund balance	\$ -	\$ 70,763	(70,763)	\$ -	\$ -
Fund balance, beginning			70,763		
Fund balance, ending			\$ -		

Town of East Spencer, North Carolina
General Major Capital Projects Fund - Park Project
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
From inception and for the fiscal year ended June 30, 2019

	<u>Project Authorization</u>	<u>Prior Year</u>	<u>Actual Current Year</u>	<u>Total to Date</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:					
Restricted intergovernmental					
Grants	\$ 300,000	\$ 91,192	\$ 208,808	\$ 300,000	\$ -
Contributions	300,000	192,961	100,697	293,658	(6,342)
Total revenues	<u>600,000</u>	<u>284,153</u>	<u>309,505</u>	<u>593,658</u>	<u>(6,342)</u>
Expenditures:					
Park renovations	640,000	166,528	580,594	747,122	107,122
Equipment	<u>20,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(20,000)</u>
Total	<u>660,000</u>	<u>166,528</u>	<u>580,594</u>	<u>747,122</u>	<u>87,122</u>
Total expenditures	<u>660,000</u>	<u>166,528</u>	<u>580,594</u>	<u>747,122</u>	<u>87,122</u>
Revenues over expenditures	<u>(60,000)</u>	<u>117,625</u>	<u>(271,089)</u>	<u>(153,464)</u>	<u>93,464</u>
Other financing sources (uses):					
Interest earned	-	1,622	648	2,269	2,269
Transfer from other funds	-	-	-	-	-
Transfer from general fund	<u>60,000</u>	<u>60,000</u>	<u>60,000</u>	<u>120,000</u>	<u>60,000</u>
Total other financing sources	<u>60,000</u>	<u>61,622</u>	<u>60,648</u>	<u>122,269</u>	<u>62,269</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 179,246</u>	<u>(210,442)</u>	<u>\$ (31,196)</u>	<u>\$ (31,196)</u>
Fund balance, beginning			<u>179,246</u>		
Fund balance, ending			<u>\$ (31,196)</u>		

Town of East Spencer, North Carolina
General Major Capital Projects Fund - Brownsfield Building Project
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
From inception and for the fiscal year ended June 30, 2019

	<u>Project Authorization</u>	<u>Prior Year</u>	<u>Actual Current Year</u>	<u>Total to Date</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:					
Restricted intergovernmental					
EPA Grants	<u>\$ 475,000</u>	<u>\$ 242,213</u>	<u>\$ 104,043</u>	<u>\$ 346,256</u>	<u>\$ (128,744)</u>
Total revenues	<u>475,000</u>	<u>242,213</u>	<u>104,043</u>	<u>346,256</u>	<u>(128,744)</u>
Expenditures:					
Building		414	-	414	
Contract services		231,398	112,911	344,308	
Administration		-	-	-	
Capital outlay		10,000	-	10,000	
Equipment and supplies		7	-	7	
Total	<u>475,000</u>	<u>241,819</u>	<u>112,911</u>	<u>354,730</u>	<u>(120,270)</u>
Total expenditures	<u>475,000</u>	<u>241,819</u>	<u>112,911</u>	<u>354,730</u>	<u>(120,270)</u>
Revenues over expenditures	<u>-</u>	<u>394</u>	<u>(8,868)</u>	<u>(8,474)</u>	<u>8,474</u>
Other financing sources (uses):					
Interest earned	-	-	31	31	31
Debt proceeds	-	8,000	-	8,000	8,000
Total other financing sources	<u>-</u>	<u>8,000</u>	<u>31</u>	<u>8,031</u>	<u>8,031</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 8,394</u>	<u>(8,837)</u>	<u>\$ (443)</u>	<u>\$ (443)</u>
Fund balance, beginning			8,394		
Fund balance, ending			<u>\$ (443)</u>		

Town of East Spencer, North Carolina
Water and Sewer Fund
Schedule of Revenue and Expenditures - Budget and Actual (Non-GAAP)
For the Year Ended June 30, 2019
(With Comparative Actual Amounts for the Year Ended June 30, 2018)

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>Actual Year ended June 30, 2018</u>
Revenues:				
Operating revenues:				
Water charges		\$ 422,713		\$ 412,034
Sewer charges		389,954		395,643
Other charges		7,161		11,836
Total operating revenues	<u>\$ 880,200</u>	<u>819,829</u>	<u>\$ (60,371)</u>	<u>819,513</u>
Nonoperating revenues:				
Grants		-		-
Interest income		2,622		1,605
Total nonoperating revenues	<u>1,200</u>	<u>2,622</u>	<u>1,422</u>	<u>1,605</u>
Total revenues	<u>881,400</u>	<u>822,450</u>	<u>(58,950)</u>	<u>821,118</u>
Expenditures:				
Operations				
Water purchases		681,167		485,654
Service and maintenance		125,738		158,174
Other operating expenses		-		-
	<u>693,500</u>	<u>806,905</u>	<u>(113,405)</u>	<u>643,828</u>
Budgetary appropriations:				
Capital outlay and construction		-		-
Payment on debt - principal		52,000		41,000
Payment on debt - interest		49,360		64,191
	<u>101,740</u>	<u>101,360</u>	<u>380</u>	<u>105,191</u>
Total expenditures	<u>795,240</u>	<u>908,265</u>	<u>(113,025)</u>	<u>749,019</u>
Revenues over (under) expenditures	<u>86,160</u>	<u>(85,815)</u>	<u>171,975</u>	<u>72,099</u>
OTHER SOURCES (USES)				
Transfer from (to) other funds	(71,160)	-	(71,160)	-
Transfer from (to) capital project	-	-	-	-
Contingency	(15,000)	-	(15,000)	-
	<u>(86,160)</u>	<u>-</u>	<u>(86,160)</u>	<u>-</u>
Revenues and other sources over (under) expenditures and other uses	<u>\$ -</u>	<u>\$ (85,815)</u>	<u>\$ 85,815</u>	<u>\$ 72,099</u>

Town of East Spencer, North Carolina
Water and Sewer Fund (continued)
Schedule of Revenue and Expenditures - Budget and Actual (Non-GAAP)
For the Year Ended June 30, 2019
(With Comparative Actual Amounts for the Year Ended June 30, 2018)

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

	<u>2019</u>	<u>2018</u>
Revenues over expenditures	\$ (85,815)	\$ 72,099
Reconciling items:		
Depreciation	(76,239)	(76,239)
Principal paid on debt	52,000	41,000
Interest earned - capital projects	125	-
Grants - capital projects	<u>1,048,957</u>	<u>999,401</u>
Change in net position	<u><u>\$ 939,028</u></u>	<u><u>\$ 1,036,261</u></u>

Town of East Spencer North Carolina
Water and Sewer Capital Projects Fund
Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)
From inception and for the fiscal year ended June 30, 2019

	Project Authorization	Prior Year	Actual Current Year	Total to Date	Variance Favorable (Unfavorable)
Revenues:					
Restricted intergovernmental CDBG Infrastructure grant	\$ 2,407,000	\$ 1,129,376	\$ 1,048,957	\$ 2,178,333	\$ (228,667)
Total revenues	2,407,000	1,129,376	1,048,957	2,178,333	(228,667)
Expenditures:					
Administration	289,000	286,568	72,825	359,393	(70,393)
Engineering	136,000	-	-	-	136,000
Construction	1,982,000	842,538	973,921	1,816,459	165,541
Total	2,407,000	1,129,106	1,046,746	2,175,852	231,148
Total expenditures	2,407,000	1,129,106	1,046,746	2,175,852	231,148
Revenues over expenditures	-	270	2,211	2,481	(2,481)
Other financing sources (uses):					
Interest earned	-	-	125	125	125
Operating fund - Water	-	-	-	-	-
Total other financing sources	-	-	125	125	125
Revenues and other sources over (under) expenditures	\$ -	\$ 270	\$ 2,336	\$ 2,606	\$ 2,606

Town of East Spencer, North Carolina
General Fund
Schedule of Ad Valorem Taxes Receivable
June 30, 2019

<u>Fiscal Year</u>	<u>Uncollected Balance June 30, 2018</u>	<u>Additions</u>	<u>Collections And Credits</u>	<u>Uncollected Balance June 30, 2019</u>
2018-2019		\$ 830,253	\$ 795,617	\$ 34,636
2017-2018	\$ 34,683		7,970	26,713
2016-2017	23,466		2,935	20,531
2015-2016	17,747		1,101	16,646
2014-2015	17,319		1,569	15,750
2013-2014	16,865		1,682	15,183
2012-2013	14,884		1,382	13,502
2011-2012	13,383		1,555	11,828
2010-2011	12,601		1,069	11,532
2009-2010	9,542		903	8,639
2008-2009	7,369		1,116	6,253
2007-2008	6,906		603	6,303
2006-2007	585		41	544
	<u>\$ 175,350</u>	<u>\$ 830,253</u>	<u>\$ 817,543</u>	<u>\$ 188,060</u>

Reconciliation with revenues:

Taxes-Ad Valorem-General	\$ 802,417
Amounts written off per statute of limitations	
Discounts and releases	<u>15,126</u>
Total collections and credits	<u>\$ 817,543</u>

Town of East Spencer, North Carolina
Analysis of Current Tax Levy
Town-Wide Levy
For the Year Ended June 30, 2019

	Total Levy				
	Total Property Valuation	Rate	Amount of Levy	Property excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Property taxed at current years rate	\$ 130,639,841	0.63	\$ 823,031	\$ 781,778	\$ 41,253
Discoveries - current and prior years	-		-	-	-
Penalties	1,146,349		7,222	7,222	-
Releases	-		-	-	-
Total property valuation	<u>\$ 131,786,190</u>		<u>830,253</u>	<u>789,000</u>	<u>41,253</u>
Net Levy			830,253	789,000	41,253
Uncollected taxes at June 30, 2019			<u>34,636</u>	<u>34,636</u>	<u>-</u>
Current year's taxes collected			<u>\$ 795,617</u>	<u>\$ 754,364</u>	<u>\$ 41,253</u>
Percent current year collected			<u>95.83%</u>	<u>95.61%</u>	<u>100.00%</u>

Town of East Spencer, North Carolina
Ten Largest Taxpayers
For the Fiscal Year Ended June 30, 2019

<u>Name</u>	<u>Type of Business</u>	<u>Property Value</u>	<u>Tax Levy</u>	<u>Percentage of Total Assessed Valuation</u>
Aldi, Inc	Grocery Distribution	\$ 45,641,532	\$ 301,234	38.53%
Boral Composites, Inc	Manufacturing	14,461,977	95,449	12.21%
Meridian Brick	Manufacturing	6,154,997	40,623	5.20%
Isenhour Brick & Tile	Manufacturing	5,323,871	35,138	4.49%
Duke Energy	Utility	2,248,835	14,842	1.90%
Waste Management	Waste Removal	688,298	4,543	0.58%
Hallco Industries, Inc	Manufacturing	528,858	3,490	0.45%
Jarrell A L III	Contractor	505,504	3,336	0.43%
Robert L Byrne	Real estate	427,696	2,823	0.36%
Kiddie Land Kindergarten Inc	Private School	421,480	2,782	0.36%
		<u>\$ 76,403,048</u>	<u>\$ 504,260</u>	<u>64.50%</u>

EDDIE CARRICK, CPA, PC

Certified Public Accountant

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

To the Honorable Mayor and Board
Town of East Spencer, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of East Spencer, North Carolina, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Town of East Spencer, North Carolina's basic financial statements and have issued our report thereon dated November 26, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of East Spencer, North Carolina's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of East Spencer, North Carolina's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of East Spencer, North Carolina's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies listed as items 2019-1, 2019-2, and 2019-3

Compliance and Other Matters

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

Town of East Spencer, North Carolina's Response to Findings

Town of East Spencer, North Carolina's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Town of East Spencer, North Carolina's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Eddie Carrick, CPA, PC

A handwritten signature in black ink, appearing to read "E. Carrick" with a stylized flourish at the end.

Lexington, North Carolina

November 26, 2019

EDDIE CARRICK, CPA, PC

Certified Public Accountant

Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; With OMB Uniform Guidance and the State Single Audit Implementation Act

Independent Auditor's Report

To the Honorable Mayor and
Members of the Town Board
Town of East Spencer, North Carolina

Report on Compliance for Each Major Federal Program

We have audited the Town of East Spencer, North Carolina, compliance with the types of compliance requirements described in the *OMB Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of the Town of East Spencer's major federal programs for the year ended June 30, 2019. The Town of East Spencer'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 the Town of East Spencer'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) and the State Single Audit Implementation Act. Those standards, the Uniform Guidance, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town of East Spencer'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 the Town of East Spencer's compliance.

Opinion on Each Major Federal Program

In our opinion, the Town of East Spencer 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, 2019.

Report on Internal Control Over Compliance

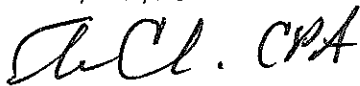
Management of the Town of East Spencer is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Town of East Spencer's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our 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 the Town's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a 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 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 significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Eddie Carrick, CPA, PC

A handwritten signature in black ink, appearing to read "E. Carrick, CPA".

Lexington, North Carolina
November 26, 2019

Town of East Spencer, North Carolina
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019

I. Summary of Auditor's Results

Financial statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

* Material weakness(es) identified? _____ yes X no

* Significant Deficiency(s) identified that
are not considered to be material weaknesses? X yes _____ no

Noncompliance material to financial
statements noted _____ yes X no

Federal and state awards

* Material weakness(es) identified? _____ yes X no

* Significant Deficiency(s) identified that
are not considered to be material weaknesses? _____ yes X no

Type of auditor's report issued on compliance for major federal programs: unqualified

Any audit findings disclosed that are required to be
accordance with 2 CFR 200.516(a)? _____ yes X no

Identification of major federal and state programs:

Program Name	CFDA #
US Department of Housing and Urban Development Community Development Block Grants - States	14.228

Dollar threshold to distinguish between Type A and Type B programs: \$ 750,000

Auditee qualified as low risk auditee? _____ yes X no

Town of East Spencer, North Carolina
Financial Statement Findings
For the Year Ended June 30, 2019

II Financial Statement Findings

Significant Deficiencies

2019-1 Violation of State Statutes

Criteria: State Statutes require pre-audit certification for all expenditures

Condition: The Town over expended its General Fund administration, Fire, Police, Solid Waste, and Parks departments, as well as its Water and Sewer Fund

Effect: Material violation of State Statutes - The Town's current accounting system does not allow management to timely monitor budget verses actual expenditures. This condition may allow incorrect reporting, fraudulent transactions to occur which may not be identified on a timely basis, miscoding of expenditures which may not be corrected on a timely basis and erroneous reporting of financial information.

Cause: Per-audit certification not considered in the budget monitoring process

Recommendation: Pre-audit certification should be done for all expenditures

Management response: See Corrective Action Plan page 67

2019-2 Violation of State Statutes

Criteria: State Statutes require that actual expenditures not to exceed budgeted amounts

Condition: The Town over expended its General Fund administration, Fire, Police, Solid Waste, and Parks departments, as well as its Water and Sewer Fund

Effect: Material violation of State Statutes - The Town's current accounting system does not allow management to timely monitor budget verses actual expenditures. This condition may allow incorrect reporting, fraudulent transactions to occur which may not be identified on a timely basis, miscoding of expenditures which may not be corrected on a timely basis and erroneous reporting of financial information.

Cause: Budget to actual expenditures was not considered in the budget monitoring process

Recommendation: The budget versus actual should be monitored monthly.

Management response: See Corrective Action Plan page 67

Town of East Spencer, North Carolina
Financial Statement Findings (continued)
For the Year Ended June 30, 2019

II Financial Statement Findings (continued)

Significant Deficiencies (continued)

2019-3 Segregation of Duties

Criteria: Duties should be segregated to provide reasonable assurance that transactions are handled appropriately.

Condition: There is a lack of segregation of duties among Town personnel.

Effect: Transactions could be mishandled

Cause: There are a limited number of personnel for certain functions.

Identification of a repeat finding: This is a repeat finding from the immediate previous audit, 2018-01

Recommendation: The duties should be separated as much as possible, and alternative controls should be used to compensate for lack of separation. The governing Board should provide some of these controls.

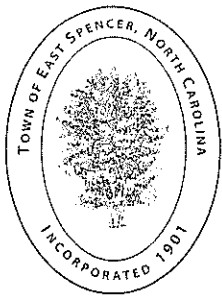
Views of responsible officials and planned corrective actions: The Town agrees with this finding and will initiate controls to compensate for lack of separation.

III Federal Award Findings and Questioned Costs

None reported

IV State Award Findings and Questioned Costs

None reported



TOWN OF EAST SPENCER

"Home of Heritage & Promise"

Town of East Spencer, North Carolina
Corrective Action Plan
For the Year Ended June 30, 2019

II Financial Statement Findings

Significant Deficiencies

2019-1,2 Violation of State Statutes

Name of contact person: James Bennett - Town Administrator

Corrective action - Line item budgeted amounts will be monitored timely and budget adjustments made prior to expenditures exceeding budgeted amounts. The Town is considering implementing an encumbrance system to more effectively monitor expenditures.

Proposed Completion Date: The Board will implement the above procedure immediately.

2019-03 Segregation of Duties

Name of contact person: James Bennett - Town Administrator

Corrective action - The duties will be separated as much as possible and alternative controls will be used to compensate for lack of separation. The governing Board will become more involved in providing some of these controls.

Proposed Completion Date: The Board will implement the above procedure immediately.

III Federal Award Findings and Questioned Costs

None reported

IV State Award Findings and Questioned Costs

None reported

Town of East Spencer, North Carolina
Schedule of Federal and State Financial Awards
For the year ended June 30, 2019

GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS THROUGH GRANTOR'S NUMBER	FEDERAL (DIRECT) PASS-THROUGH EXPENDITURES	STATE EXPENDITURES	LOCAL EXPENDITURES
FEDERAL LOANS AND GRANTS					
<u>US Department of Housing and Urban Development</u>					
Pass through N.C. Department of Environmental Quality					
Community Development Block Grant - States	14.228	14-I-2666	\$ 1,046,746 **		
<u>US Environmental Protection Agency</u>					
Pass through N.C. Department of Environmental Quality					
Brownsfield Assessment and Cleanup					
Cooperative Agreements	66.818		112,911		
STATE GRANTS					
<u>N.C. Department of Insurance</u>					
Fire Safety Grants				\$ 18,908	
<u>N.C. Department of Parks and Recreation</u>					
Park and Recreation Trust Fund		2017-827		208,808	\$ 371,786
<u>N.C. Department of Transportation</u>					
Powell Bill				703	
			<u>\$ 1,159,657</u>	<u>\$ 228,419</u>	<u>\$ 371,786</u>

**** Major programs**

Notes to the Schedule of Expenditures of Federal and State Financial Awards:

Note 1: Basis of Presentation

The accompanying schedule of expenditures of federal and State awards (SEFSA) includes the federal and State grant activity of the Town of East Spencer under the programs of the federal government and the State of North Carolina for the year ended June 30, 2019. The information in this SEFSA is presented in accordance with the requirements of Title 2 US Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and the State Single Audit Implementation Act. Because the Schedule presents only a selected portion of the operations of the Town of East Spencer, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Town of East Spencer.

Note 2: Summary of Significant Accounting Policies

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

Note 3: Indirect Cost Rate

The Town of East Spencer has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.