

**Town of Spencer
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 Spencer
Spencer, North Carolina**

Board of Governance

Mayor	Jim Gobbel
Mayor Pro Tem	Sharon Hovis
Alderman	Sylvia Chillcott
Alderman	Rashid Muhammad
Alderman	David Smith
Alderman	David Lamanno
Alderman	Mike Boone

Town of Spencer

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June 30, 2019

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INDEPENDENT AUDITOR'S REPORT

To the Mayor and Board of Aldermen
Town of Spencer
Spencer, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, business-type activities and each major fund of the Town of 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, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities and each major fund of the Town of Spencer, North Carolina, as of June 30, 2019, and the respective changes in financial position, cash flows, where appropriate, 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, LGERS – Schedule of Contributions and Proportionate Share of Net Pension Liability (Asset), LEO Separation Allowance – Schedule of Changes in Pension Liability and Pension Liability as a Percentage of Covered Payroll on pages 3-11 and 38-39, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

The individual fund statements, budgetary schedules, and other schedules 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 individual fund statements, budgetary schedules, and other schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15 2019, on our consideration of the Town of 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 the Town of Spencer, North Carolina's internal control over financial reporting and compliance.

Eddie Carrick, CPA



Lexington, North Carolina

November 15, 2019



Management's Discussion and Analysis

As management of the Town of Spencer, we offer the readers of the Town of Spencer's financial statements this narrative overview and analysis of the financial activities of the Town of 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

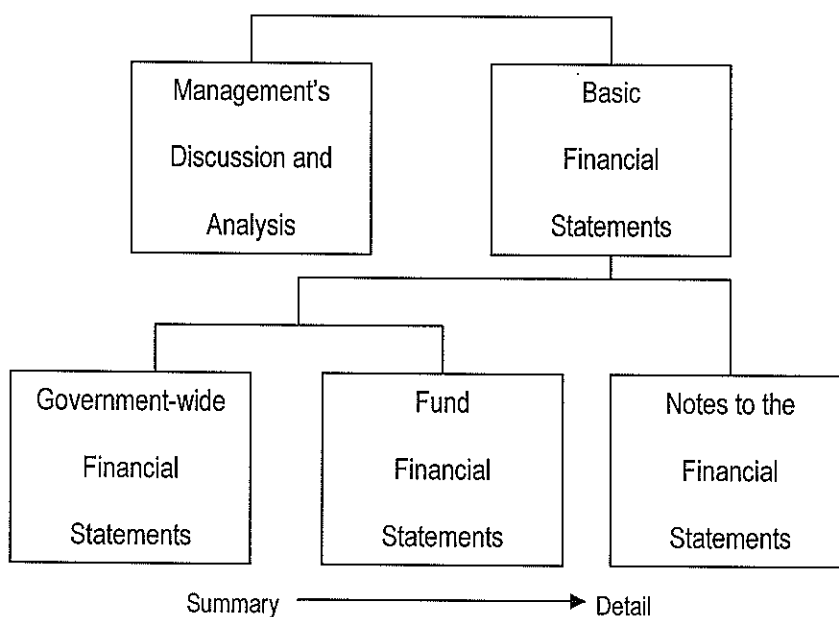
- The assets and deferred outflow of resources of the Town of Spencer exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$6,590,636 (*net position*).
- The government's total net position increased by \$551,327, primarily due to conservative spending in the General Fund.
- As of the close of the current fiscal year, the Town of Spencer's governmental fund reported ending fund balances of \$2,722,719 with a net change of (\$450,649) in fund balance. Approximately 41% of this total amount, or \$1,125,944, is restricted or assigned.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$1,596,775, or 43% of total general fund expenditures for the fiscal year.
- The Town of Spencer's total debt and long-term obligations increased by \$120,018 due to principal payments of \$66,966, increase in Separation Allowance NPO of \$12,968, increase in pension liability of \$172,520 and an increase of accrued vacation of \$1,496.

Overview of the Financial Statements

This discussion and analysis is intended to serve as introduction to the Town of 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 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 5) 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 two parts to the Fund Financial Statements: 1) the governmental fund statements; and 2) the budgetary comparison 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 it has changed. Net position is the difference between the Town's total assets and deferred outflows of resources and total liabilities and deferred inflows of resources. Measuring net position is one way to gauge the Town's financial condition.

Management Discussion and Analysis Town of Spencer

The government-wide statements consist of the governmental activities. The governmental activities include most of the Town's basic services such as public safety, parks and recreation, and general administration. Property taxes and state and federal grant funds finance most of these activities.

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

Fund Financial Statements

The fund financial statements (see Figure 2) 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 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 Spencer fall under one category: governmental funds.

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

The Town of 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 difference 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.

Notes to the Financial Statements – The notes provide additional information that is essential to the full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 18 of this report.

Other Information – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information. Required supplementary information can be found following the basic financial statements.

Management Discussion and Analysis
Town of Spencer

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.

Government-Wide Financial Analysis

Town of Spencer's Net Position (Figure 2)

	<i>Governmental Activities</i>		<i>Total</i>	
	<i>2019</i>	<i>2018</i>	<i>2019</i>	<i>2018</i>
Current and other assets	\$ 2,962,459	\$ 3,526,461	\$ 2,962,459	\$ 3,526,461
Noncurrent assets	4,350,988	3,272,277	4,350,988	3,272,277
Deferred outflows of resources	319,191	155,135	319,191	155,135
Total assets and deferred outflow of resources	7,632,638	6,953,873	7,632,638	6,953,873
Long-term liabilities outstanding	819,184	739,166	819,184	739,166
Other Liabilities	72,899	150,689	72,899	150,689
Deferred inflows of resources	109,918	24,708	109,918	24,708
Total liabilities and deferred inflow of resources	1,002,001	914,563	1,002,001	914,563
Net position				
Net investment in				
in capital assets	4,170,216	3,024,540	4,170,216	3,024,540
Restricted for:				
Stabilization by state statute	374,894	351,603	374,894	351,603
Streets	526,488	631,524	526,488	631,524
Unrestricted	1,519,038	2,031,644	1,519,038	2,031,644
Total net position	\$ 6,590,636	\$ 6,039,309	\$ 6,590,636	\$ 6,039,311

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets and deferred outflows of the Town of Spencer exceeded its liabilities and deferred inflows by \$6,590,636 as of June 30, 2019. The Town's net position increased by \$551,327 for the fiscal year ended June 30, 2019. However, a large portion (63%) reflects the Town of Spencer's net investment in capital assets (e.g. land, buildings, machinery, and equipment). The Town of Spencer uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Spencer's net investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. In addition, \$901,382 represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$1,519,038 is unrestricted.

Management Discussion and Analysis
Town of Spencer

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

- Conservative approach to spending
- Purchase of fixed assets

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

	<i>Governmental Activities</i>		<i>Total</i>	
	<i>2019</i>	<i>2018</i>	<i>2019</i>	<i>2018</i>
Revenues:				
Program revenues:				
Charges for services	\$ 124,387	\$ 136,140	\$ 124,387	\$ 136,140
Operating grants and contributions	288,130	104,966	288,130	104,966
Capital grants and contributions	38,081	65,355	38,081	65,355
General revenues:				
Property taxes	1,382,054	1,358,278	1,382,054	1,358,278
Other taxes	1,261,327	1,175,065	1,261,327	1,175,065
Other	94,293	53,999	94,293	53,999
Total revenues	<u>3,188,272</u>	<u>2,893,803</u>	<u>3,188,272</u>	<u>2,893,803</u>
Expenses:				
General government	334,158	362,942	334,158	362,942
Land management	161,625	161,307	161,625	161,307
Public safety	1,316,826	1,187,084	1,316,826	1,187,084
Transportation	411,552	392,275	411,552	392,275
Environmental protection	338,522	339,005	338,522	339,005
Culture and recreation	74,262	85,201	74,262	85,201
Total expenses	<u>2,636,945</u>	<u>2,527,814</u>	<u>2,636,945</u>	<u>2,527,814</u>
Increase in net position	551,327	365,990	551,327	365,990
Net position, July 1	<u>6,041,309</u>	<u>5,675,319</u>	<u>6,041,309</u>	<u>5,675,319</u>
Net position, June 30	<u>\$ 6,592,636</u>	<u>\$ 6,041,309</u>	<u>\$ 6,592,636</u>	<u>\$ 6,041,309</u>

Governmental activities. Governmental activities increased the Town's net position by \$551,327, thereby accounting for 100% of the total growth in the net position of the Town of Spencer.

The increase in net position was the result of a concerted effort to control costs and manage expenditures while providing for future expansion by capital expenditures. Management believes healthy investment in the Town will result in additional revenues, and in that vein added to the Town's net position by investing in capital assets. Increased efforts to maximize tax collections also contributed to the favorable net position. Tax revenue did not appreciably decline in the current year. 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.

Financial Analysis of the Town's Funds

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

Governmental Funds. The focus of the Town of Spencer's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the Town of Spencer'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 of Spencer. At the end of the current fiscal year, the Town of Spencer's fund balance available in the General Fund was \$1,596,775, while total fund balance was \$2,722,719. The Town currently has an available fund balance of 43% of general fund expenditures, while total fund balance represents 74% of the same amount.

At June 30, 2019, the governmental funds of the Town reported a combined fund balance of \$2,722,719 with a net decrease in fund balance of \$450,649. Included in this change in fund balance are decreases in fund balance in the General Fund.

General Fund Budgetary Highlights: During the fiscal year, the Town revised the budget on several occasions. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and 3) increases in appropriations that become necessary to maintain services.

Revenues were more than the budgeted amounts primarily because the Town did not expect to receive some of the unrestricted intergovernmental funds that became available.

Capital Asset and Debt Administration

Capital Assets. The Town of Spencer's investment in capital assets for its governmental activities as of June 30, 2019, totals \$4,350,988 (net of accumulated depreciation). These assets include buildings, land, machinery and equipment, park facilities, and vehicles.

Major capital asset transactions during the year included the following additions:

Improvements	\$ 531,497
Land	250,000
Buildings	481,496

Management Discussion and Analysis
Town of Spencer

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

	<i>Governmental Activities</i>		<i>Total</i>	
	<i>2019</i>	<i>2018</i>	<i>2019</i>	<i>2018</i>
Land	\$ 543,965	\$ 293,965	\$ 543,965	\$ 293,965
Improvements	1,854,241	1,363,171	1,854,241	1,363,171
Buildings	1,387,375	950,545	1,387,375	950,545
Equipment	367,860	403,913	367,860	403,913
Vehicles and motorized equipment	197,547	260,683	197,547	260,683
Total	<u>\$ 4,350,988</u>	<u>\$ 3,272,277</u>	<u>\$ 4,350,988</u>	<u>\$ 3,272,277</u>

Additional information on the Town's capital assets can be found in Note III.A.4 of the Basic Financial Statements.

Long-term Debt. As of June 30, 2019, the Town of Spencer had total bonded debt outstanding of \$90,000. The debt service requirements for the debt are being met by the City 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. The Town has entered into installment purchase contracts with the following year end balances: fire equipment \$83,604, garbage truck \$58,667 and library renovation \$38,500.

Town of Spencer's Outstanding Debt

**General Obligation Bonds, Installment Purchases and Capital Lease
Figure 5**

	<i>Governmental Activities</i>		<i>Total</i>	
	<i>2019</i>	<i>2018</i>	<i>2019</i>	<i>2018</i>
General obligation bonds	\$ 90,000	\$ 90,000	\$ 90,000	\$ 90,000
Installment purchase	83,604	98,900	83,604	98,900
Installment purchase	58,667	71,837	58,667	71,837
Installment purchase	38,500	77,000	38,500	77,000
	<u>\$ 270,771</u>	<u>\$ 337,737</u>	<u>\$ 270,771</u>	<u>\$ 337,737</u>

Town of Spencer's Outstanding Debt

The Town of Spencer's total debt and long-term liabilities increased by \$120,018 due to principal payments of \$66,966, increase in Separation Allowance NPO of \$12,968, increase in pension liability of \$172,520 and an increase of accrued vacation of \$1,496.

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 taxable property located within that government's boundaries. The legal debt margin for Town of Spencer is \$16,844,055. The Town has no authorized but un-issued bonds at June 30, 2019.

Additional information regarding the Town of Spencer's long-term debt can be found in note III.B.3 of this report.

Economic Factors and Next Year's Budgets and Rates

The Mayor and Board of Aldermen continue to take a strong interest in neighborhood improvement and stabilization. The on-going partnership with Salisbury Community Development Corporation made great progress during 2018 in promoting the re-development of a historic homes, located in the Spencer Historic district at 509 South Carolina Avenue. The totally renovated home was featured as a "work in progress": tour site during the Historic Salisbury Foundation's October Tour of homes. The restoration will be completed in 2019 and the home will be marketed to a low to moderate income buyer with proceeds allocated to a revolving fund for future restorations of historic properties.

The Mayor and Board of Aldermen adopted a Remedial Action Plan Ordinance that combines code enforcement with police investigative initiatives to address criminal activities occurring within substandard rental properties. The ordinance provides a vehicle for communication, notification, consultation and remediation of those properties not aligned with community standards for neighborliness and expected tenant behavior.

The Town of Spencer continued its cooperation with the Rowan County Economic Development Commission and the Salisbury Rowan Utilities Department to support on-going recruitment of business and industrial clients to secure much needed jobs for Spencer residents and surrounding communities. Extension of water supply just outside the Spencer zoning jurisdiction will open large tracts of land for future economic development. To that end Chewy, an online retailer of pet food and other pet products, will bring a fulfillment center to Rowan County. The 700,000 square-foot facility will be built on the Trevey Site, located at the intersection of Long Ferry Road and Interstate 85 at Exit 81 located partially within the Town of Spencer's ETJ and only one-half mile from the Town of Spencer's Town limits. A tax incentive agreement with Rowan County states that the facility will be a \$55 million investment creating an estimated 1200 jobs with benefits by 2025. Chewy's plans represent the largest single job announcement in Rowan County history.

Considerable effort was made to evaluate the Town's sign ordinance with significant input from the business community. Numerous meetings were held in order to draft new language for the sign control mechanisms within the Town's zoning jurisdiction. Special attention was given to promotional and temporary signage to take advantage of special events at the NC Transportation Museum including the Polar Express, Thomas the tank Engine and Pops at the Post: Trackside addition. An estimated 150,000 people visit the North Carolina Transportation Museum annually.

Management Discussion and Analysis
Town of Spencer

The Town of Spencer continues its efforts toward constructing a new municipal complex, outdoor stage and park in the Park Plaza Shopping Center located on North Salisbury Avenue in Spencer. The Town purchased 2.6 acres located within the center for \$668,000 on January 25, 2019. The Town has a pending USDA application to finance the project. Construction should begin on this project in 2020. The Town's investment should leverage other commercial development in the downtown area.

Budget Highlights for the Fiscal Year Ending June 30, 2020

Governmental Activities: The Town decreased its current tax rate from \$.655 per hundred to \$.62 per hundred for FY 19-20 as a result of revaluation of all property within the Town limits.

The Spencer Police Department had no major purchases during FY18-19. Body armor was replaced for four officers during at a cost of \$3,210. One-half the cost was reimbursed to the Town from a Bureau of Justice Body Armor grant. New holsters were purchased at a cost of \$1,605. The Town of Spencer purchased new pistols, assault rifles and shotguns at a cost of \$24,445, all of which was paid for by a grant from the US Bureau of Justice (Byrne JAG funds) administered by the NC Governor's Crimes Commission.

The Spencer Fire Department had no major purchases during FY18-19; however \$14,577 was spent to repair the Ladder truck purchased from the City of Salisbury in 2017.

The Town was awarded a Community Conservation Assistance Grant on May 30, 2019 in the amount of \$20,000 for the purpose correcting the 17th Street erosion due to stream flow. All work must be completed by June 30, 2021.

Federal Emergency Management Agency: Given damages to the roof of the Spencer Fire Department, Chicken Springs Dam caused by Hurricane Florence, The Town has received reimbursements in the amount of \$7,722 to date.

Salisbury Rowan Utilities awarded a contract in the amount of \$629,001 to repair water lines along Fourth Street. The work is scheduled for completion in November, 2019.

Requests for Information

This report is designed to provide an overview of the Town's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to Town Manager, PO Box 45, Spencer, NC 28159, (704) 633-2231.

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

	<u>Governmental Activities</u>	<u>Total</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,894,235	\$ 1,894,235
Taxes receivable (net)	128,341	128,341
Prepaid construction costs	164,323	164,323
Due from other governments	210,571	210,571
Due from City of Salisbury	38,500	38,500
Cash and cash equivalents - restricted	526,488	526,488
Total current assets	<u>2,962,459</u>	<u>2,962,459</u>
Noncurrent assets:		
Capital Assets:		
Land	543,965	543,965
Other capital assets, net of depreciation	3,807,023	3,807,023
Total capital assets	<u>4,350,988</u>	<u>4,350,988</u>
Total assets	<u>7,313,447</u>	<u>7,313,447</u>
DEFERRED OUTFLOWS OF RESOURCES		
Pension deferrals	319,191	319,191
Total deferred outflows of resources	<u>319,191</u>	<u>319,191</u>
LIABILITIES		
Current liabilities:		
Accounts payable	31,914	31,914
Accrued salaries	40,985	40,985
Due within one year	157,764	157,764
Long-term liabilities:		
Accrued vacation	63,599	63,599
Separation Allowance NPO	117,482	117,482
Pension liability	407,331	407,331
Due in more than one year	113,009	113,009
Total liabilities	<u>932,083</u>	<u>932,083</u>
DEFERRED INFLOWS OF RESOURCES		
Pension deferrals	109,918	109,918
Total deferred inflows of resources	<u>109,918</u>	<u>109,918</u>
NET POSITION		
Net invested in capital assets	4,170,216	4,170,216
Restricted for:		
Stabilization by State Statute	374,894	374,894
Streets	526,488	526,488
Unrestricted	1,519,038	1,519,038
Total net position	<u>\$ 6,590,636</u>	<u>\$ 6,590,636</u>

The accompanying notes are an integral part of the financial statements

Town of Spencer, North Carolina
Statement of Activities
For the year ended June 30, 2019

EXHIBIT 2

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	Total
Primary government:						
Governmental Activities						
General government	\$ 334,158	\$ -	\$ -	\$ -	\$ (334,158)	\$ (334,158)
Land management	161,625	-	-	-	(161,625)	(161,625)
Public Safety	1,313,869	124,387	-	38,081	(1,151,401)	(1,151,401)
Transportation	411,552	-	288,130	-	(123,422)	(123,422)
Environmental protection	338,033	-	-	-	(338,033)	(338,033)
Culture and recreation	71,825	-	-	-	(71,825)	
Interest	5,884	-	-	-	(5,884)	(5,884)
Total governmental activities	\$ 2,636,945	\$ 124,387	\$ 288,130	\$ 38,081	(2,186,347)	(2,114,522)
General revenues:						
Taxes:						
Property taxes levied for general purposes					1,382,054	1,382,054
Other taxes					1,261,327	1,261,327
Miscellaneous					94,293	94,293
Total general revenues, special items, and transfers					2,737,674	2,737,674
Change in net position					551,327	551,327
Net position-beginning					6,039,309	6,039,309
Net position-ending					\$ 6,590,636	\$ 6,590,636

The accompanying notes are an integral part of the financial statements

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

	<u>Major Funds</u>	<u>Total</u>
	<u>General</u>	<u>Governmental</u>
		<u>Fund</u>
Assets		
Cash and investments	\$ 1,894,235	\$ 1,894,235
Cash and investments - restricted	526,488	526,488
Taxes receivable, net	128,341	128,341
Prepaid construction costs	164,323	164,323
Due from other governmental units	210,571	210,571
Due from City of Salisbury	90,000	90,000
Total assets	<u>\$ 3,013,959</u>	<u>\$ 3,013,959</u>
Liabilities:		
Accounts payable	\$ 31,914	\$ 31,914
Accrued salaries	40,985	40,985
Total current liabilities	<u>72,898</u>	<u>72,898</u>
Deferred inflows of resources:		
Unavailable revenues	90,000	90,000
Property tax receivable	128,341	128,341
Total deferred inflows of resources	<u>218,341</u>	<u>218,341</u>
Fund balance:		
Restricted:		
Stabilization by State Statute	374,894	374,894
Streets	526,488	526,488
Assigned		
Subsequent year's expenditures	224,562	224,562
Unassigned	1,596,775	1,596,775
Total fund balance	<u>2,722,719</u>	<u>2,722,719</u>
Total liabilities, deferred inflows of resources and fund balance	<u>\$ 3,013,959</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.	4,350,988
Deferred pension outflows	319,191
Liabilities for earned revenues considered deferred inflows of resources in fund statements	166,841
Some liabilities are not due and payable in the current period and therefore are not reported in the fund.	
Long-term debt	(270,773)
Accrued vacation	(63,599)
Separation Allowance NPO	(117,482)
Pension liability	(407,331)
Deferred pension inflows	(109,918)
Net position of governmental activities	<u>\$ 6,590,636</u>

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

	<u>Major Funds</u>	<u>Total</u>
	<u>General</u>	<u>Governmental</u>
		<u>Fund</u>
Revenues		
Ad valorem taxes	\$ 1,366,117	\$ 1,366,117
Other taxes, licenses and fees	275,672	275,672
Unrestricted intergovernmental revenues	985,655	985,655
Restricted intergovernmental revenues	326,211	326,211
Sales and services	204,860	204,860
Other general	65,320	65,320
Total revenues	<u>3,223,835</u>	<u>3,223,835</u>
Expenditures		
General government	1,061,394	1,061,394
Land management	164,684	164,684
Public Safety	1,138,496	1,138,496
Transportation	897,380	897,380
Environmental protection	330,859	330,859
Culture and recreation	81,672	81,672
Total expenditures	<u>3,674,484</u>	<u>3,674,484</u>
Revenues over expenditures	<u>(450,649)</u>	<u>(450,649)</u>
OTHER FINANCING SOURCES (USES)		
Proceeds from debt	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>
Revenues and other financing sources over (under) expenditures	(450,649)	(450,649)
Fund balance - beginning of year	<u>3,173,368</u>	<u>3,173,368</u>
Fund balance - end of year	<u><u>\$ 2,722,719</u></u>	<u><u>\$ 2,722,719</u></u>

The accompanying notes are an integral part of the financial statements

Town of 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	\$	(450,649)
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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	\$	1,262,993	
Depreciation		(184,282)	1,078,711

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.

Debt service - principal		66,965
Debt proceeds		-

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

Change in unavailable revenue for tax revenues		15,937
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Collection of long-term receivables is not recognized as a revenue in the Statement of Activities

(51,500)

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.

Change in pension expense

(Increase) decrease in pension liability	LGERS	(172,520)	
Increase (decrease) in deferred outflows	LGERS	166,417	
(Increase) decrease in deferred inflows	LGERS	8,477	2,374

(Increase) decrease in pension liability	LEO	(12,968)	
Increase (decrease) in deferred outflows	LEO	(2,361)	
(Increase) decrease in deferred inflows	LEO	(93,686)	(109,015)

Compensated absences		(1,496)
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Total changes in net position of governmental activities	\$	551,327
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Town of 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>	Variance with Final Budget- Positive (Negative)
Revenues:				
Ad valorem taxes	\$ 1,413,059	\$ 1,413,059	\$ 1,366,117	\$ (46,942)
Other taxes, licenses and fees	182,158	218,538	275,672	57,134
Unrestricted intergovernmental	665,762	991,901	985,655	(6,246)
Restricted intergovernmental	411,600	511,600	326,211	(185,389)
Sales and services	207,500	203,639	204,860	1,221
Other general revenues	60,909	101,906	65,320	(36,586)
Total revenues	<u>2,940,988</u>	<u>3,440,643</u>	<u>3,223,835</u>	<u>(216,808)</u>
Expenditures				
General government	1,000,251	1,276,820	1,061,394	215,426
Land management	175,923	189,266	164,684	24,582
Public safety	1,143,573	1,167,751	1,138,496	29,255
Transportation	574,365	991,081	897,380	93,701
Environmental protection	361,854	366,854	330,859	35,995
Cultural and recreation	85,022	85,912	81,672	4,240
Total expenditures	<u>3,340,988</u>	<u>4,077,684</u>	<u>3,674,484</u>	<u>403,200</u>
Revenues over (under) expenditures	<u>(400,000)</u>	<u>(637,041)</u>	<u>(450,649)</u>	<u>186,392</u>
Other financing sources (uses):				
Proceeds from debt	-	-	-	-
Appropriated Fund Balance	<u>400,000</u>	<u>637,041</u>	<u>-</u>	<u>(637,041)</u>
Total other financing sources (uses)	<u>400,000</u>	<u>637,041</u>	<u>-</u>	<u>(637,041)</u>
Revenues and other financing sources over (under) expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>(450,649)</u>	<u>\$ (450,649)</u>
Fund balance, beginning of year			<u>3,173,368</u>	
Fund balance, end of year			<u>\$ 2,722,719</u>	

The accompanying notes are an integral part of the financial statements

Town of Spencer, North Carolina

**NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2019**

I. Summary of Significant Accounting Policies

The accounting policies of the Town of 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 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, a single entity with no other legally separate entities for which the Town is financially accountable.

B. Basis of Presentation

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

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the Town and for each function of the Town's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees and charges paid by the recipients of goods or 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. The emphasis of fund financial statements is on major governmental funds. All remaining governmental funds are aggregated and reported as non-major funds. The Town of Spencer has no nonmajor governmental funds and no major or nonmajor enterprise funds.

The Town reports the following major governmental fund:

General Fund - The General Fund is the general operating fund of the Town. It is used to account for all financial resources except those 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.

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

C. Measurement Focus and Basis of Accounting (continued)

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.

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 of Spencer 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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

D. Budgetary Data (continued)

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.

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 contracts are accounted for at cost. The NCCMT- Government Portfolio, a SEC-registered (2a-7) external investment pool, is measured at amortized cost, which is the NCCMT's share price. The NCCMT- Term Portfolio's securities are valued at fair value. 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.

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. Restricted Assets

Powell Bill funds are classified as restricted cash because it can be expended only for the purposes of maintaining, repairing, constructing, reconstructing or widening of local streets per G.S. 136-41.1 through 136-41.4

Town of Spencer Restricted Cash

Governmental Activities		
General Fund	Streets	\$526,488
Total Restricted Cash		<u>\$526,488</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad valorem taxes 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.

5. 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.

6. 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 received prior to June 15, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 15, 2015 are recorded at acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical cost. 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	50
Improvements	25
Vehicles	6
Furniture and equipment	10
Computer equipment	3

7. 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 two items that meet this criterion, contributions made to the pension plan in the 2019 fiscal year and other deferred pension outflows. 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 several items that meet the criterion for this category – deferred revenues from the Town of Salisbury, property taxes receivable, and pension deferrals.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

8. 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 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.

9. 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, an expense and liability for compensated absences and the salary-related payments are recorded as the leave is earned.

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.

10. 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 represents constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through state statute.

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.

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.

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

10. Net Position / Fund Balances (continued)

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

Subsequent year's expenditures – portion of fund balance that is appropriated in the next year's budget that is not already classified in restricted or committed.

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 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.

11. 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: None noted

B. Deficit Fund Balance or Retained Earnings of Individual Funds None

C. Excess of Expenditures over Appropriation: The Town did not exceed budgeted amounts in the current year.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

III. Detail Notes on All Funds and Account Groups

A. Assets:

1. Deposits and investments

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 formal policy regarding custodial 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 the provisions of G.S. 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 \$2,420,623 and a bank balance of \$2,550,021. The bank balances of the Town were covered by \$250,000 of federal depository insurance and the remainder was covered by collateral held under the pooling method. The Town had working funds of \$100 at June 30, 2019.

The Town held no investments at June 30, 2019 and has no investment policy.

2. Receivable – Due from Other Governments

The due from other governments that is owed to the Town consists of the following:

Local option sales tax	\$131,636
Franchise and utility tax	43,143
Rowan County	24,707
Sales tax and other refunds	<u>11,085</u>
Total	<u>\$210,571</u>

3. Receivables – Allowances for Doubtful Accounts

The amounts presented in the Balance Sheet and the Statement of Net Position for the year ended June 30, 2019 is net of the following allowances for doubtful accounts:

<u>Fund</u>	<u>Amount</u>
General Fund	\$ -
Total	<u>\$ -</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. Capital Assets

Primary Government

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

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated				
Land	\$ 293,965	\$ 250,000	\$ -	\$ 543,965
Total capital assets not being depreciated	<u>293,965</u>	<u>250,000</u>	<u>-</u>	<u>543,965</u>
Capital assets being depreciated:				
Buildings	2,100,055	481,496	-	2,581,551
Improvements	1,620,674	531,497	-	2,152,171
Equipment	1,667,310	-	-	1,667,310
Vehicles and motorized equipment	1,868,182	-	-	1,868,182
Total capital assets being depreciated	<u>7,256,221</u>	<u>1,012,993</u>	<u>-</u>	<u>8,269,214</u>
Less accumulated depreciation for:				
Buildings	1,149,510	44,666	-	1,194,176
Improvements	257,503	40,427	-	297,930
Equipment	1,263,397	36,053	-	1,299,450
Vehicles and motorized equipment	1,607,499	63,136	-	1,670,635
Total accumulated depreciation	<u>4,277,909</u>	<u>184,282</u>	<u>-</u>	<u>4,462,191</u>
 Total capital assets being depreciated, net	 <u>2,978,312</u>	 <u>828,711</u>	 <u>-</u>	 <u>3,807,023</u>
 Governmental activity capital assets, net	 <u>\$ 3,272,277</u>	 <u>\$ 1,078,711</u>	 <u>\$ -</u>	 <u>\$ 4,350,988</u>

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

General government	\$ 6,533
Land management	909
Public safety	85,059
Transportation	42,031
Environmental protection	18,816
Cultural and recreational	30,934
Total depreciation expense	<u>\$184,282</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

B. Liabilities

1. Pension Plan Obligations:

a. Local Governmental Employees' Retirement System

Plan Description. The Town of Spencer is a participating employer in the statewide Local Governmental Employee's 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. LGERS provides retirement and disability benefits to plan members and beneficiaries. Article 3 of GS 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 supplemental information for LGERS. The report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, NC 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 8.50% of compensation for law enforcement officers and 7.75% for general employees and firefighters, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Town were \$76,532 for the year ended June 30, 2019.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

a. Local Governmental Employees' Retirement System (continued)

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

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

At June 30, 2019, the Town reported a liability of \$407,331 for their 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, 2019 (as measured as of June 30, 2018), the Town's proportion was 0.01717%, which was an increase of 0.00180% from its proportion as of June 30, 2018 (as measured at June 30, 2017).

For the year ended June 30, 2019, the Town recognized pension expense of \$112,279. 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	\$ 62,842	\$ 2,109
Changes of assumptions	108,090	-
Net difference between projected and actual earnings on pension plan investments	55,914	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	7,268	5,245
Town contributions subsequent to the measurement date	76,532	-
Total	\$ 310,646	\$ 7,354

NOTES TO THE FINANCIAL STATEMENTS (Continued)

a. Local Governmental Employees' Retirement System (continued)

\$76,532 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as a decrease in the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2020	\$	109,640
2021		69,898
2022		13,375
2023		33,756
2024		-
thereafter		-
	\$	<u>226,668</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 percent
Investment rate of return	7.00 percent, net of pension plan investment expense, including inflation

The plan actuary currently uses mortality rates based on the RP-2014 Total Data Set for Healthy Annuitants Mortality Table 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 s of December 31, 2014.

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

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2018 are summarized in the following table:

NOTES TO THE FINANCIAL STATEMENTS (Continued)

a. Local Governmental Employees' Retirement System (continued)

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)	\$ 978,445	\$ 407,331	\$ (69,900)

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 of Spencer administers a public employee retirement system (the Separation Allowance), a single-employer defined benefit pension plan that provides retirement benefits to the Town's qualified sworn law enforcement officers under the age of 62 who have completed at least 30 years of creditable service or have attained 55 years of age and have completed five or more years of creditable service. The Separation Allowance is equal to 0.85 percent of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

All full-time Town law enforcement officers are covered by the Separation Allowance.
At December 31, 2017, the Separation Allowance's membership consisted of:

Retirees receiving benefits	1
Terminated plan members entitled to but not yet receiving benefits	0
Active plan members	12
Total	<u>13</u>

2. Summary of Significant Accounting Policies

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

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

3. Actuarial Assumptions

The entry age actuarial cost method was used in the December 31, 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	2.5 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.

Notes to the Financial Statements (continued)

b. Law Enforcement Officers Special Allowance (continued)

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.

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 \$117,482. 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 \$109,015.

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 96,538
Changes of assumptions	8,545	6,026
Town benefit payments and plan administrative expense made subsequent to the measurement date	-	-
Total	<u>\$ 8,545</u>	<u>\$ 102,564</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:

2020	\$ 19,509
2021	19,509
2022	19,463
2023	19,257
2024	16,281
Thereafter	-

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

Notes to the Financial Statements (continued)

b. Law Enforcement Officers Special Allowance (continued)

Sensitivity of the Town's total pension liability to changes in the discount rate. The following presents the Town's total pension liability calculated using the discount rate of 3.64 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 (2.64 percent) or 1-percentage-point higher (4.64 percent) than the current rate:

	1% Decrease (2.64%)	Discount Rate (3.64%)	1% Increase (4.64%)
Total pension liability	\$ 128,358	\$ 117,482	\$ 107,779

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

	2019
Beginning balance	\$ 104,514
Service Cost	12,102
Interest on the total pension liability	6,986
Changes of benefit terms	-
Differences between expected and actual experience in the measurement of the total pension liability	13,219
Changes of assumptions or other inputs	(5,068)
Benefit payments	(14,271)
Other changes	-
Ending balance of the total pension liability	<u>\$ 117,482</u>

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 for the 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	\$ 112,279	\$ 109,015	\$ 221,294
Pension Liability	407,331	117,482	524,813
Proportionate share of the net pension liability	0.01717%	n/a	
Deferred of Outflows of Resources			
Differences between expected and actual experience	62,842	-	62,842
Changes of assumptions	108,090	8,545	116,635
Net difference between projected and actual earnings on plan investments	55,914	-	55,914
Changes in proportion and differences between contributions and proportionate share of contributions	7,268	-	7,268
Benefit payments and administrative costs paid subsequent to the measurement date	76,532	-	76,532
Deferred of Inflows of Resources			
Differences between expected and actual experience	2,109	96,538	98,647
Changes of assumptions	-	6,026	6,026
Net difference between projected and actual earnings on plan investments	-	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	5,245	-	5,245

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. Contributions for the year ended June 30, 2019, were \$33,164, which consisted of \$19,187 from the Town and \$13,977 from the employees.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

f. Other Employee 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.

2. Deferred Outflows and Inflows of Resources

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

Contributions to pension plan in current year	\$ 76,532
Other pension deferred outflows	<u>242,659</u>
	<u>\$ 319,191</u>

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

	<u>General Fund Balance Sheet</u>	<u>Statement of Net Position</u>
Property tax deferrals	\$ 128,341	\$ -0-
Other deferred revenues	90,000	-0-
Pension deferrals	<u>-0-</u>	<u>109,918</u>
	<u>\$ 218,341</u>	<u>\$ 109,918</u>

3. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town obtains insurance through private carriers. Town obtains general liability and auto liability coverage of \$2 million per occurrence, property coverage up to the total insurance values of the property policy and workers' compensation coverage up to statutory limits. The Town has not had a significant reduction in coverage during the last year. Claims have not exceeded coverage in any of the past three fiscal years.

The Town is being mapped by FEMA for flood plains. The Town has no flood coverage at this time.

In accordance with GS 159-29, the Town's employees that have access to \$100 or more at any given time of the Town's funds are performance bonded through a commercial surety bond. The Finance Officer is covered under a \$50,000 security bond. The employees that have access to funds are bonded under a blanket bond of \$50,000 per occurrence.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. Long-Term Obligations

a. General Obligation Bonds

General obligation bonds issued to finance the construction of facilities utilized in the operations of the water and sewer systems were transferred to the Town of Salisbury. 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, 2019, are comprised of the following:

\$1,105,000 Water and Sewer refunding bonds, Series 1996, dated June 1, 1996, due in annual installments of \$25,000 increasing to \$60,000 before final installment on June 1, 2021, interest ranging from 5.6 to 5.8 percent	\$90,000
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Future maturities of long-term debt, including \$2,900 of interest, are as follows as of June 30, 2019:

	Principal	Interest	Total
2020	\$ 90,000	\$ 2,900	\$ 92,900
	<u>\$ 90,000</u>	<u>\$ 2,900</u>	<u>\$ 92,900</u>

At June 30, 2019, the Town of Spencer had no authorized but unissued bonds and a legal debt margin of \$16,844,055

b. Installment Purchases – Direct Placement Obligations

In September 2016, the Town entered into an installment purchase contract to finance the purchase of fire equipment; the financing contract requires seven annual payments, beginning September 25, 2019, of \$18,251, including interest at 3.00%. The principal balance at June 30, 2019 was \$83,604

In August 2016, the Town entered into an installment purchase contract to finance the purchase of a new garbage truck; the financing contract requires eighty four monthly payments beginning September 3, 2016, of \$1,240, including interest at 2.57%. The principal balance at June 30, 2019 was \$58,667

In June 2010, the Town entered into an installment purchase contract to finance the renovation of the library the financing contract requires ten annual payments beginning June 24, 2011, of \$38,500 principal, plus interest at 4.15%. The principal balance at June 30, 2019 was \$38,500

All obligations are collateralized by the full faith and credit of the Town. Each obligation also pledges the item purchased as collateral. All obligations are callable if payments become substantially past due.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

b. Installment Purchases (continued)

The future minimum payments of the installment contracts as of June 30, 2019, including \$14,481 of interest, are as follows:

	Principal	Interest	Total
2020	\$ 67,764	\$ 6,101	\$ 73,865
2021	30,087	4,152	34,239
2022	30,932	2,180	33,112
2023	31,801	1,439	33,240
2024	20,187	609	20,796
	<u>\$ 180,771</u>	<u>\$ 14,481</u>	<u>\$ 195,252</u>

c. Changes in Long-Term Liabilities

	Balance June 30, 2018	Increases	Decreases	Balance June 30, 2019	Current Portion
Governmental activities:					
General obligation bonds	\$ 90,000	\$ -	\$ -	\$ 90,000	\$ 90,000
Installment purchase	77,000		38,500	38,500	38,500
Installment purchase	98,900	-	15,296	83,604	15,751
Installment purchase	71,837	-	13,170	58,667	13,513
Pension liability	234,811	172,520	-	407,331	-
Separation Allowance NPO	104,514	12,968	-	117,482	-
Compensated absences	62,103	1,496	-	63,599	-
Governmental activity long-term liabilities	<u>\$ 739,166</u>	<u>\$ 186,984</u>	<u>\$ 66,966</u>	<u>\$ 859,184</u>	<u>\$ 157,764</u>

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

5. Interfund Balances and Activity

Transfers to / from Other Funds:

There were no transfers or Interfund balances at June 30, 2019.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

C. Net Investment in Capital Assets

Investment in capital assets, net of related debt was \$4,170,216 as of June 30, 2019. The net amount is not reduced by the general obligation bonds amount of \$90,000. Capital assets purchased with the bond proceeds were transferred to the Town of Salisbury in exchange for the agreement from Town of Salisbury to reimburse the Town for each year's bond payment.

	Governmental
Capital Assets	\$ 4,350,988
less: long-term debt	(270,773)
add: nonqualified debt (see above)	90,000
Net investment in capital assets	<u>\$ 4,170,216</u>

D. Fund Balance

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

<u>Total fund balance - General Fund</u>	<u>\$ 2,722,719</u>
Less:	
Stabilization by State Statute	374,894
Streets - Powell Bill	526,488
Fund balance appropriated 2020	224,562
Working Capital / Fund Balance Policy	-
Remaining Fund Balance	<u>\$ 1,596,775</u>

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

<u>Encumbrances</u>	<u>General Fund</u>	<u>Non-Major Funds</u>
	\$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 15, 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 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	\$ 104,514	\$ 94,028	\$ 93,213
Service Cost Interest on total pension liability	12,102	11,176	11,301
Interest	6,986	8,128	7,489
Differences between expected and actual experience in the measurement of the total pension liability	13,219	(7,814)	-
Changes of assumptions or other inputs	(5,068)	13,267	(3,704)
Benefit payments	(14,271)	(14,271)	(14,271)
Other changes	-	-	-
Ending balance of the total pension liability	<u>\$ 117,482</u>	<u>\$ 104,514</u>	<u>\$ 94,028</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	\$ 117,482	\$ 104,514	\$ 94,028
Covered payroll	493,369	492,235	507,038
Total pension liability as a percentage of covered payroll	23.81%	21.23%	18.54%

Notes to the schedules:

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

Change in actuarial assumptions or other inputs:

December 31, 2018 Measurement date: The Municipal Bond Index Rate increased from 3.16% to 3.64%

December 31, 2017 Measurement date: The Municipal Bond Index Rate decreased from 3.16% to 3.64%
The assumed inflation rate was reduced from 3.00% to 2.50% and assumed wage inflation was increased from 0.5% to 1.0%

December 31, 2016 Measurement date: The Municipal Bond Index Rate increased from 3.57% to 3.86%

**Town of Spencer, North Carolina
Town of 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	\$ 76,532	\$ 73,625	\$ 70,173	\$ 69,892	\$ 62,269	\$ 59,210
Contributions in relation to the contractually required contribution	<u>\$ 76,532</u>	<u>\$ 73,625</u>	<u>\$ 70,173</u>	<u>\$ 69,892</u>	<u>\$ 62,269</u>	<u>\$ 59,210</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Spencer's covered-employee payroll	\$ 931,093	\$ 952,734	\$ 899,860	\$ 977,219	\$ 969,865	\$ 868,344
Contributions as a percentage of covered-employee payroll	8.22%	7.73%	7.80%	7.15%	6.42%	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>
Spencer's proportion of the net pension liability (asset) (%)	0.01717%	0.01537%	0.01553%	0.01701%	0.01569%	0.01640%
Spencer's proportion of the net pension liability (asset) (\$)	\$ 407,331	\$ 234,811	\$ 329,599	\$ 76,340	\$ (92,531)	\$ 192,730
Spencer's covered-employee payroll	\$ 952,734	\$ 899,860	\$ 977,219	\$ 969,865	\$ 868,344	\$ 876,578
Spencer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	42.75%	26.09%	33.73%	7.87%	(10.66%)	21.99%
Plan fiduciary net position as a percentage of the total pension liability**	91.68%	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 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)

	Budget	Actual	Variance Favorable (Unfavorable)	Actual Year end June 30, 2018
REVENUES:				
Ad valorem taxes				
Current year collections		\$ 1,360,533		\$ 1,343,826
Penalties and interest		5,584		8,293
	<u>\$ 1,413,059</u>	<u>1,366,117</u>	<u>\$ (46,942)</u>	<u>1,352,118</u>
Other taxes, licenses and fees				
Privilege licenses		60		15
Landfill fees		233,966		216,572
Other fees and taxes		41,646		20,097
	<u>218,538</u>	<u>275,672</u>	<u>57,134</u>	<u>236,685</u>
Unrestricted intergovernmental				
Local option sales tax		763,834		717,153
Beer and wine tax		14,012		14,202
ABC revenue		7,781		9,968
Utility franchise tax		200,028		197,056
	<u>991,901</u>	<u>985,655</u>	<u>(6,246)</u>	<u>938,380</u>
Restricted intergovernmental				
Powell Bill allocation		101,727		102,983
Powell Bill interest earned		3,394		1,983
Controlled substance tax		489		713
Federal and State grants		220,602		64,642
	<u>511,600</u>	<u>326,211</u>	<u>(185,389)</u>	<u>170,321</u>
Sales and services				
Sales and fixed assets		25,253		6,113
Proceeds from City of Salisbury		55,220		68,670
Security services		124,387		136,140
	<u>203,639</u>	<u>204,860</u>	<u>1,221</u>	<u>210,922</u>
Other general revenues				
Lien payments		11,027		11,642
Miscellaneous		54,293		27,575
	<u>101,906</u>	<u>65,320</u>	<u>(36,586)</u>	<u>39,217</u>
Total revenues	<u>3,440,643</u>	<u>3,223,835</u>	<u>(216,808)</u>	<u>2,947,644</u>

Town of 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 end June 30, 2018</u>
EXPENDITURES:				
General Government				
Town Commissioners				
Salaries and benefits		\$ 20,454		\$ 20,620
Other operating expenditures		47,157		
Capital outlay		731,496		28,166
	<u>\$ 899,594</u>	<u>799,106</u>	<u>\$ 100,488</u>	<u>48,786</u>
Administration				
Salaries and benefits		165,753		205,297
Operating expenses		93,925		94,906
Debt service		2,610		68,670
Capital outlay		-		-
	<u>377,226</u>	<u>262,287</u>	<u>114,939</u>	<u>368,874</u>
Total general government	<u>1,276,820</u>	<u>1,061,394</u>	<u>215,426</u>	<u>417,659</u>
Land management				
Salaries and employee benefits		113,983		109,336
Operating expenses		50,701		46,241
Capital outlay		-		-
Total land management	<u>189,266</u>	<u>164,684</u>	<u>24,582</u>	<u>155,578</u>
Public Safety				
Fire				
Salaries and benefits		132,532		123,814
Operating expenses		85,030		69,714
Debt service		18,251		14,850
Capital outlay		4,731		53,014
	<u>241,736</u>	<u>240,544</u>	<u>1,192</u>	<u>261,392</u>
Police				
Salaries and employee benefits		746,576		722,592
Operating expenses		151,376		117,232
Capital outlay		-		87,211
	<u>926,015</u>	<u>897,952</u>	<u>28,063</u>	<u>927,034</u>
Total public safety	<u>1,167,751</u>	<u>1,138,496</u>	<u>29,255</u>	<u>1,188,427</u>
Transportation				
Streets and highways				
Salaries and benefits		254,959		236,291
Operating expenses		104,924		108,939
Powell Bill - capital outlay		92,725		6,500
Powell Bill - repairs		109,083		8,000
Capital outlay		335,689		157,798
Total transportation	<u>991,081</u>	<u>897,380</u>	<u>93,701</u>	<u>517,528</u>

Town of 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 end June 30, 2018</u>
EXPENDITURES (continued):				
Environmental Protection				
Solid Waste				
Salaries and employee benefits		\$ 217,572		\$ 217,214
Operating expenses		99,627		102,626
Debt payment		13,660		14,885
Capital outlay		-		-
Total environmental	<u>\$ 366,854</u>	<u>330,859</u>	<u>\$ 35,995</u>	<u>334,725</u>
Culture and Recreation				
Parks and recreation				
Operating expenses		12,655		16,122
Capital outlay		-		-
	<u>14,620</u>	<u>12,655</u>	<u>1,965</u>	<u>16,122</u>
Library				
Salaries and employee benefits		12,047		11,674
Debt payment		40,938		42,536
Operating expenses		16,033		22,344
	<u>71,292</u>	<u>69,018</u>	<u>2,274</u>	<u>76,554</u>
Total culture and recreation	<u>85,912</u>	<u>81,672</u>	<u>4,240</u>	<u>92,676</u>
Total expenditures	<u>4,077,684</u>	<u>3,674,484</u>	<u>403,200</u>	<u>2,706,593</u>
Revenues over (under) expenditures	<u>(637,041)</u>	<u>(450,649)</u>	<u>186,392</u>	<u>241,051</u>
OTHER FINANCING SOURCES (USES):				
Proceeds from debt	-	-		-
Operating transfers:	-	-		-
Appropriated Fund Balance	637,041	-		-
	<u>637,041</u>	<u>-</u>	<u>(637,041)</u>	<u>-</u>
Revenues and other financing sources over (under) expenditures	<u>\$ -</u>	<u>(450,649)</u>	<u>\$ (450,649)</u>	<u>241,051</u>
Fund balances - beginning of year		<u>3,173,368</u>		<u>2,932,317</u>
Fund balances - end of year		<u>\$ 2,722,719</u>		<u>\$ 3,173,368</u>

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

Fiscal Year	Uncollected Balance	Additions	Collections And Credits	Uncollected Balance
	June 30, 2018			June 30, 2019
2019	\$ -	\$ 1,379,107	\$ 1,329,980	\$ 49,127
2018	53,498	-	22,176	31,322
2017	15,430	-	1,709	13,721
2016	10,422	-	1,543	8,879
2015	7,695	-	1,039	6,656
2014	6,679	-	372	6,307
2013	6,208	-	1,273	4,935
2012	4,740	-	516	4,224
2011	2,779	-	864	1,915
2010	2,418	-	1,163	1,255
2009	2,535	-	2,535	-
	<u>-</u>			
	<u>\$ 112,404</u>	<u>\$ 1,379,107</u>	<u>\$ 1,363,170</u>	<u>\$ 128,341</u>
Reconciliation with revenues:				
Taxes-Ad Valorem-General				\$ 1,360,533
Discounts and releases				<u>2,637</u>
Total collections and credits				<u>\$ 1,363,170</u>

Town of 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	\$ 210,550,687	0.655	\$ 1,379,107	\$ 1,252,628	\$ 126,479
Total	<u>210,550,687</u>		<u>1,379,107</u>	<u>1,252,628</u>	<u>126,479</u>
Discoveries:					
Current year rates	-		-	-	-
Total	<u>-</u>		<u>-</u>	<u>-</u>	<u>-</u>
Abatements	<u>-</u>		<u>-</u>	<u>-</u>	<u>-</u>
Net Levy	<u>\$ 210,550,687</u>		1,379,107	1,252,628	126,479
Uncollected taxes at June 30, 2019			<u>49,127</u>	<u>49,127</u>	-
Current year's taxes collected			<u>\$ 1,329,980</u>	<u>\$ 1,203,501</u>	<u>\$ 126,479</u>
Percent current year collected			<u>96.44%</u>	<u>96.08%</u>	<u>100.00%</u>

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

Secondary Market Disclosures:

Assessed Valuation:

Assessment ratio	100%
Real property	\$ 157,051,450
Personal property	43,810,623
Public Service Companies	9,688,605
Total assessed valuation	<u>210,550,678</u>
Tax rate per \$100	<u>0.655</u>
Levy (includes discoveries, releases and abatements)	<u>\$ 1,379,107</u>

Town of 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>
Innospec	Manufacturing	\$ 23,313,435	\$ 152,703	11.07%
Packaging Corp	Manufacturing	16,030,992	105,003	7.61%
NC Capital Partners	Manufacturing	5,196,641	34,038	2.47%
TRC of Salisbury	Nursing Home	2,929,618	19,189	1.39%
RHGC Spencer LLC	Prperty management	2,721,985	17,829	1.29%
Carter Propereties Spencer LLC	Prperty management	2,559,847	16,767	1.22%
R & J Furniture Express	Transportation	2,020,153	13,232	0.96%
Jarrett Barbara Call	Prperty management	1,943,053	12,727	0.92%
Food Lion LLC	Grocery	1,765,802	11,566	0.84%
Troxler Thomasine Heirs	Prperty management	1,668,244	10,927	0.79%
		<u>\$ 60,149,771</u>	<u>\$ 393,981</u>	<u>28.57%</u>

**Report On Internal Control Over Financial Reporting And On Compliance and Other Matters Based
On An Audit Of Financial Statements Performed In Accordance With *Government Auditing
Standards***

Independent Auditor's Report

To the Honorable Mayor and
Board of Aldermen
Town of 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 and each major fund of the Town of Spencer, North Carolina, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprises the Town of Spencer's basic financial statements, and have issued our report thereon dated November 15, 2019

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of Spencer'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Spencer's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be material weaknesses listed as items 2019-1, 2019-2, 2019-3, and 2019-4.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We did not identify items that we considered significant deficiencies.

Compliance and Other Matters

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

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 result 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 the 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

A handwritten signature in black ink, appearing to read "Eddie Carrick, CPA". The signature is stylized and cursive.

Lexington, North Carolina
November 15, 2019

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

II Financial Statement Findings

Material weakness

2019-01 Bank not properly reconciled

Criteria: The bank accounts should be reconciled monthly and agreed to the general ledger to make sure all transactions are recorded properly

Condition: The June 30 reconciliation that agreed to the general ledger was improper

Effect: The proper reconciliation of the bank account is the primary internal control. Lack of this control may allow for incorrect reporting, noncompliance with legal controls, lack of ability to make proper financial decisions and potential for fraudulent transactions to occur

Cause: Staff did not have a good understanding of how the system reconciliation worked

Recommendation: Staff should receive adequate training on the reconciliation provided by the current accounting system, including the ability to recognize errors as they occur

Views of responsible officials and planned corrective actions: The Town agrees with this finding and will initiate software training to insure reconciliations are performed timely and correctly

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

II Financial Statement Findings

Material weakness

2019-02 Authorization and pre-audit certification not attached to invoices

Criteria: The Town has attached authorizations to pay and pre-audit certifications to paid invoices in the past. This process was not noted in the latter part of the fiscal year

Condition: 28% of the invoices examined did not have authorizations to pay or pre-audit certifications attached

Effect: Although not in violation of NC General Statutes due to the fact checks do have the proper pre-audit certification wording, this has been one of the strongest internal controls in the past. We strongly suggest you return to this procedure to prevent fraud, unauthorized payments of invoices, duplicate payment of invoices or other breakdowns in internal controls

Cause: Changes in staff and improper review by management

Recommendation: Staff should attached completed check requests or purchase orders to invoices as paid to insure payments are properly authorized and pre-audit certifications have been completed

Views of responsible officials and planned corrective actions: The Town agrees with this finding and will immediately begin attaching check request or purchase orders to paid invoices to assure proper authorization and pre-audit certifications are completed

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

II Financial Statement Findings

Material weakness

2019-03 New contracts exceeding \$10,000 were not approved by council

Criteria: Council has approved any contracts in excess of \$10,000 in the past

Condition: Three contracts for which payments of more than \$10,000 were made did not have council approval

Effect: This allows for payments in excess of those approved by council to occur without council being aware

Cause: Contracts were never presented at council meetings

Recommendation: The Town should return to policy of all contracts exceeding a specified amount to be presented and approved by council at open meetings

Views of responsible officials and planned corrective actions: The Town agrees with this finding and will have all contracts exceeding a specified amount to be presented at open meetings

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

II Financial Statement Findings

Material weakness

2019-04 Obvious incorrect postings of accounts were not corrected by year end

Criteria: Trial balances should not have obvious uncorrected errors

Condition: Several accounts were noted which had unreconciled balances. One supplies account had a \$78,000 credit balance at year end

Effect: Incorrect postings and reconciliations prevent council and management from receiving correct and accurate financial statements to base financial decisions upon. This also may allow for fraud or errors to occur and remain undetected

Cause: Obvious incorrect postings which have not been corrected by year end indicate staff is either not reviewing the financial information timely or does not have an adequate understanding of the workings of the accounting system

Recommendation: The Town should determine the cause of the errant postings and either provide necessary training to staff and/or insure that information is reviewed timely by staff and management

Views of responsible officials and planned corrective actions: The Town agrees with this finding and will initiate protocol to insure adherence



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

II Financial Statement Findings

Significant Deficiencies

2019-01 Bank not properly reconciled

Name of contact person: David Treme - Interim Town Manager

Corrective action - Staff will receive training on the reconciliation provided by the current accounting system including the ability to recognize errors as they occur

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

2019-02 Authorization and pre-audit certification not attached to invoices

Name of contact person: David Treme - Interim Town Manager

Corrective action - Staff will begin to attach completed check requests or purchase orders to invoices as paid to insure payments are properly authorized and pre-audit certifications have been completed

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

2019-03 New contracts exceeding \$10,000 were not approved by council

Name of contact person: David Treme - Interim Town Manager

Corrective action - All contracts of a significant nature will be presented to council

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

2019-04 Obvious incorrect postings of accounts were not corrected by year end

Name of contact person: David Treme - Interim Town Manager

Corrective action - The Town will determine the cause of the errant postings and provide necessary training to staff and provided management reviews to correct the situations

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

