

Town of Spindale, North Carolina

Financial Statements

June 30, 2019



**Spindale Town Council
(As of June 30, 2019)**

R. Mickey Bland, Mayor

Commissioners:
Tom Roberson
James Hamilton
Glen Harmon
Nancy Walker
Vacant

Town Manager:
Scott Webber

Finance Director:
Cathy Swafford

**TOWN OF SPINDALE, NORTH CAROLINA
YEAR ENDED JUNE 30, 2019**

CONTENTS

	<u>Exhibit</u>	<u>Page</u>
Financial Section:		
Independent Auditors' Report		1-3
Management's Discussion and Analysis		4-11
Basic Financial Statements:		
Government-wide Financial Statements:		
Statement of Net Position	1	12-13
Statement of Activities	2	14
Fund Financial Statements:		
Balance Sheet – Governmental Funds	3	15
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	3	16
Statement of Revenues, Expenditures, and Changes In Fund Balances – Governmental Funds	4	17
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds to the Statement of Activities	4	18
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund	5	19
Statement of Fund Net Position – Proprietary Fund	6	20-21
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Fund	7	22
Statement of Cash Flows – Proprietary Fund	8	23-24
Notes to the Financial Statements		25-51
Required Supplemental Financial Data:		
Schedule of Changes in the Total OPEB Liability and Related Ratios		52

CONTENTS (continued)

	<u>Page</u>
Local Governmental Employees' Retirement System – Schedule of Proportionate Share of Net Pension Liability (Asset)	53
Local Governmental Employees' Retirement System – Schedule of Contributions	54
Firefighters' and Rescue Squad Workers' Pension – Schedule of Proportionate Share of Net Pension Liability	55
Law Enforcement Officers' Special Separation Allowance – Schedule of Changes in Total Pension Liability	56
Law Enforcement Officers' Special Separation Allowance – Schedule of Total Pension Liability as a Percentage of Covered Payroll	56

Individual Fund Statements and Schedules:

Major Governmental Funds:

Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund	57-60
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Capital Project Capital Reserve Fund	61

Enterprise Fund:

Schedule of Revenues and Expenditures – Budget and Actual (Non-GAAP) – Sewer Fund	62-63
Schedule of Revenues and Expenditures – Budget and Actual (Non-GAAP) – Sewer Capital Project Fund – WWTP Rehab	64
Schedule of Revenues and Expenditures – Budget and Actual (Non-GAAP) – Sewer Capital Project Fund – AIA Grant Project	65
Schedule of Revenues and Expenditures – Budget and Actual (Non-GAAP) – Sewer Capital Reserve Fund	66

CONTENTS (continued)

	<u>Page</u>
Other Schedules:	
Schedule of Ad Valorem Taxes Receivable – General Fund	67
Analysis of Current Tax Levy – General Fund	68
Compliance Section:	
Report on Internal Control Over Financial Reporting And On Compliance and Other Matters Based On An Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	69-70
Report On Compliance For Each Major Federal Program And On Internal Control Over Compliance Required By The Uniform Guidance And The State Single Audit Implementation Act	71-72
Schedule of Findings and Questioned Costs	73-75
Corrective Action Plan	76
Summary Schedule of Prior Year's Audit Findings	77
Schedule of Expenditures of Federal and State Awards	78



Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Spindale, 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 of material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, and each major fund of the Town of Spindale, North Carolina, as of June 30, 2019, and the respective changes in financial position and cash flows, where appropriate, and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4-11, the Other Postemployment Benefits' Schedule of Changes in the Total OPEB Liability and Related Ratios, on page 52, the Local Governmental Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Liability (Asset) and Contributions on pages 53-54, the Firefighters' and Rescue Squad Workers' Pension's Schedule of the Proportionate Share of Net Pension Liability on page 55, and the Law Enforcement Officers' Special Separation Allowance Schedules of Changes in Total Pension Liability and Total Pension Liability as a Percentage of Covered Payroll on page 56 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.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the Town of Spindale. The individual fund statements, budgetary schedules, other schedules, and the Schedule of Expenditures of Federal and State Awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and the State Single Audit Implementation Act, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The individual fund statements, budgetary schedules, other schedules, and the Schedule of Expenditures of Federal and State Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the 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, other schedules and the Schedule of Expenditures of Federal and State Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2019 on our consideration of the Town of Spindale's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 Spindale's internal control over financial reporting and compliance.

Donald Killian CPA Group, P.A.

Asheville, North Carolina
December 9, 2019

TOWN OF SPINDALE, NORTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended June 30, 2019

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

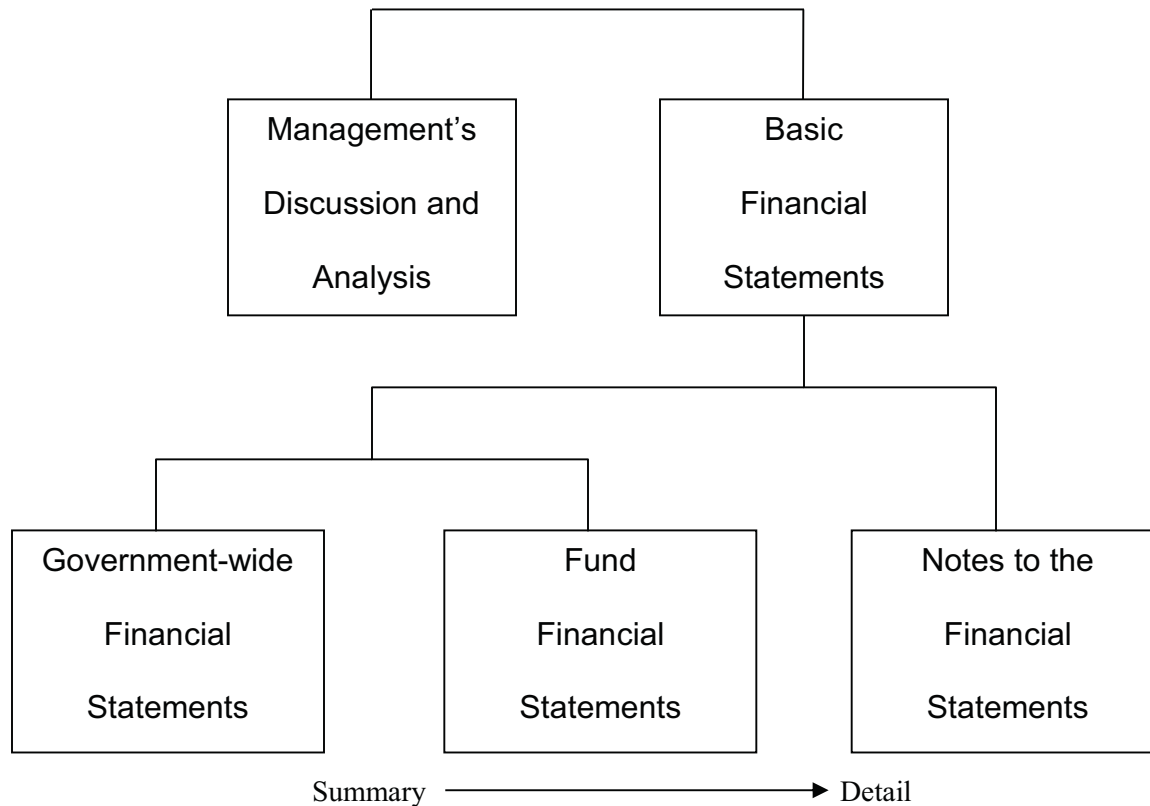
Financial Highlights

- The assets and deferred outflows of resources of the Town of Spindale exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$12,668,959 (*net position*).
- The government's total net position increased by \$338,995, consisting of increases in the governmental activities net position of \$170,034 and increases in the business-type activities net position of \$168,961.
- As of the close of the current fiscal year, the Town of Spindale's governmental funds reported combined ending fund balances of \$3,752,806 with a net increase of \$144,567 in fund balance. Approximately 15% of this total amount, or \$567,175, is restricted.
- At the end of the current fiscal year, fund balance available for appropriation in the General Fund was \$2,948,743, or 107% of net General Fund expenditures for the fiscal year, and total fund balance for the General Fund was \$3,249,852 or 118% of net General Fund expenditures.
- The Town of Spindale's total debt increased by approximately \$771,000 (10%) during the current fiscal year primarily due to proceeds of \$1,394,000 and principal payments of \$511,000 related to the Clean Water State Revolving Fund for the improvements to the wastewater treatment plant.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to Town of Spindale'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 Spindale.

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 (Exhibits 3 through 8) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the Town's government. These statements provide more detail than the government-wide statements. There are three parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the budgetary comparison statement; and 3) the proprietary fund statements.

The next section of the basic financial statements is the **notes**. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, **supplemental information** is provided to show details about the Town's individual funds. Budgetary information required by the North Carolina 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.

The government-wide statements are divided into two categories: 1) governmental activities, and 2) business-type activities. The governmental activities include most of the Town's basic services such as public safety, parks and recreation, and general administration. Property taxes and State and federal grant funds finance most of these activities. The business-type activities are those that the Town charges customers to provide. These include the sewer services offered by the Town of Spindale.

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

Fund Financial Statements

The fund financial statements (see Figure 1) provide a more detailed look at the Town's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Spindale, 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 the General Statutes or the Town's budget ordinance. All of the funds of Town of Spindale can be divided into two categories: governmental funds and proprietary funds.

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

The Town of Spindale adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the Town, the management of the Town, and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the Town to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the Town complied with the budget ordinance and whether or not the Town succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the board; 2) the final budget as amended by the board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges.

Proprietary Funds – The Town of Spindale has one kind of proprietary fund. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town of Spindale uses an enterprise fund to account for its sewer activity. This fund is the same as the function shown in the business-type activities in the Statement of Net Position and the Statement of Activities.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 25 of this report.

Other Information – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the Town of Spindale's progress in funding its obligation to provide pension and OPEB benefits to its employees. Required supplementary information can be found beginning on page 52 of this report.

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.

Government-Wide Financial Analysis

**Town of Spindale's Net Position
Figure 2**

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Current and other assets	\$ 4,115,594	\$ 3,916,024	\$ 2,353,421	\$ 2,857,912	\$ 6,469,015	\$ 6,773,936
Capital assets	2,141,594	2,075,253	15,463,850	14,356,561	17,605,444	16,431,814
Deferred outflows of resources	400,311	254,102	90,783	57,420	491,094	311,522
Total assets and deferred outflows of resources	6,657,499	6,245,379	17,908,054	17,271,893	24,565,553	23,517,272
Current liabilities	292,900	154,662	785,684	1,209,137	1,078,584	1,363,799
Long-term liabilities	2,149,261	2,096,122	8,395,575	7,515,935	10,544,836	9,612,057
Deferred inflows of resources	222,024	171,315	51,150	40,137	273,174	211,452
Total liabilities and deferred inflows of resources	2,664,185	2,422,099	9,232,409	8,765,209	11,896,594	11,187,308
Net position:						
Net investment in capital assets	2,040,315	1,959,322	6,768,575	6,657,726	8,808,890	8,617,048
Restricted	567,175	562,537	-	-	567,175	562,537
Unrestricted	1,385,824	1,301,421	1,907,070	1,848,958	3,292,894	3,150,379
Total net position	\$ 3,993,314	\$ 3,823,280	\$ 8,675,645	\$ 8,506,684	\$ 12,668,959	\$ 12,329,964

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 Spindale exceeded liabilities and deferred inflows by \$12,668,959 as of June 30, 2019. The Town's net position increased by \$338,995 for the fiscal year ended June 30, 2019. However, the largest portion (70%) reflects the Town's net investment in capital assets (e.g. land, buildings, machinery, and equipment). The Town of Spindale uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Spindale's net investment in 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. An additional portion of the Town of Spindale's net position, \$567,175, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$3,292,894 is unrestricted.

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

- The Town's total revenues were \$4,289,317 for the fiscal year ending June 30, 2019. Charges for services, particularly sewer services, makes up 38% of the Town's total revenues, while property taxes contribute 30% of the total revenues.
- Property tax revenues increased by approximately \$22,000 (2%). The property tax collection rate increased to 95.08% compared to 95.19% in the prior year.
- The Town's expenses cover a wide range of services. Public safety accounted for 30% of the total for fiscal year 2019, with sewer operating expenses comprising 31% of total expenses.
- Continued diligence in cost saving efforts kept total expenses in line with the prior year, with an increase of only 6% over the prior year.

Town of Spindale's Changes in Net Position
Figure 3

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Revenues:						
Program revenues:						
Charges for services	\$ 309,817	\$ 319,163	\$ 1,301,954	\$ 1,212,403	\$ 1,611,771	\$ 1,531,566
Operating grants and contributions	54,810	46,662	27,472	-	82,282	46,662
Capital grants and contributions	140,431	142,453	-	814,838	140,431	957,291
General revenues:						
Property taxes	1,285,504	1,263,576	-	-	1,285,504	1,263,576
Other taxes	723,764	687,359	-	-	723,764	687,359
Grants and other contributions, not restricted to specific programs	261,716	269,389	-	-	261,716	269,389
Other	123,883	94,407	59,966	66,169	183,849	160,576
Total revenues	2,899,925	2,823,009	1,389,392	2,093,410	4,289,317	4,916,419
Expenses:						
General government	356,371	348,306	-	-	356,371	348,306
Public safety	1,193,477	1,145,458	-	-	1,193,477	1,145,458
Transportation	456,386	307,279	-	-	456,386	307,279
Environmental protection	420,989	431,566	-	-	420,989	431,566
Cultural and recreation	297,962	282,494	-	-	297,962	282,494
Interest on long-term debt	4,706	5,650	-	-	4,706	5,650
Sewer	-	-	1,220,431	1,214,898	1,220,431	1,214,898
Total expenses	2,729,891	2,520,753	1,220,431	1,214,898	3,950,322	3,735,651
Increase in net position	170,034	302,256	168,961	878,512	338,995	1,180,768
Net position, beginning of year	3,823,280	3,521,024	8,506,684	7,628,172	12,329,964	11,149,196
Net position, end of year	\$ 3,993,314	\$ 3,823,280	\$ 8,675,645	\$ 8,506,684	\$ 12,668,959	\$ 12,329,964

Governmental activities. Governmental activities increased the Town's net position by \$170,034, accounting for 50% of the growth in net position. Key elements of this increase are as follows:

- Increase in property tax collection rate
- Steady increase in motor vehicle collection as new system has been implemented
- Increase in state-shared revenues

Business-type activities. Business-type activities increased the Town of Spindale's net position by \$168,961. The key element of this increase is as follows:

- Capital contributions in the form of State grants for the WWTP Rehab capital project

Financial Analysis of the Town's Funds

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

Governmental Funds. The focus of the Town of Spindale'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 Spindale's financing requirements.

The General Fund is the chief operating fund of the Town of Spindale. At the end of the current fiscal year, the Town of Spindale's fund balance available in the General Fund was \$2,948,743, while total fund balance reached \$3,249,852. The Town currently has an available fund balance of 107% of net General Fund expenditures, and total fund balance represents 118% of the same amount.

At June 30, 2019, the governmental funds of Town of Spindale reported a combined fund balance of \$3,752,806 with a net increase in fund balance of \$144,567.

General Fund Budgetary Highlights. 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. The Town made an amendment to the General Fund budget to recognize a grant received for recreational amenities rehabilitation.

Proprietary Funds. The Town of Spindale's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the Sewer Fund at the end of the fiscal year amounted to \$1,907,070 and the total change in net position for the Sewer Fund was \$168,961.

Capital Asset and Debt Administration

Capital assets. The Town of Spindale's investment in capital assets for its governmental and business-type activities as of June 30, 2019, totals \$17,605,444 (net of accumulated depreciation). These assets include land, buildings, sewer lines, machinery and equipment, park facilities, and vehicles.

The major capital asset transactions during the year were related to construction in progress for sewer capital assets of approximately \$1,490,000.

Town of Spindale's Capital Assets (net of depreciation)

Figure 4

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Land	\$ 634,500	\$ 634,500	\$ 38,920	\$ 38,920	\$ 673,420	\$ 673,420
Construction in progress	-	-	9,128,894	8,550,027	9,128,894	8,550,027
Buildings	2,794,020	2,785,368	2,459,636	2,446,251	5,253,656	5,231,619
Sewer lines	-	-	6,509,513	5,602,621	6,509,513	5,602,621
Update and expansion	157,350	71,454	3,450,076	3,450,076	3,607,426	3,521,530
Equipment and vehicles	2,382,156	2,244,338	1,518,788	1,518,788	3,900,944	3,763,126
	5,968,026	5,735,660	23,105,827	21,606,683	29,073,853	27,342,343
Accumulated depreciation	(3,826,432)	(3,660,407)	(7,641,977)	(7,250,122)	(11,468,409)	(10,910,529)
Capital assets, net	\$ 2,141,594	\$ 2,075,253	\$ 15,463,850	\$ 14,356,561	\$ 17,605,444	\$ 16,431,814

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

Long-term Debt. As of June 30, 2019, the Town of Spindale had total installment debt outstanding of \$8,467,243 which is secured with the assets purchased with these funds, and \$118,819 of bonds payable.

Town of Spindale's Outstanding Debt Figure 5

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Notes payable	\$ 101,279	\$ 115,931	\$ 8,365,964	\$ 7,514,806	\$ 8,467,243	\$ 7,630,737
Clean Water bonds	-	-	118,819	184,029	118,819	184,029
	\$ 101,279	\$ 115,931	\$ 8,484,783	\$ 7,698,835	\$ 8,586,062	\$ 7,814,766

The Town of Spindale's total long-term debt had a net increase of \$771,296 (10%) during the past fiscal year. The Town obtained additional advances from the Clean Water State Revolving Fund loan used to fund improvements to the wastewater treatment plant.

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8% of the total assessed value of taxable property located within that government's boundaries. The remaining legal debt margin for Town of Spindale is approximately \$7,200,000.

Additional information regarding the Town of Spindale's long-term debt can be found in Note 3 of this report.

Economic Factors and Next Year's Budgets and Rates

The Town of Spindale continues to gain economic momentum. All indications are that this trajectory will continue into the future. Spindale appears to be on the right path for economic success. The Downtown area is thriving both day and night. One manufacturer has applied for and received a building reuse grant from the NC Department of Commerce. This promises to bring high-tech, high-paying jobs to Spindale. The Thermal Belt Rail Trail paving project has just been completed thanks to a grant from RHI Legacy. This Rail-Trail project runs 13.5 miles through all of our county Towns with Spindale being located exactly in the middle. This proximity promises to promote business in the downtown corridor. An ambitious streetscape plan for the downtown area includes sidewalks, lightning and restructured parking.

As always, the goal of our budget is to keep costs in perspective and give our citizens the services they need and desire. This year, Rutherford County conducted a property revaluation, the first in seven years. Property values rose significantly for Spindale and as a result the property tax rate was able to be lowered with the 2019-20 budget, a slight reduction even beyond the revenue neutral rate. Sewer rates remain constant, with a slight uptick in consumption which translates into more revenue.

The \$9 million WWTP rehab project is nearing completion. While the plant is operational, there are a few remaining small projects currently underway that need to be completed before we can call it done. This will be the second year of the annual debt service payment to cover the project. Foresight by the Board of Commissioners has allowed us to not raise rates in anticipation of the debt service payment. Several large sewer bonds will be extinguished within the next 1-2 years and this will ease some of the burden for the new debt service payment. The Enterprise Fund is stable, which helps the Town to provide sustainable rates to our citizens and businesses. This also allows the Town to plan for necessary future capital needs to maintain our existing sewer infrastructure.

Requests for Information

The financial report is designed to provide a general overview of the Town of Spindale's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to the Office of the Director of Finance, Town of Spindale, 125 Reveley Street, Spindale, NC 28160 or by calling (828) 286-2541.

Spindale

BASIC FINANCIAL STATEMENTS

Spindale

Statement of Net Position
June 30, 2019

	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 3,350,252	\$ 1,160,128	\$ 4,510,380
Taxes receivable, net	178,623	-	178,623
Accounts receivable, net	42,259	229,952	272,211
Due from other governments	278,394	963,341	1,241,735
Restricted cash and cash equivalents	266,066	-	266,066
Total current assets	<u>4,115,594</u>	<u>2,353,421</u>	<u>6,469,015</u>
Capital assets:			
Land and construction in progress	634,500	9,167,814	9,802,314
Depreciable capital assets, net	<u>1,507,094</u>	<u>6,296,036</u>	<u>7,803,130</u>
Total capital assets	<u>2,141,594</u>	<u>15,463,850</u>	<u>17,605,444</u>
Total assets	<u>6,257,188</u>	<u>17,817,271</u>	<u>24,074,459</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension deferrals	365,563	82,096	447,659
OPEB deferrals	<u>34,748</u>	<u>8,687</u>	<u>43,435</u>
Total deferred outflows of resources	<u>400,311</u>	<u>90,783</u>	<u>491,094</u>
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities	164,621	226,892	391,513
Current portion of long-term liabilities	<u>128,279</u>	<u>558,792</u>	<u>687,071</u>
Total current liabilities	<u>292,900</u>	<u>785,684</u>	<u>1,078,584</u>
Long-term liabilities:			
Net pension liability - LGERS	425,314	106,328	531,642
Total pension liability - LEOSSA	278,889	-	278,889
Total OPEB liability	1,382,394	345,599	1,727,993
Due in more than one year	<u>62,664</u>	<u>7,943,648</u>	<u>8,006,312</u>
Total long-term liabilities	<u>2,149,261</u>	<u>8,395,575</u>	<u>10,544,836</u>
Total liabilities	<u>2,442,161</u>	<u>9,181,259</u>	<u>11,623,420</u>

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

Statement of Net Position
June 30, 2019

	Primary Government		
	Governmental Activities	Business-type Activities	Total
DEFERRED INFLOWS OF RESOURCES			
Pension deferrals	33,791	4,092	37,883
OPEB deferrals	188,233	47,058	235,291
Total deferred inflows of resources	222,024	51,150	273,174
NET POSITION			
Net investment in capital assets	2,040,315	6,768,575	8,808,890
Restricted for:			
Stabilization by State statute	301,109	-	301,109
Streets	243,422	-	243,422
Public safety	22,644	-	22,644
Unrestricted	1,385,824	1,907,070	3,292,894
Total net position	\$ 3,993,314	\$ 8,675,645	\$ 12,668,959

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

TOWN OF SPINDALE, NORTH CAROLINA

Exhibit 2

Statement of Activities
For the year ended June 30, 2019

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities:							
General government	\$ 356,371	\$ 8,087	\$ -	\$ -	\$ (348,284)	\$ -	\$ (348,284)
Public safety	1,193,477	1,422	54,810	-	(1,137,245)	-	(1,137,245)
Transportation	456,386	-	-	140,431	(315,955)	-	(315,955)
Environmental protection	420,989	283,668	-	-	(137,321)	-	(137,321)
Cultural and recreation	297,962	16,640	-	-	(281,322)	-	(281,322)
Interest on long-term debt	4,706	-	-	-	(4,706)	-	(4,706)
Total governmental activities	<u>2,729,891</u>	<u>309,817</u>	<u>54,810</u>	<u>140,431</u>	<u>(2,224,833)</u>	<u>-</u>	<u>(2,224,833)</u>
Business-type activities:							
Sewer Fund	<u>1,220,431</u>	<u>1,301,954</u>	<u>27,472</u>	<u>-</u>	<u>-</u>	<u>108,995</u>	<u>108,995</u>
Total business-type activities	<u>1,220,431</u>	<u>1,301,954</u>	<u>27,472</u>	<u>-</u>	<u>-</u>	<u>108,995</u>	<u>108,995</u>
Total	<u>\$ 3,950,322</u>	<u>\$ 1,611,771</u>	<u>\$ 82,282</u>	<u>\$ 140,431</u>	<u>(2,224,833)</u>	<u>108,995</u>	<u>(2,115,838)</u>
General revenues:							
Taxes:							
Property taxes, levied for general purpose					1,285,504	-	1,285,504
Other taxes					723,764	-	723,764
Grants and contributions not restricted to specific programs					261,716	-	261,716
Unrestricted investment earnings					84,609	15,311	99,920
Miscellaneous					39,274	44,655	83,929
Total general revenues					<u>2,394,867</u>	<u>59,966</u>	<u>2,454,833</u>
Changes in net position					170,034	168,961	338,995
Net position, beginning of year					<u>3,823,280</u>	<u>8,506,684</u>	<u>12,329,964</u>
Net position, end of year					<u>\$ 3,993,314</u>	<u>\$ 8,675,645</u>	<u>\$ 12,668,959</u>

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

TOWN OF SPINDALE, NORTH CAROLINA

Exhibit 3

GOVERNMENTAL FUNDS

Balance Sheet

June 30, 2019

	Major Funds		Total Governmental Funds
	General Fund	General Capital Project Capital Reserve Fund	
ASSETS			
Cash and cash equivalents	\$ 2,847,298	\$ 502,954	\$ 3,350,252
Restricted cash and cash equivalents	266,066	-	266,066
Taxes receivable, net	178,623	-	178,623
Accounts receivable, net	42,259	-	42,259
Due from other governments	278,394	-	278,394
Total assets	<u>\$ 3,612,640</u>	<u>\$ 502,954</u>	<u>\$ 4,115,594</u>
LIABILITIES			
Accounts payable and accrued liabilities	<u>\$ 164,621</u>	<u>\$ -</u>	<u>\$ 164,621</u>
DEFERRED INFLOWS OF RESOURCES	<u>198,167</u>	<u>-</u>	<u>198,167</u>
FUND BALANCES			
Restricted for:			
Stabilization by State statute	301,109	-	301,109
Streets	243,422	-	243,422
Public safety	22,644	-	22,644
Committed for capital improvements	-	502,954	502,954
Assigned for subsequent year's expenditures	671,800	-	671,800
Unassigned	<u>2,010,877</u>	<u>-</u>	<u>2,010,877</u>
Total fund balances	<u>3,249,852</u>	<u>502,954</u>	<u>3,752,806</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 3,612,640</u>	<u>\$ 502,954</u>	<u>\$ 4,115,594</u>

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

TOWN OF SPINDALE, NORTH CAROLINA

Exhibit 3

GOVERNMENTAL FUNDS

Balance Sheet

June 30, 2019

Amounts reported for governmental activities in the statement of net position (Exhibit 1) are different because:

Fund balances of governmental funds	\$	3,752,806	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			2,141,594
Contributions to various benefit plans in the current fiscal year are deferred outflows of resources on the statement of net position:			
OPEB plan			34,748
LEOSSA pension plan			13,099
LGRERS pension plan			87,082
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:			
Notes payable		(101,279)	
Total OPEB liability		(1,382,394)	
Total pension liability - LEOSSA		(278,889)	
Net pension liability - LGRERS		(425,314)	
Compensated absences		<u>(89,664)</u>	(2,277,540)
Other deferred outflows and deferred inflows of resources related to pension and OPEB plans are not reported in the funds:			
OPEB-related deferrals			(188,233)
Pension-related deferrals - LEOSSA			6,655
Pension-related deferrals - LGRERS			224,936
Ad valorem and other receivables that are not available to pay for current period expenditures are considered deferred inflows of resources in funds.			<u>198,167</u>
Net position of governmental activities	\$		<u><u>3,993,314</u></u>

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

GOVERNMENTAL FUNDS
Statement of Revenues, Expenditures, and Changes in Fund Balances
For the year ended June 30, 2019

	<u>Major Funds</u>		
	General Fund	General Capital Project Capital Reserve Fund	Total Governmental Funds
REVENUES			
Ad valorem taxes	\$ 1,280,762	\$ -	\$ 1,280,762
Other taxes and licenses	723,764	-	723,764
Unrestricted intergovernmental	261,716	-	261,716
Restricted intergovernmental	195,241	-	195,241
Sales and services	311,171	-	311,171
Investment earnings	73,071	11,538	84,609
Miscellaneous	39,274	-	39,274
Total revenues	<u>2,884,999</u>	<u>11,538</u>	<u>2,896,537</u>
EXPENDITURES			
Current:			
General government	376,306	-	376,306
Public safety	1,127,692	-	1,127,692
Transportation	502,904	-	502,904
Environmental protection	373,017	-	373,017
Cultural and recreation	352,693	-	352,693
Debt service:			
Principal	14,652	-	14,652
Interest	4,706	-	4,706
Total expenditures	<u>2,751,970</u>	<u>-</u>	<u>2,751,970</u>
Net change in fund balances	133,029	11,538	144,567
Fund balances, beginning of year	<u>3,116,823</u>	<u>491,416</u>	<u>3,608,239</u>
Fund balances, end of year	<u>\$ 3,249,852</u>	<u>\$ 502,954</u>	<u>\$ 3,752,806</u>

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

TOWN OF SPINDALE, NORTH CAROLINA

Exhibit 4

Reconciliation of the Statement of Revenues, Expenditures, and Changes In Fund Balances of Governmental Funds To The Statement of Activities For the year ended June 30, 2019

Amounts reported for governmental activities in the statement of activities (Exhibit 2) are different because:

Net changes in fund balances - total governmental funds	\$ 144,567
---	------------

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 was more than depreciation in the current period:

Capital outlay expenditures which were capitalized	\$ 232,366	
Depreciation expense for governmental assets	<u>(166,025)</u>	66,341

Contributions to various benefit plans in the current fiscal year are reported as expenditures in the fund statements, but are not reported in the statement of activities:

OPEB plan	34,748
LEOSSA pension plan	13,099
LGERS pension plan	87,082

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. In addition, some revenues reported in the fund statements are not reported as revenues in the statement of activities.	3,388
--	-------

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position.

14,652

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. These include amounts consolidated from the internal service fund.

Compensated absences	(291)	
OPEB expense	(67,445)	
Pension expense - LEOSSA	(10,641)	
Pension expense - LGERS	<u>(115,466)</u>	<u>(193,843)</u>

Total changes in net position of governmental activities	\$ <u>170,034</u>
--	-------------------

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

TOWN OF SPINDALE, NORTH CAROLINA

Exhibit 5

Statement of Revenues, Expenditures, and Changes in Fund Balance
 Budget and Actual - General Fund
 For the year ended June 30, 2019

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Revenues:				
Ad valorem taxes	\$ 1,282,300	\$ 1,282,300	\$ 1,280,762	\$ (1,538)
Other taxes	692,100	692,100	723,764	31,664
Unrestricted intergovernmental	281,000	281,000	261,716	(19,284)
Restricted intergovernmental	142,000	196,810	195,241	(1,569)
Sales and services	295,750	295,750	311,171	15,421
Investment earnings	40,000	40,000	73,071	33,071
Miscellaneous	20,400	20,400	39,274	18,874
Total revenues	<u>2,753,550</u>	<u>2,808,360</u>	<u>2,884,999</u>	<u>76,639</u>
Expenditures:				
Current:				
General government	444,451	444,451	376,306	68,145
Public safety	1,294,457	1,294,457	1,127,692	166,765
Transportation	514,347	514,347	502,904	11,443
Environmental protection	367,177	367,177	373,017	(5,840)
Cultural and recreation	325,566	380,376	352,693	27,683
Debt service:				
Principal retirement	14,657	14,657	14,652	5
Interest and other charges	4,703	4,703	4,706	(3)
Total expenditures	<u>2,965,358</u>	<u>3,020,168</u>	<u>2,751,970</u>	<u>268,198</u>
Revenues over (under) expenditures	<u>(211,808)</u>	<u>(211,808)</u>	<u>133,029</u>	<u>344,837</u>
Other financing sources (uses):				
Appropriated fund balance	339,933	339,933	-	(339,933)
Transfer to Capital Reserve Fund	<u>(128,125)</u>	<u>(128,125)</u>	<u>-</u>	<u>128,125</u>
Total other financing sources (uses)	<u>211,808</u>	<u>211,808</u>	<u>-</u>	<u>(211,808)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>133,029</u>	<u>\$ 133,029</u>
Fund balance, beginning of year			<u>3,116,823</u>	
Fund balance, end of year			<u>\$ 3,249,852</u>	

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

PROPRIETARY FUND
Statement of Fund Net Position
June 30, 2019

	Major Enterprise Fund Sewer Fund
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 1,160,128
Accounts receivable	229,952
Due from other governments	963,341
Total current assets	<u>2,353,421</u>
Capital assets:	
Land	38,920
Construction in progress	9,128,894
Depreciable capital assets, net	6,296,036
Total capital assets	<u>15,463,850</u>
Total noncurrent assets	<u>15,463,850</u>
Total assets	<u>17,817,271</u>
DEFERRED OUTFLOWS OF RESOURCES	
Pension deferrals	82,096
OPEB deferrals	8,687
Total deferred outflows of resources	<u>90,783</u>
LIABILITIES	
Current liabilities:	
Accounts payable and accrued liabilities	16,399
Construction contracts payable	210,493
Compensated absences, current	6,000
Current portion of long-term debt	552,792
Total current liabilities	<u>785,684</u>
Noncurrent liabilities:	
Compensated absences, net of current portion	11,658
Total OPEB liability	345,599
Net pension liability - LGERS	106,328
Long-term debt, net of current portion	7,931,990
Total noncurrent liabilities	<u>8,395,575</u>
Total liabilities	<u>9,181,259</u>

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

PROPRIETARY FUND
Statement of Fund Net Position
June 30, 2019

	Major Enterprise Fund
	Sewer Fund
DEFERRED INFLOWS OF RESOURCES	
Pension deferrals	4,092
OPEB deferrals	<u>47,058</u>
Total deferred inflow of resources	<u>51,150</u>
NET POSITION	
Net investment in capital assets	6,768,575
Unrestricted	<u>1,907,070</u>
Total net position	<u><u>\$ 8,675,645</u></u>

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

PROPRIETARY FUND
Statement of Revenues, Expenses, and Changes in Fund Net Position
For the year ended June 30, 2019

	Major Enterprise Fund
	Sewer Fund
OPERATING REVENUES	
Charges for services	\$ 1,299,754
Sewer taps	2,200
Total operating revenues	<u>1,301,954</u>
OPERATING EXPENSES	
Administration	94,833
Disposal plant	411,318
Sewer department	304,214
Depreciation	391,855
Total operating expenses	<u>1,202,220</u>
Operating income	<u>99,734</u>
NONOPERATING REVENUE (EXPENSE)	
Interest income	15,311
Grant proceeds	27,472
Miscellaneous income	44,655
Interest expense and fees	(18,211)
Total nonoperating revenue (expense)	<u>69,227</u>
Change in net position	<u>168,961</u>
Net position, beginning of year	<u>8,506,684</u>
Net position, end of year	<u><u>\$ 8,675,645</u></u>

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

PROPRIETARY FUND
Statement of Cash Flows
For the year ended June 30, 2019

	Major Enterprise Fund Sewer Fund
Cash flows from operating activities:	
Cash received from customers	\$ 1,469,846
Cash paid for goods and services	(383,797)
Cash paid to employees	(395,602)
Net cash provided by operating activities	<u>690,447</u>
Cash flows from noncapital financing activities:	
Other grants	<u>27,472</u>
Net cash provided by noncapital financing activities	<u>27,472</u>
Cash flows from capital and related financing activities:	
CWSRF loan proceeds received	1,322,157
Acquisition and construction of capital assets	(1,881,862)
Principal retirement	(608,170)
Interest paid on long-term debt	(18,211)
Net cash used by capital and related financing activities	<u>(1,186,086)</u>
Cash flows from investing activities:	
Interest on investments	<u>15,311</u>
Net cash provided by investing activities	<u>15,311</u>
Net decrease in cash and cash equivalents	(452,856)
Cash and cash equivalents, beginning of year	<u>1,612,984</u>
Cash and cash equivalents, end of year	<u>\$ 1,160,128</u>

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

PROPRIETARY FUND
Statement of Cash Flows
For the year ended June 30, 2019

	Major Enterprise Fund Sewer Fund
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 99,734
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	391,855
Nonoperating revenues - miscellaneous	44,655
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	123,237
(Increase) decrease in due from other governments	358
(Increase) decrease in deferred outflows of resources for pensions	(35,123)
(Increase) decrease in deferred outflows of resources for OPEB	1,760
Increase (decrease) in accounts payable and accrued liabilities	13,643
Increase (decrease) in compensated absences	1,693
Increase (decrease) in total OPEB liability	(7,292)
Increase (decrease) in net pension liability - LGERS	44,914
Increase (decrease) in deferred inflows of resources - pensions	(2,694)
Increase (decrease) in deferred inflows of resources - OPEB	13,707
Total adjustment	590,713
Net cash provided by operating activities	\$ 690,447
Supplemental Cash Flow Information	
Net change in construction contracts payable	\$ (382,718)
Net change in CWSRF loan proceeds receivable	\$ 71,960

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

TOWN OF SPINDALE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the year ended June 30, 2019

Note 1 - Summary of Significant Accounting Policies and Reporting Entity:

The accounting policies of the Town of Spindale (the “Town”) and its discretely presented component unit conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant accounting policies:

A. Reporting Entity

The Town of Spindale is a municipal corporation which is governed by an elected Mayor and a five-member Council.

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. Separate statements for each fund category – *governmental and proprietary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column.

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

The Town reports the following major governmental funds:

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

General Capital Project Capital Reserve Fund. This capital project reserve fund is used to account for funds that are committed for capital improvements and capital projects.

The Town reports the following major enterprise fund:

Sewer Fund. This fund is used to account for the Town's sewer operations. The Town's sewer capital projects funds have been consolidated into the Sewer Fund for financial reporting purposes. The budgetary comparison for these funds are included in the supplemental information.

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

The Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of 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 receivable in these financial statements and are offset by deferred inflows of resources.

Sales taxes and certain intergovernmental revenues, such as beer and wine tax, collected and held by the State at year-end on behalf of the Town, are recognized as revenue. Sales taxes are considered shared revenue for the Town because the tax is levied by Rutherford 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 by 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, General Capital Reserve Fund, Sewer Fund, and Sewer Capital Reserve Fund. All annual appropriations lapse at the fiscal-year end. Project ordinances are adopted for the Sewer Capital Projects Funds, which are consolidated with the operating fund for reporting purposes. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the department 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 by more than \$2,500. 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 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

All cash and investments of the Town are essentially demand deposits and are considered cash and cash equivalents. The Town considers demand deposits and investments purchased with an original maturity of three months or less, which are not limited as to use, to be cash and cash equivalents.

3. Restricted Assets

Powell Bill funds of \$243,422 are classified as restricted cash because they can be expended only for the purposes of maintaining, repairing, constructing, reconstructing, or widening of local streets per G.S. 136-41.1 through 136-41.4. The unexpended balance of forfeiture funds of \$22,644 are classified as restricted assets for the General Fund because their use is completely restricted to the purpose for which the funds were intended.

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 other than motor vehicles on July 1st, the beginning of the fiscal year. The taxes are due on September 1st (lien date); however, interest does not accrue until the following January 6th. These taxes are based on the assessed values as of January 1, 2018.

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 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 costs are \$1,000 for all assets. Donated capital assets received prior to June 30, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 30, 2015 are recorded at acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical cost. 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 on a straight-line basis over the following useful lives to the cost of the assets:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Sewer lines, update and expansion	30 years
Buildings	50 years
Improvements	25 years
Furniture and equipment	10 years
Vehicles	5 years
Computer equipment	3 years

7. Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred 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: pension and OPEB related deferrals.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Town has several items that meet this criterion: property taxes receivable, other receivables, and pension and OPEB deferrals.

8. Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Position. In the fund financial statements for governmental fund types, the face amount of debt issued is reported in other financing sources.

The Town's long-term debt for sewer system improvements is carried within the enterprise fund. The debt service requirements for the Clean Water bonds are being met by sewer revenues, but the taxing power of the Town is pledged to make these payments if sewer revenues should ever be insufficient.

9. Compensated Absences

The vacation policy of the Town provides for the accumulation of up to thirty (30) days earned vacation leave with such leave being fully vested when earned. For the Town's government-wide and proprietary funds, an expense and a liability for compensated absences and the salary-related payments are recorded as the leave is earned. The Town has assumed a first-in, first-out method of using accumulated compensated time. The portion of that time that is estimated to be used in the next fiscal year has been designated as a current liability in the government-wide financial statements.

The Town's sick leave policy provides 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 determination of length of service for retirement benefit purposes. Since the Town has no obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

10. Net Position

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

11. 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:

Non-Spendable 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 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.

Restricted for Public Safety – portion of fund balance restricted by revenue source for public safety related activities.

Committed Fund Balance – portion of fund balance that can only be used for specific purposes imposed by majority of vote by quorum of the Town of Spindale'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.

Committed for Capital Improvements – portion of total fund balance that has been committed for capital improvements.

Assigned Fund Balance – portion of fund balance that the Town of Spindale intends to use for specific purposes. The Town Council has the authority to assign fund balance.

Assigned for 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 Spindale 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, and 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.

12. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures at the Statement of Net Position date and reported amounts of

revenues and expenses during the reporting period. Estimates are used to determine depreciation expense and allowance for doubtful accounts. Actual results may differ from those estimates.

13. Defined Benefit Cost-Sharing Plans

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Local Governmental Employees' Retirement System (LGERS) and additions to/deductions from LGERS' fiduciary net position have been determined on the same basis as they are reported by LGERS. For this purpose, plan member contributions are recognized in the period in which the contributions are due. The Town of Spindale'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.

For purposes of measuring the net pension expense, information about the fiduciary net position of the Firefighters' and Rescue Squad Workers' Pension Fund (FRSWPF) and additions to/deductions from FRSWPF's fiduciary net position have been determined on the same basis as they are reported by FRSWPF. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Note 2 – Detail Notes on All Funds

A. Assets

1. Deposits

All the deposits of the Town are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the Federal depository insurance coverage level are collateralized with securities held by the Town's agent in the Town's name. 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 Town for the Town, these deposits are considered to be held by the Town's agent in the entity's name. The amount of the pledged collateral is based on an approved averaging method for non-interest-bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Town or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Town under the Pooling Method, the potential exists for undercollateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Town has no 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 \$653,914 and a bank balance of \$718,987. Of the bank balance, \$250,000 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method. At June 30, 2019, the Town's petty cash fund totaled \$250.

2. Investments

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

Investment Type	Valuation Measurement	Book Value	Maturity	Rating
	Method			
NC Capital Management Trust - Government Portfolio	Fair Value Level 1	\$ 1,979,203	N/A	AAAm
NC Capital Management Trust - Term Portfolio	Fair Value Level 1	2,143,079	0.11 Years	Unrated
Total		<u>\$ 4,122,282</u>		

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

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

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

Credit Risk. The Town has no formal policy regarding credit risk. The NCCMT Term Portfolio is authorized to invest in obligations of the U.S. government and agencies, and in high grade money market instruments as permitted under North Carolina General Statutes 159-30 as amended.

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 are net of the following allowances for doubtful accounts:

General Fund:

Taxes receivable	\$ 76,000
Accounts receivable	16,541
Total	<u>\$ 92,541</u>

Sewer Fund:

Accounts receivable	51,171
Total	<u>\$ 51,171</u>

4. Due From Other Governments

Due from other governments consisted of the following at June 30, 2019:

Due from Other Governments

Local option sales tax	\$ 152,000
Utility franchise tax	58,000
Grants receivable	960,053
Other	71,682
Total	<u>\$ 1,241,735</u>

5. Capital Assets

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

<u>Governmental Activities</u>	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Non-Depreciable Capital Assets:				
Land	\$ 634,500	\$ -	\$ -	\$ 634,500
Depreciable Capital Assets:				
Buildings	2,785,368	8,652	-	2,794,020
Equipment	942,385	75,262	-	1,017,647
Update and expansion	71,454	85,896	-	157,350
Vehicles	1,301,953	62,556	-	1,364,509
Total depreciable capital assets	<u>5,101,160</u>	<u>232,366</u>	<u>-</u>	<u>5,333,526</u>
Less Accumulated Depreciation:				
Buildings	1,738,743	53,868	-	1,792,611
Equipment	752,975	61,588	-	814,563
Update and expansion	13,312	2,933	-	16,245
Vehicles	1,155,377	47,636	-	1,203,013
Total accumulated depreciation	<u>3,660,407</u>	<u>166,025</u>	<u>-</u>	<u>3,826,432</u>
Depreciable capital assets, net	<u>1,440,753</u>			<u>1,507,094</u>
 Governmental capital assets, net	 <u>\$ 2,075,253</u>			 <u>\$ 2,141,594</u>

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

Governmental Activities:	
General government	\$ 14,398
Public safety	65,839
Transportation	7,545
Environmental protection	37,540
Culture and recreation	<u>40,703</u>
Total depreciation expense	<u>\$ 166,025</u>

Capital asset activity for business-type activities for the year ended June 30, 2019 was as follows:

Business-type activities	Beginning Balances	Increases	Decreases	Ending Balances
Non-Depreciable Capital Assets:				
Land	\$ 38,920	\$ -	\$ -	\$ 38,920
Construction in progress	8,550,027	1,485,759	906,892	9,128,894
Total non-depreciable capital assets	8,588,947	1,485,759	906,892	9,167,814
Depreciable Capital Assets:				
Buildings	2,446,251	13,385	-	2,459,636
Sewer lines	5,602,621	906,892	-	6,509,513
Update and expansion	3,450,076	-	-	3,450,076
Equipment and vehicles	1,518,788	-	-	1,518,788
Total depreciable capital assets	13,017,736	920,277	-	13,938,013
Less Accumulated Depreciation:				
Buildings	1,675,606	48,792	-	1,724,398
Sewer lines	2,449,316	173,936	-	2,623,252
Update and expansion	2,032,715	115,128	-	2,147,843
Equipment and vehicles	1,092,485	53,999	-	1,146,484
Total accumulated depreciation	7,250,122	391,855	-	7,641,977
Depreciable capital assets, net	5,767,614			6,296,036
Business-type capital assets, net	\$14,356,561			\$15,463,850

Construction Commitments

The Town had the following construction commitments at June 30, 2019:

Project	Spent To-Date	Remaining Commitment
WWTP Rehab Project	\$ 7,036,227	\$ 2,179,937

B. Liabilities

1. Payables

Payables at the government-wide level at June 30, 2019 were as follows:

	Vendors	Construction Payables	Salaries and Benefits	Total
Governmental Activities:				
General Fund	\$ 112,185	\$ -	\$ 52,436	\$ 164,621
Business-type Activities:				
Sewer Fund	\$ 11,770	\$ 210,493	\$ 4,629	\$ 226,892

2. Pension Plan Obligations

a. Local Governmental Employees' Retirement System

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

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

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

Contributions. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. Town of Spindale employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Town of Spindale's contractually required contribution rate for the year ended June 30, 2019, was 8.50% of compensation for law enforcement officers and 7.81% for general employees and firefighters, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Town of Spindale were \$108,852 for the year ended June 30, 2019.

Refunds of Contributions. Town employees who have terminated service as a contributing member of LGERS may file an application for a refund of their contributions. By state law, refunds to members with

at least five years of service include 4% interest. State law requires a 60 day waiting period after service termination before the refund may be paid. The acceptance of a refund payment cancels the individual's right to employer contributions or any other benefit provided by LGERS.

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

At June 30, 2019, the Town reported a liability of \$531,642 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2017. The total pension liability was then rolled forward to the measurement date of June 30, 2018 utilizing update procedures incorporating the actuarial assumptions. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2019 (as measured at June 30, 2018), the Town's proportion was 0.02241%, which was an increase of 0.00231% from its proportion at June 30, 2018 (as measured at June 30, 2017.)

For the year ended June 30, 2019, the Town recognized pension expense of \$144,333. 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	\$ 82,020	\$ 2,752
Changes of assumptions	141,077	-
Net difference between projected and actual earnings on pension plan investments	72,979	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	5,555	17,709
Town contributions subsequent to the measurement date	108,852	-
Total	<u>\$ 410,483</u>	<u>\$ 20,461</u>

\$108,852 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as an increase of the net pension asset in the year ended June 30, 2020. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2020	\$ 136,046
2021	88,576
2022	12,872
2023	43,676
2024	-
Thereafter	-
	<u>\$ 281,170</u>

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

Inflation	3.0 percent
Salary increases	3.50 to 8.10 percent, including inflation and productivity factor
Investment rate of return	7.00 percent, net of pension plan investment expense, including inflation

The plan 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 as 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, 2019 are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Fixed income	29.0%	1.4%
Global equity	42.0%	5.3%
Real estate	8.0%	4.3%
Alternatives	8.0%	8.9%
Credit	7.0%	6.0%
Inflation protection	6.0%	4.0%
Total	100.0%	

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 3.05%. 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 liability 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%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Town's proportionate share of the net pension liability (asset)	\$ 1,277,050	\$ 531,642	\$ (91,233)

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.

b. Law Enforcement Officers' Special Separation Allowance

1. Plan Description.

The Town administers a public employee retirement system (the "Separation Allowance"), a single-employer defined benefit pension plan that provides retirement benefits to the Town's qualified sworn law enforcement officers under the age of 62 who have completed at least 30 years of creditable service or have attained 55 years of age and have completed five or more years of creditable service. The Separation Allowance is equal to .85 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 law enforcement officers of the Town are covered by the Separation Allowance. At December 31, 2017 (valuation date), the Separation Allowance's membership consisted of:

Retirees receiving benefits	2
Terminated plan members entitled to, but not yet receiving, benefits	-
Active plan members	11
Total	13

2. Summary of Significant Accounting Policies

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

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

3. Actuarial Assumptions

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

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

The discount rate used to measure the total pension liability is the S&P Municipal Bond 20 Year High Grade Rate Index at December 31, 2017.

The actuarial assumptions used in the December 31, 2017 valuation were based on the results of an actuarial experience study for the five year period ended December 31, 2014.

The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population: the RP-2014 mortality tables base rates projected forward generationally from 2015 using MP-2015. The mortality tables vary by age and health status (i.e. disabled and healthy).

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. Administrative costs of the Separation Allowance are financed through investment earnings. The Town paid \$25,468 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 \$278,889. 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 \$10,641.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 15,042	\$ 5,718
Changes of assumptions and other inputs	9,035	11,704
Town benefit payments and plan administrative expense made subsequent to the measurement date	13,099	-
Total	<u>\$ 37,176</u>	<u>\$ 17,422</u>

\$13,099 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, 2020. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2020	\$ 1,170
2021	1,170
2022	1,247
2023	1,687
2024	1,133
Thereafter	248
	<u>\$ 6,655</u>

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%)	Current Discount Rate (3.64%)	1% Increase (4.64%)
Total pension liability	<u>\$ 302,167</u>	<u>\$ 278,889</u>	<u>\$ 257,906</u>

Schedule of Changes in Total Pension Liability	
Total pension liability as of December 31, 2017	\$ 275,251
Changes for the year:	
Service cost at end of year	13,764
Interest	8,296
Change in benefit terms	-
Difference between expected and actual experience	17,924
Changes of assumptions and other inputs	(10,878)
Benefit payments	(25,468)
Other	-
Net changes	<u>3,638</u>
Total pension liability as of December 31, 2018	<u>\$ 278,889</u>

c. Supplemental Retirement Income Plan for Law Enforcement Officers

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

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

The Town made contributions of \$21,008 for the reporting year. No amounts were forfeited.

d. Supplemental Retirement Income Plan for Non-Law Enforcement Employees

Plan Description. Effective October of 1992, all non-law enforcement employees of the Town participate in the 401(k) Supplemental Retirement Income Plan of North Carolina. Participation begins when the employee becomes eligible for participation in the Local Governmental Employees Retirement System. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Plan is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina, 27699, or by calling (919) 981-5454.

Funding Policy. The Town contributes four percent of each participant's compensation, while participants may also make voluntary contributions. All amounts are vested immediately.

The Town made contributions of \$36,004 for the reporting year. No amounts were forfeited.

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

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

	<u>LGERS</u>	<u>LEOSSA</u>	<u>TOTAL</u>
Proportionate share of net pension liability	\$ 531,642	N/A	\$ 531,642
Proportion of the net pension liability	0.02241%	N/A	N/A
Total pension liability	N/A	\$ 278,889	278,889
Pension expense	144,333	10,641	154,974

Deferred Outflows of Resources:

Differences between expected and actual experience	\$ 82,020	\$ 15,042	\$ 97,062
Changes of assumptions	141,077	9,035	150,112
Net difference between projected and actual earnings on pension plan investments	72,979	-	72,979
Changes in proportion and differences between Town contributions and proportionate share of contributions	5,555	-	5,555
Town contributions (LGERS) and benefit payments (LEOSSA) made subsequent to the measurement date	108,852	13,099	121,951
Total	<u>\$ 410,483</u>	<u>\$ 37,176</u>	<u>\$ 447,659</u>

Deferred Inflows of Resources:

Differences between expected and actual experience	\$ 2,752	\$ 5,718	\$ 8,470
Changes of assumptions	-	11,704	11,704
Changes in proportion and differences between Town contributions and proportionate share of contributions	17,709	-	17,709
Total	<u>\$ 20,461</u>	<u>\$ 17,422</u>	<u>\$ 37,883</u>

e. Firefighter's and Rescue Squad Workers' Pension Fund

Plan Description. The State of North Carolina contributes, on behalf of the Town of Spindale, to the Firefighter's Rescue Squad Workers' Pension Fund (FRSWPF), a cost-sharing multiple-employer defined benefit pension plan with a special funding situation administered by the State of North Carolina. FRSWPF provides pension benefits for eligible fire and rescue squad workers who have elected to become members of the fund. Article 86 of G.S. Chapter 58 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 Firefighter's and Rescue Squad Workers' Pension Fund is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for the Fund. That report may be obtained by writing to the Office of the State Controller,

1410 Mail Service Center, Raleigh, North Carolina 27699-1410, by calling (919) 981-5454, or at www.osc.nc.gov.

Benefits Provided. FRSWPF provides retirement and survivor benefits. The present retirement benefit is \$170 per month. Plan members are eligible to receive the monthly benefit at age 55 with 20 years of creditable service as a firefighter or rescue squad worker, and have terminated duties as a firefighter or rescue squad worker. Eligible beneficiaries of members who die before beginning to receive the benefit will receive the amount paid by the member and contributions paid on the member's behalf into the plan. Eligible beneficiaries of members who die after beginning to receive benefits will be paid the amount the member contributed minus the benefits collected.

Contributions. The Town contributes \$10 per month to the plan for each member. The State, a non-employer contributor, funds the plan through appropriations. The Town does not contribute to the plan. Contribution provisions are established by General Statute 58-86 and may be amended only by the North Carolina General Assembly. For the fiscal year ended June 30, 2018, the State contributed \$17,952,000 to the plan. The Town's proportionate share of the State's contribution is \$3,759.

Refunds of Contributions. Plan members who are no longer eligible or choose not to participate in the plan may file an application for a refund of their contributions. Refunds include the member's contributions and contributions paid by others on the member's behalf. No interest will be paid on the amount of the refund. The acceptance of a refund payment cancels the individual's right to employer contributions or any other benefit provided by FRSWPF.

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

At June 30, 2019, the Town reported no liability for its proportionate share of the net pension liability, as the State provides 100% pension support to the Town through its appropriations to the FRSWPF. The total portion of the net pension liability that was associated with the Town and supported by the State was \$5,114. 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 contributions to the pension plan relative to the projected contributions of all participating employers. As the Town is not projected to make any future contributions to the plan, its proportionate share at June 30, 2018 and at June 30, 2017 was 0%.

For the year ended June 30, 2019, the Town recognized pension expense of \$2,909 and revenue of \$2,909 for support provided by the State. At June 30, 2019, the Town reported no deferred outflows of resources and no deferred inflows of resources related to pensions.

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	Not applicable
Investment rate of return	7.00 percent, net of pension plan investment expense, including inflation

For more information regarding actuarial assumptions, including mortality tables, the actuarial experience study, the consideration of future ad hoc COLA amounts, the development of the projected long-term investment returns, and the asset allocation policy, refer to the discussion of actuarial assumptions for the LGERS plan in Section a. of this note.

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.

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.

3. Post-Employment Healthcare Benefits

Plan Description. Under the terms of a Town resolution, the Town administers a single-employer defined benefit Retiree's Healthcare Benefits Plan (the "HCB Plan"). As of July 19, 2005, this plan provides post-employment healthcare benefits to retirees of the Town, provided they participate in the North Carolina Local Governmental Employees' Retirement System (System) and meet one of the following requirements: 1) hired before July 19, 2005, and is 50 years of age or older at termination of employment and has completed twenty (20) years of continuous service with the Town immediately before termination of employment, 2) hired on or after July 19, 2005, and is less than 60 years of age at termination of employment and has completed at least thirty (30) years of continuous full-time service with the Town immediately before termination of employment, or 3) hired on or after July 19, 2005, and is 60 years of age or older at termination of employment and has completed at least twenty (20) years of continuous full-time service with the Town immediately before termination of employment. Employees who retire under one of these conditions can remain on the Town's plan until becoming eligible for Medicare, at which time the retiree will be issued a Medicare Supplement Plan of their choice. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 75.

Benefits Provided. The Town pays 50% of the full cost of coverage for health and dental insurance for eligible retirees for their lifetime. The Town does not provide a medical benefit for retiree dependents. The Town Council may amend these benefit provisions. A separate report was not issued for the plan.

Membership of the HCB Plan consisted of the following at June 30, 2017, the date of the latest actuarial valuation:

	<u>Members</u>
Retirees receiving benefits	11
Terminated plan members entitled to, but not yet receiving, benefits	-
Active plan members	<u>33</u>
Total	<u><u>44</u></u>

Total OPEB Liability

The Town's total OPEB liability of \$1,727,993 was measured as of June 30, 2018 and was determined by an actuarial valuation as of June 30, 2017.

Actuarial assumptions and other inputs. The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement unless otherwise specified:

Inflation	2.50%
Real wage growth	1.00%
Wage inflation	3.50%
Salary increases, including wage inflation	
General Employees	3.50% - 7.75%
Firefighters	3.50% - 7.75%
Law enforcement officers	3.50% - 7.35%
Municipal bond index rate	
Prior measurement date	3.56%
Measurement date	3.89%
Health care cost trends	
Pre-Medicare	7.50% for 2017 decreasing to an ultimate rate of 5.00% by 2023

The discount rate is based on the June average of the Bond Buyer General Obligation 20-year Municipal Bond Index published weekly by The Bond Buyer, and the discount rate used to measure the TOL is the Municipal Bond Index Rate as of the measurement date.

Mortality rates were based on the RP-2014 mortality tables, with adjustments for LGERS experience and generational mortality improvements using Scale MP-2015.

The demographic actuarial assumptions for retirement, disability incidence, withdrawal, and salary increases used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period January 1, 2010 - December 31, 2014, adopted by the LGERS Board.

The remaining actuarial assumptions (e.g., initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the June 30, 2017 valuation were based on a review of recent plan experience done concurrently with the June 30, 2017 valuation.

Changes in the Total OPEB Liability

Total OPEB Liability	
As of June 30, 2018	\$ 1,764,456
Changes for the year	
Service cost at the end of the year	48,730
Interest on total OPEB liability and cash flows	62,039
Difference between expected and actual experience	1,084
Changes in assumptions or other inputs	(104,377)
Benefit payments	(43,939)
Net changes	(36,463)
Balance at June 30, 2019	<u><u>\$ 1,727,993</u></u>

Changes in assumptions or other inputs reflect a change in the discount rate from 3.56% to 3.89%.

Sensitivity of the total OPEB liability to changes in the discount rate

The following presents the total OPEB liability of the Town, as well as what the Town's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.89 percent) or 1-percentage-point higher (4.89 percent) than the current discount rate:

	1% Decrease (2.89%)	Current Discount Rate (3.89%)	1% Increase (4.89%)
Total OPEB Liability	<u>\$ 2,073,686</u>	<u>\$ 1,727,993</u>	<u>\$ 1,459,444</u>

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates

The following presents the total OPEB liability of the Town, as well as what the Town's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease (6.5%)	Current (7.5%)	1% Increase (8.5%)
Total OPEB Liability	<u>\$ 1,434,730</u>	<u>\$ 1,727,993</u>	<u>\$ 2,111,027</u>

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2019, the Town recognized OPEB expense of \$83,355. At June 30, 2019, the Town reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 952	\$ 903
Changes of assumptions and other inputs made subsequent to the measurement date	42,483	234,388
Total	<u>\$ 43,435</u>	<u>\$ 235,291</u>

\$42,483 reported as deferred outflows of resources related to OPEB 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, 2020. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2020	\$ (35,709)
2021	(35,709)
2022	(35,709)
2023	(35,709)
2024	(35,709)
Thereafter	(55,794)
	<u>\$ (234,339)</u>

4. Deferred Outflows and Inflows of Resources

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions to pension plan (LGERS)		
in the current fiscal year	\$ 108,852	\$ -
Benefit payments made and admin expenses for LEOSSA	13,099	-
Benefit payments made and admin expenses for OPEB	42,483	234,388
Pension and OPEB deferrals	326,660	38,786
Taxes receivable, net (General Fund)	-	178,623
Other receivables (General Fund)	-	19,544
Total	<u>\$ 491,094</u>	<u>\$ 471,341</u>

5. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damages to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town manages these risks through an insurance program in place with U.S. Specialty Insurance Company that has a specialized municipality program. Through this program, the Town obtains general liability and auto liability coverage of \$1,000,000 per occurrence; property coverage up to the total insurance values of the property policy. The workers compensation coverage up to the statutory limits of North Carolina, is provided by Key Risk Insurance Company. The Town provides health insurance for employees. The current plan is the North Carolina State Health plan through Blue Cross Blue Shield.

The Town carries commercial coverage for other risks of loss. The Town does not have a separate cyber risk insurance policy. There have been no significant reductions in insurance coverage in the prior year, and settled claims have not exceeded coverage in any of the last three fiscal years. The Town does carry a blanket limit of \$1,000,000 for flood insurance and a blanket \$1,000,000 limit for earthquake insurance.

In accordance with G.S. 159-29, the Town's employees that have access to \$100 or more of the Town's funds at any given time are performance bonded through a commercial surety bond. The finance officer is bonded for \$50,000. The tax collector is bonded for \$15,000. The remaining employees that have access to funds are bonded under a blanket employee dishonesty bond for \$25,000.

6. Long-Term Obligations

The Town has incurred direct borrowing installment debt to finance various equipment and improvements. Notes payable and CWSRF loans in both the General Fund and the Sewer Fund are secured by the equipment and property. Principal and interest requirements are appropriated when due. Details of the Town's installment debt are as follows:

Serviced by the General Fund:Notes Payable From Direct Borrowings:

\$214,358; direct borrowing installment loan for two (2) 2006 Kenworth pumping engine trucks on February 26, 2010, secured by the trucks. Annual payments of \$19,358 beginning February 26, 2011 and continuing until February 26, 2020, with a final payment of \$104,245; interest at 4.00% \$ 101,279

Serviced by the Sewer Fund:Notes Payable From Direct Borrowings:

\$425,000; direct borrowing installment debt for force main replacements and improvements on June 16, 2008, secured by the property. After an interest only payment in July of 2009, annual payments of \$39,990 until June 16, 2023; interest at 3.91% \$ 178,565

CWSRF Loans:

\$660,063; State loan for wastewater treatment works projects under the North Carolina Clean Water Revolving Loan and Grant Act of 1987 and the Federal Clean Water Act amendments of 1987. Due on May 1, with annual installments through May 1, 2034, of \$33,003; interest at 0.00% \$ 495,047

\$395,971; American Recovery and Reinvestment Act of 2009, loan assistance from the Clean Water State Revolving Fund for the Oak Street Pump Station and sewer improvements. Due on May 1, with annual installments through May 1, 2030, of \$19,799; interest at 0.00% 237,581

Total advances-to-date on a Clean Water State Revolving Fund loan awarded at \$8,053,455 for the wastewater treatment plant rehab sewer capital project; requiring repayment over 20 years at 0% interest, beginning May 1, 2019 7,454,771
 Total CWSRF loans - business-type activities \$ 8,187,399

Bonds Payable:

\$536,090; clean water bonds under the Clean Water and Natural Gas Critical Needs Act of 1998; principal due each May 1 with interest payable semi-annually on May 1 and November 1 through May 2022; interest at 4.02% \$ 38,405

\$768,000; clean water bonds under the Clean Water and Natural Gas Critical Needs Act of 1998; principal due each May 1 with interest payable semi-annually on May 1 and November 1 through May 2020; interest at 5.25% 80,414

Total bonds payable - business-type activities \$ 118,819

Annual debt service requirements for notes and loans currently due and payable are as follows:

Year Ending June 30	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2020	\$ 101,279	\$ 4,108	\$ 487,582	\$ 6,982
2021	-	-	488,873	5,691
2022	-	-	490,214	4,350
2023	-	-	491,608	4,361
2024	-	-	493,160	-
2025-2029	-	-	2,272,872	-
2030-2034	-	-	2,213,477	-
2035-2038	-	-	1,428,178	-
Total	<u>\$ 101,279</u>	<u>\$ 4,108</u>	<u>\$ 8,365,964</u>	<u>\$ 21,384</u>

Annual debt service requirements for bonds payable are as follows:

Year Ending June 30	Business-Type Activities		
	Principal	Interest	Total
2020	\$ 65,210	\$ 5,249	\$ 70,459
2021	26,805	2,155	28,960
2022	26,804	1,078	27,882
Total	<u>\$ 118,819</u>	<u>\$ 8,482</u>	<u>\$ 127,301</u>

At June 30, 2019, the Town had a legal debt margin of approximately \$7,200,000.

Changes in Long-Term Liabilities

A summary of all long-term obligations presented in the government-wide Statement of Activities is as follows:

	Balance 7/1/2018	Increases	Decreases	Balance 6/30/2019	Current Portion of Balance
<u>Governmental Activities:</u>					
Notes from direct borrowings	\$ 115,931	\$ -	\$ 14,652	\$ 101,279	\$ 101,279
Total OPEB liability	1,411,565	-	29,171	1,382,394	-
Total pension liability - LEOSSA	275,251	3,638	-	278,889	-
Net pension liability - LGERS	245,658	179,656	-	425,314	-
Compensated absences	89,373	28,432	28,141	89,664	27,000
Total	<u>\$ 2,137,778</u>	<u>\$ 211,726</u>	<u>\$ 71,964</u>	<u>\$ 2,277,540</u>	<u>\$ 128,279</u>
<u>Business-type Activities:</u>					
Clean Water bonds	\$ 184,029	\$ -	\$ 65,210	\$ 118,819	\$ 65,210
Notes from direct borrowings	210,331	-	31,766	178,565	33,008
CWSRF loans	7,304,475	1,394,118	511,194	8,187,399	454,574
Total OPEB liability	352,891	-	7,292	345,599	-
Net pension liability - LGERS	61,414	44,914	-	106,328	-
Compensated absences	15,965	7,557	5,864	17,658	6,000
Total	<u>\$ 8,129,105</u>	<u>\$ 1,446,589</u>	<u>\$ 621,326</u>	<u>\$ 8,954,368</u>	<u>\$ 558,792</u>

Compensated absences, OPEB, and pension obligations typically have been liquidated in the General Fund. Compensated absences are accounted for on an FIFO basis.

Note 3 – Summary Disclosure of Significant Contingencies

Claims, Judgments and Contingent Liabilities - At June 30, 2019, the Town was a defendant to various lawsuits. In the opinion of the Town's management and the Town attorney, the ultimate effect of these legal matters will not have a material adverse effect on the Town's financial position.

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

Note 4 – Fund Balance

The Town does not have a minimum fund balance policy. The following schedule provides management and citizens with information on the portion of General Fund balance that is available for appropriation:

Total Fund Balance - General Fund	\$ 3,249,852
<u>Less:</u>	
Stabilization by State statute	<u>(301,109)</u>
Available Fund Balance	<u><u>\$ 2,948,743</u></u>

Outstanding encumbrances are amounts needed to pay any commitments related to purchase orders and contracts that remain unperformed at year-end. There were no encumbrances in the General Fund at June 30, 2019.

REQUIRED SUPPLEMENTARY FINANCIAL DATA

Spindale

TOWN OF SPINDALE, NORTH CAROLINA
OTHER POST-EMPLOYMENT BENEFITS
REQUIRED SUPPLEMENTARY INFORMATION
PAST TWO FISCAL YEARS*

Schedule of Changes in the Total OPEB Liability and Related Ratios

	2019	2018
Total OPEB Liability		
Service cost at end of year	\$ 48,730	\$ 56,886
Interest	62,039	56,019
Changes of benefit terms	-	-
Difference between expected and actual experience	-	(1,193)
Changes of assumptions and other inputs	1,084	(188,690)
Benefit payments	(104,377)	(39,008)
Other	(43,939)	-
Net change in total OPEB liability	(36,463)	(115,986)
Total OPEB liability, beginning of year	1,764,456	1,880,442
Total OPEB liability, end of year	<u>\$ 1,727,993</u>	<u>\$ 1,764,456</u>
 Covered payroll	 \$ 1,048,011	 \$ 1,048,011
Total OPEB liability as a percentage of covered payroll	164.88%	168.36%

Notes to the schedule:

Changes of Assumptions

Changes of assumptions and other inputs reflect the effects of changes in the discount rate of each period. The following are the discount rates used in each period.

Fiscal Year	Rate
2019	3.89%
2018	3.56%
2017	3.01%

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

TOWN OF SPINDALE, NORTH CAROLINA

PROPORTIONATE SHARE OF NET PENSION LIABILITY (ASSET)
REQUIRED SUPPLEMENTARY INFORMATION
LAST SIX FISCAL YEARS *

Local Governmental Employees' Retirement System

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Town's proportionate share of the net pension liability (asset) (%)	0.02241%	0.02010%	0.02291%	0.02069%	0.02229%	0.02180%
Town's proportion of the net pension liability (asset) (\$)	\$ 531,642	\$ 307,072	\$ 486,227	\$ 92,855	\$ (131,454)	\$ 262,774
Town's covered payroll	1,240,978	1,180,915	1,187,767	1,214,594	1,247,291	1,167,092
Town's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	42.84%	26.00%	40.94%	7.64%	(10.54%)	22.52%
Plan fiduciary net position as a percentage of the total pension liability	91.63%	94.18%	91.47%	98.09%	102.64%	94.35%

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

TOWN OF SPINDALE, NORTH CAROLINA

SCHEDULE OF CONTRIBUTIONS
REQUIRED SUPPLEMENTARY INFORMATION
LAST SIX FISCAL YEARS

Local Governmental Employees' Retirement System

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 108,852	\$ 96,628	\$ 86,553	\$ 81,388	\$ 87,197	\$ 90,258
Contribution in relation to the contractually required contribution	<u>108,852</u>	<u>96,628</u>	<u>86,553</u>	<u>81,388</u>	<u>87,197</u>	<u>90,258</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Town's covered payroll	\$ 1,356,592	\$ 1,240,978	\$ 1,180,915	\$ 1,187,767	\$ 1,214,594	\$ 1,247,291
Contributions as a percentage of covered payroll	8.02%	7.79%	7.33%	6.85%	7.38%	7.38%

TOWN OF SPINDALE, NORTH CAROLINA

**PROPORTIONATE SHARE OF NET PENSION LIABILITY
REQUIRED SUPPLEMENTARY INFORMATION
LAST FIVE FISCAL YEARS***

Firefighters' and Rescue Squad Workers' Pension

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Town's proportionate share of the net pension liability (%)	0.00000%	0.00000%	0.00000%	0.00000%	0.00000%
Town's proportion of the net pension liability (\$)	\$ -	\$ -	\$ -	\$ -	\$ -
State's proportionate share of the net pension liability associated with Town of Spindale	<u>5,114</u>	<u>9,144</u>	<u>6,792</u>	<u>7,587</u>	<u>5,841</u>
Total	<u>\$ 5,114</u>	<u>\$ 9,144</u>	<u>\$ 6,792</u>	<u>\$ 7,587</u>	<u>\$ 5,841</u>
Town's covered payroll	\$ 173,139	\$ 154,710	\$ 149,897	\$ 157,355	\$ 165,581
Town's proportionate share of the net pension liability as a percentage of its covered-payroll	2.95%	5.91%	4.53%	4.82%	3.53%
Plan fiduciary net position as a percentage of the total pension liability	89.69%	89.35%	84.94%	91.40%	93.42%

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

TOWN OF SPINDALE, NORTH CAROLINA

**LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE
REQUIRED SUPPLEMENTARY INFORMATION
LAST THREE FISCAL YEARS***

Schedule of Changes in Total Pension Liability

	2019	2018	2017
Beginning balance	\$ 275,251	\$ 287,029	\$ 306,869
Changes for the year:			
Service cost at end of year	13,764	10,413	10,647
Interest	8,296	10,352	10,320
Change in benefit terms	-	-	-
Difference between expected and actual experience	17,924	(8,896)	-
Changes of assumptions and other inputs	(10,878)	14,055	(5,227)
Benefit payments	(25,468)	(37,702)	(35,580)
Other	-	-	-
Net changes	<u>3,638</u>	<u>(11,778)</u>	<u>(19,840)</u>
Ending balance of the total pension liability	<u>\$ 278,889</u>	<u>\$ 275,251</u>	<u>\$ 287,029</u>

Schedule of Total Pension Liability as a Percentage of Covered Payroll

Total pension liability	\$ 278,889	\$ 275,251	\$ 287,029
Covered payroll	432,014	372,883	476,367
Total pension liability as a percentage of covered payroll	64.56%	73.82%	60.25%

Notes to the schedule:

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

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

INDIVIDUAL FUND STATEMENTS AND SCHEDULES

Spindale

TOWN OF SPINDALE, NORTH CAROLINA

GENERAL FUND

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual For the year ended June 30, 2019

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Ad Valorem Taxes:			
Taxes		\$ 1,256,868	
Penalties and interest		23,894	
Total	\$ 1,282,300	1,280,762	\$ (1,538)
Other Taxes and Licenses:			
Local option sales tax		611,990	
Library ad valorem tax		111,774	
Total	692,100	723,764	31,664
Unrestricted Intergovernmental Revenues:			
ABC revenues		19,286	
Utility franchise tax		242,430	
Total	281,000	261,716	(19,284)
Restricted Intergovernmental Revenues:			
Powell Bill allocation		140,431	
RHI legacy grant		54,810	
Total	196,810	195,241	(1,569)
Other Revenues:			
Sales and services		311,171	
Investment earnings		73,071	
Miscellaneous		39,274	
Total	356,150	423,516	67,366
Total revenues	2,808,360	2,884,999	76,639
Expenditures:			
General Government:			
Governing board:			
Salaries and employee benefits		18,437	
Operating expenditures		16,842	
Total	41,955	35,279	6,676

TOWN OF SPINDALE, NORTH CAROLINA

GENERAL FUND

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual For the year ended June 30, 2019

	Final Budget	Actual	Variance Positive (Negative)
Administration:			
Salaries and employee benefits		110,406	
Operating expenses		118,745	
Capital outlay		29,978	
Total	275,771	259,129	16,642
Town hall:			
Operating expenditures		45,297	
Capital outlay		8,652	
Total	93,979	53,949	40,030
Beautification:			
Operating expenditures		16,177	
Total	20,800	16,177	4,623
Public works building:			
Operating expenditures		11,772	
Total	11,946	11,772	174
Total general government	444,451	376,306	68,145
Public Safety:			
Police department:			
Salaries and employee benefits		665,070	
Operating expenditures		71,779	
Capital outlay		32,578	
Total	824,579	769,427	55,152
Fire department:			
Salaries and employee benefits		272,877	
Operating expenditures		68,683	
Total	444,628	341,560	103,068

TOWN OF SPINDALE, NORTH CAROLINA

GENERAL FUND

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual

For the year ended June 30, 2019

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Code enforcement:			
Operating expenditures		16,705	
Total	25,250	16,705	8,545
 Total public safety	1,294,457	1,127,692	166,765
 Transportation:			
Streets and highways:			
Salaries and employee benefits		199,701	
Operating expenditures		187,982	
Capital outlay		60,200	
Total	456,088	447,883	8,205
 Shop:			
Salaries and employee benefits		48,390	
Operating expenditures		6,631	
Total	58,259	55,021	3,238
 Total transportation	514,347	502,904	11,443
 Environmental Protection:			
Solid waste:			
Salaries and employee benefits		221,124	
Operating expenditures		150,495	
Total	365,697	371,619	(5,922)
 Cemetery:			
Operating expenditures		1,398	
Total	1,480	1,398	82
 Total environmental protection	367,177	373,017	(5,840)

TOWN OF SPINDALE, NORTH CAROLINA

GENERAL FUND

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual

For the year ended June 30, 2019

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Cultural and Recreation:			
Parks and recreation:			
Salaries and employee benefits		96,169	
Other operating expenditures		59,785	
Capital outlay		<u>100,958</u>	
Total	<u>278,892</u>	<u>256,912</u>	<u>21,980</u>
Library:			
Salaries and employee benefits		72,779	
Other operating expenditures		<u>23,002</u>	
Total	<u>101,484</u>	<u>95,781</u>	<u>5,703</u>
Total cultural and recreation	<u>380,376</u>	<u>352,693</u>	<u>27,683</u>
Debt Service:			
Principal retirement		14,652	
Interest and fees		<u>4,706</u>	
Total	<u>19,360</u>	<u>19,358</u>	<u>2</u>
Total expenditures	<u>3,020,168</u>	<u>2,751,970</u>	<u>268,198</u>
Revenues over (under) expenditures	<u>(211,808)</u>	<u>133,029</u>	<u>344,837</u>
Other Financing Sources (Uses):			
Appropriated fund balance	339,933	-	(339,933)
Transfer to Capital Reserve Fund	<u>(128,125)</u>	-	<u>128,125</u>
Total other financing sources (uses)	<u>211,808</u>	-	<u>(211,808)</u>
Net change in fund balance	<u>\$ -</u>	133,029	<u>\$ 133,029</u>
Fund balance, beginning of year		<u>3,116,823</u>	
Fund balance, end of year		<u>\$ 3,249,852</u>	

TOWN OF SPINDALE, NORTH CAROLINA

GENERAL CAPITAL PROJECT CAPITAL RESERVE FUND

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
For the year ended June 30, 2019

	Final Budget	Actual	Variance Positive (Negative)
Revenue:			
Interest income	<u>\$ -</u>	<u>\$ 11,538</u>	<u>\$ 11,538</u>
Net change in fund balance	<u>\$ -</u>	<u>11,538</u>	<u>\$ 11,538</u>
Fund balance, beginning of year		<u>491,416</u>	
Fund balance, end of year		<u>\$ 502,954</u>	

TOWN OF SPINDALE, NORTH CAROLINA

SEWER FUND

Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP) For the year ended June 30, 2019

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Operating revenues:			
Sewer charges	\$ 1,195,000	\$ 1,299,754	\$ 104,754
Sewer tap and connection fees	1,500	2,200	700
Total operating revenues	<u>1,196,500</u>	<u>1,301,954</u>	<u>105,454</u>
Non-operating revenues:			
Grant proceeds	-	2,000	2,000
Miscellaneous	25,000	44,655	19,655
Total non-operating income	<u>25,000</u>	<u>46,655</u>	<u>21,655</u>
Total revenues	<u>1,221,500</u>	<u>1,348,609</u>	<u>127,109</u>
Expenditures:			
Administration:			
Salaries and employee benefits	80,655	80,742	(87)
Operating expenditures	15,040	13,653	1,387
Total expenditures	<u>95,695</u>	<u>94,395</u>	<u>1,300</u>
Disposal plant:			
Salaries and employee benefits	177,041	178,954	(1,913)
Operating expenditures	205,769	193,680	12,089
Repairs and maintenance	12,600	9,961	2,639
Capital outlay	15,000	13,385	1,615
Total	<u>410,410</u>	<u>395,980</u>	<u>14,430</u>
Sewer department:			
Salaries and employee benefits	154,024	145,774	8,250
Operating expenditures	95,457	110,458	(15,001)
Repairs and maintenance	75,500	44,466	31,034
Total	<u>324,981</u>	<u>300,698</u>	<u>24,283</u>

TOWN OF SPINDALE, NORTH CAROLINA

SEWER FUND

Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)

For the year ended June 30, 2019

	Budget	Actual	Variance Positive (Negative)
Debt service:			
Principal retirement	608,173	608,170	3
Interest and fees	<u>18,215</u>	<u>18,211</u>	<u>4</u>
Total	<u>626,388</u>	<u>626,381</u>	<u>7</u>
 Total expenditures	 <u>1,457,474</u>	 <u>1,417,454</u>	 <u>40,020</u>
 Revenues over expenditures	 <u>(235,974)</u>	 <u>(68,845)</u>	 <u>167,129</u>
Other Financing Sources (Uses):			
Transfer from sewer capital reserve	15,000	-	(15,000)
Appropriated fund balance	<u>220,974</u>	<u>-</u>	<u>(220,974)</u>
Total other financing sources (uses)	<u>235,974</u>	<u>-</u>	<u>(235,974)</u>
 Revenues over expenditures and other uses	 <u>\$ -</u>	 (68,845)	 <u>\$ (68,845)</u>
 Reconciliation from budgetary basis (modified accrual) to full accrual:			
Reconciling items:			
Principal retirement of debt		608,170	
Capital outlay		13,385	
Interest income - capital reserve fund		15,311	
From sewer capital projects funds:			
Other grants		25,472	
Expenses, not capitalized		(23,887)	
Pension expense - LGERS		(28,867)	
Contributions subsequent to measurement date - LGERS		21,770	
OPEB expense		(8,687)	
OPEB benefits paid subsequent to measurement date		8,687	
Increase in compensated absences		(1,693)	
Depreciation		<u>(391,855)</u>	
Total reconciling items		<u>237,806</u>	
 Change in net position		 <u>\$ 168,961</u>	

TOWN OF SPINDALE, NORTH CAROLINA

SEWER CAPITAL PROJECT FUND

WWTP REHAB

Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)

From inception and for the year ended June 30, 2019

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Actual Current Year</u>	<u>Total</u>	<u>Variance Positive (Negative)</u>
Revenue:					
Restricted intergovernmental:					
DEQ principal forgiveness loan	\$ 1,000,000	\$ 1,000,000	\$ -	\$ 1,000,000	\$ -
Expenditures:					
Professional services	1,637,770	1,590,076	321,882	1,911,958	274,188
Capital outlay	6,936,167	5,872,350	1,163,877	7,036,227	100,060
Other	642,227	180,709	-	180,709	(461,518)
Total expenditures	9,216,164	7,643,135	1,485,759	9,128,894	(87,270)
Revenue under expenditures	(8,216,164)	(6,643,135)	(1,485,759)	(8,128,894)	87,270
Other Financing Sources:					
CWSRF loan	8,035,455	6,462,426	1,394,118	7,856,544	(178,911)
Transfer from sewer capital reserve	180,709	180,709	-	180,709	-
Total other financing sources	8,216,164	6,643,135	1,394,118	8,037,253	(178,911)
Revenues and other sources					
over expenditures	\$ -	\$ -	\$ (91,641)	\$ (91,641)	\$ (91,641)

TOWN OF SPINDALE, NORTH CAROLINA

SEWER CAPITAL PROJECT FUND

AIA GRANT PROJECT

Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)

From inception and for the year ended June 30, 2019

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Actual Current Year</u>	<u>Total</u>	<u>Variance Positive (Negative)</u>
Revenues:					
AIA grant	<u>\$ 150,000</u>	<u>\$ 124,528</u>	<u>\$ 25,472</u>	<u>\$ 150,000</u>	<u>-</u>
Expenditures:					
Professional services and equip lease	150,000	124,528	21,637	146,165	(3,835)
Other	<u>7,500</u>	<u>-</u>	<u>2,250</u>	<u>2,250</u>	<u>(5,250)</u>
Total expenditures	<u>157,500</u>	<u>124,528</u>	<u>23,887</u>	<u>148,415</u>	<u>(9,085)</u>
Revenues over (under) expenditures	<u>(7,500)</u>	<u>-</u>	<u>1,585</u>	<u>1,585</u>	<u>9,085</u>
Other Financing Sources:					
Transfer from sewer capital reserve	<u>7,500</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(7,500)</u>
Total other financing sources	<u>7,500</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(7,500)</u>
Revenues and other sources over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,585</u>	<u>\$ 1,585</u>	<u>1,585</u>

TOWN OF SPINDALE, NORTH CAROLINA

SEWER CAPITAL RESERVE FUND

Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)

For the year ended June 30, 2019

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenue:			
Interest earned	<u>\$ 15,000</u>	<u>\$ 15,311</u>	<u>\$ 311</u>
Other Financing Sources (Uses):			
Transfer to Sewer Fund	<u>(15,000)</u>	<u>-</u>	<u>15,000</u>
Total other financing sources (uses)	<u>(15,000)</u>	<u>-</u>	<u>15,000</u>
Total revenues and other sources over other uses	<u>\$ -</u>	<u>\$ 15,311</u>	<u>\$ 15,311</u>

OTHER SCHEDULES

Spindale

TOWN OF SPINDALE, NORTH CAROLINA

GENERAL FUND

Schedule of Ad Valorem Taxes Receivable

For the year ended June 30, 2019

Fiscal Year	Uncollected Balance 6/30/2018	Additions	Collections And Credits	Uncollected Balance 6/30/2019
2018-2019	\$ -	\$ 1,250,655	\$ 1,189,083	\$ 61,572
2017-2018	59,766	-	23,924	35,842
2016-2017	44,151	-	13,842	30,309
2015-2016	37,302	-	11,098	26,204
2014-2015	27,098	-	5,906	21,192
2013-2014	27,615	-	4,760	22,855
2012-2013	22,977	-	3,436	19,541
2011-2012	15,620	-	1,901	13,719
2010-2011	14,512	-	996	13,516
2009-2010	10,529	-	656	9,873
2008-2009 and prior	11,061	-	11,061	-
	<u>\$ 270,631</u>	<u>\$ 1,250,655</u>	<u>\$ 1,266,663</u>	<u>254,623</u>
Less: allowance for uncollectible accounts:				
General Fund				<u>76,000</u>
Ad valorem taxes receivable, net				<u>\$ 178,623</u>
<u>Reconciliation with revenues:</u>				
Ad valorem taxes - General Fund				\$ 1,280,762
Reconciling items:				
Interest and penalties collected				(23,894)
County fire taxes				(10,787)
Taxes written off and credits				11,061
Releases and adjustments				<u>9,521</u>
Total collections and credits				<u>\$ 1,266,663</u>

TOWN OF SPINDALE, NORTH CAROLINA

GENERAL FUND Analysis of Current Tax Levy For the year ended June 30, 2019

				Total Levy	
	Property Valuation	Rate	Total Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Property taxed at current year's rate	\$ 198,359,558	\$ 0.633	\$1,255,616	\$1,135,657	\$ 119,959
Discoveries	1,362,085	0.633	8,622	8,622	-
Abatements	<u>(2,145,814)</u>	0.633	<u>(13,583)</u>	<u>(13,583)</u>	<u>-</u>
Total property valuation	<u>\$ 197,575,829</u>				
Net levy			1,250,655	1,130,696	119,959
Uncollected taxes at June 30, 2019			<u>(61,572)</u>	<u>(61,572)</u>	<u>-</u>
Current year's taxes collected			<u>\$1,189,083</u>	<u>\$1,069,124</u>	<u>\$ 119,959</u>
Current levy collection percentage			95.08%	94.55%	100.00%

COMPLIANCE SECTION

Spindale



**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 Auditors' Report

To the Honorable Mayor
and Members of the Town Council
Town of Spindale
Spindale, 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 Spindale, North Carolina, as of and for the year ended June 30, 2019, which collectively comprise the Town of Spindale's basic financial statements, and have issued our report thereon dated December 9, 2019.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2019-001 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2019-002 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Town of Spindale, North Carolina's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

Town of Spindale's Responses to Findings

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

Purpose of the Report

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

Donald Killian CPA Group, P.A.

Asheville, North Carolina
December 9, 2019



**GOULD KILLIAN
CPA GROUP, P.A.**
CERTIFIED PUBLIC ACCOUNTANTS

**Independent Auditors' Report On Compliance For Each Major Federal Program And
On Internal Control Over Compliance Required By The Uniform Guidance
And The State Single Audit Implementation Act**

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

Report on Compliance for Each Major Federal Program

We have audited the Town of Spindale's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Town of Spindale's major federal programs for the year ended June 30, 2019. Town of Spindale's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the Town of Spindale's complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

Report on Internal Control over Compliance

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

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

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

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

Donald Killian CPA Group, P.A.

Asheville, North Carolina
December 9, 2019

TOWN OF SPINDALE, NORTH CAROLINA

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2019

I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? ☒ yes ☐ no
- Significant deficiency(s) identified that are not considered to be material weaknesses? ☒ yes ☐ none reported

Noncompliance material to financial statements noted ☐ yes ☒ no

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? ☐ yes ☒ no
- Significant deficiency(s) identified that are not considered to be material weaknesses? ☐ yes ☒ none reported

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? ☐ yes ☒ no

Major federal programs for the Town of Spindale:

Clean Water State Revolving Fund CFDA # 66.458

The threshold for determining Federal Type A programs for the Town of Spindale is \$750,000.

Town of Spindale does not qualify as a low risk auditee.

State Awards

The only major State program for the Town of Spindale is the Clean Water State Revolving Fund, which is a State match on a federal program. Therefore, this program has been included in the list of major federal programs above.

TOWN OF SPINDALE, NORTH CAROLINA

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2019

II. Financial Statement Findings

Finding 2019-001 **Material Weakness**

Criteria: Management should have a system in place to reduce the likelihood of errors in financial reporting.

Condition: Financial reporting under the accounting standards promulgated by the Financial Accounting Standards Board and the Governmental Accounting Standards Board (GAAP) requires a level of technical expertise not typically required to perform normal day-to-day operations. Material audit adjustments were required in order to fairly present the Town's financial statements, and the auditor cannot be considered a part of the Town's system of internal control.

Context: The external auditor proposed material audit adjustments. The Town hired an outside CPA to oversee the auditor's nonaudit services, including review and approval of proposed audit adjustments and the audited financial statements. However, the presence of such adjustments indicates that errors existed which were not detected and corrected by management in a timely manner, in the normal course of their duties.

Cause: There are limited Town resources as it relates to preparing certain year end closing entries necessary to correct errors and prepare the annual financial statements in accordance with GAAP.

Effect: Errors in interim and year-end financial reporting may exist, which are not detected and corrected in a timely manner. Users of the financial information of the Town may rely on incorrect information.

This finding is repeated from 2018-001.

Recommendation: The Town has hired an outside CPA to review and approve the results of the audit, including the financial statements, audit adjustments, and underlying supporting documentation. However, this review happens after the completion of the audit, after the material audit adjustments were required. The Town should consider either expanding their own audit preparation and year-end close procedures to substantially limit the number of audit adjustments required, or expand the services provided by the outside CPA to include audit preparation for the annual audit.

Management's Response: Management agrees with this finding. See the correction action plan on page 76.

TOWN OF SPINDALE, NORTH CAROLINA

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2019

Finding 2019-002 Significant Deficiency

Criteria: Accurate financial information should be prepared and reviewed in a timely manner for effective internal control and management decision making.

Condition: We noted delays during the year in the financial closing procedures which should occur on a monthly basis, including review of bank reconciliations and posting of budget amendments and adjusting journal entries.

Context: The Town's accounting system is not updated in a timely manner to provide the most accurate information to internal users. The Town Manager's review of bank reconciliations and other important financial information is necessary for the Town's system of internal control to mitigate the effects of a small finance department with limited staff.

Cause: The Town has a limited number of staff that are able to prepare financial information.

Effect: Errors could occur that are not detected and corrected in a timely manner. Users of the financial information of the Town may rely on incorrect information.

Recommendation: The Town should implement procedures to ensure that financial information is prepared and reviewed in a timely manner. Bank reconciliations should be prepared by the finance department and reviewed by the Town Manager each month. Any budget amendments and adjusting journal entries should be entered into the Town's accounting system and reviewed on a monthly basis.

Management's Response: Management agrees with this finding. See the correction action plan on page 76.

III. Federal Awards Findings

None reported.



PO Box 186 • 125 Reveley Street • Spindale, NC 28160
Phone: (828) 286-3466 • Fax: (828) 286-3305

Corrective Action Plan
For the Year Ended June 30, 2019

Finding 2019-001

Name of Contact Person: Cathy Swafford, Finance Officer

Corrective Action: The Town will contract with an outside CPA to facilitate and expand our own audit preparation and year-end close procedures.

Proposed Completion Date: June 30, 2020

Finding 2019-002

Name of Contact Person: Cathy Swafford, Finance Officer

Corrective Action: The issue has been addressed with the Town Manager and Finance Officer and a corrective action has already been taken. Lack of staff does present a problem but monthly financial statements are to take priority for the Finance Officer. Positive pay has been implemented and should make monthly bank statements less time consuming.

Proposed Completion Date: Corrective measures are implemented.



PO Box 186 • 125 Reveley Street • Spindale, NC 28160
Phone: (828) 286-3466 • Fax: (828) 286-3305

Summary Schedule of Prior Year's Audit Findings
For the Year Ended June 30, 2019

2018-001 Repeated as 2019-001

2018-002 Corrected.

TOWN OF SPINDALE

Schedule of Expenditures of Federal and State Awards For the Year Ended June 30, 2019

	Federal CFDA Number	State/Pass-Through Grantor's Number	Fed. (Direct & Pass-through) Expenditures	State Expenditures
Federal Awards				
<u>Environmental Protection Agency</u>				
Passed-through the N.C. Dept. of Environmental Quality:				
Capitalization Grants for Clean Water State Revolving Fund	66.458	CS370621-04	\$ 1,188,607	\$ 297,152
Total Environmental Protection Agency			<u>1,188,607</u>	<u>297,152</u>
 Total Federal awards			<u>1,188,607</u>	<u>297,152</u>
State Awards				
<u>N. C. Department of Transportation:</u>				
Non-State System Street-Aid (Powell Bill)		2000004821	-	121,223
Total N.C. Department of Transportation			<u>-</u>	<u>121,223</u>
<u>N.C. Department of Environmental Quality:</u>				
Division of Water Infrastructure:				
Asset and inventory assessment grant			-	23,887
Total N.C. Department of Environmental Quality			<u>-</u>	<u>23,887</u>
 Total State awards			<u>-</u>	<u>145,110</u>
 Total Federal and State awards			<u>\$ 1,188,607</u>	<u>\$ 442,262</u>

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

- Basis of Presentation

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

Expenditures reported in the SEFSA are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Town of Spindale has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.