

**Town of East Spencer  
East Spencer, North Carolina  
For the year ended  
June 30, 2021**

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

**Town of East Spencer**

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# EDDIE CARRICK, CPA, PC

Certified Public Accountant

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## INDEPENDENT AUDITOR'S REPORT

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and aggregate remaining fund information of the Town of East Spencer, North Carolina, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and aggregate remaining fund information of the Town of East Spencer, North Carolina, as of June 30, 2021, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison of the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 12, the Law Enforcement Officers' Special Separation Allowance Schedule of Changes in Pension Liability and Pension Liability as a Percentage of Covered Payroll on page 46, and the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Asset (Liability) and Contributions, on page 47, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Information***

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

Individual fund statements, budgetary schedules, and other schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit, the procedures performed as describe above, the Individual fund statements, budgetary schedules, and other schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

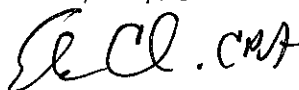
### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2021, on our consideration of the Town of East Spencer, North Carolina's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town of East Spencer, North Carolina's internal control over financial reporting and compliance.

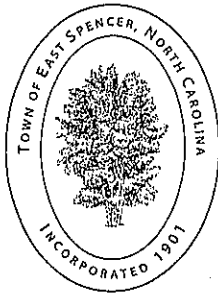
### **Emphasis of Matter**

As discussed in Note V to the financial statements, in January 2020, the World Health Organization has declared COVID-19 to constitute a "Public Health Emergency of International Concern." Given the uncertainty of the situation, the duration of any business disruption and related financial impact cannot be reasonably estimated at this time. Our opinion is not modified with respect to this matter.

Eddie Carrick, CPA, PC

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

Lexington, North Carolina  
November 29, 2021



# TOWN OF EAST SPENCER

*"Home of Heritage & Promise"*

## Management's Discussion and Analysis

As management of the Town of East Spencer, we offer the readers of the Town of East Spencer's financial statements this narrative overview and analysis of the financial activities of the Town of East Spencer for the fiscal year ended June 30, 2021. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

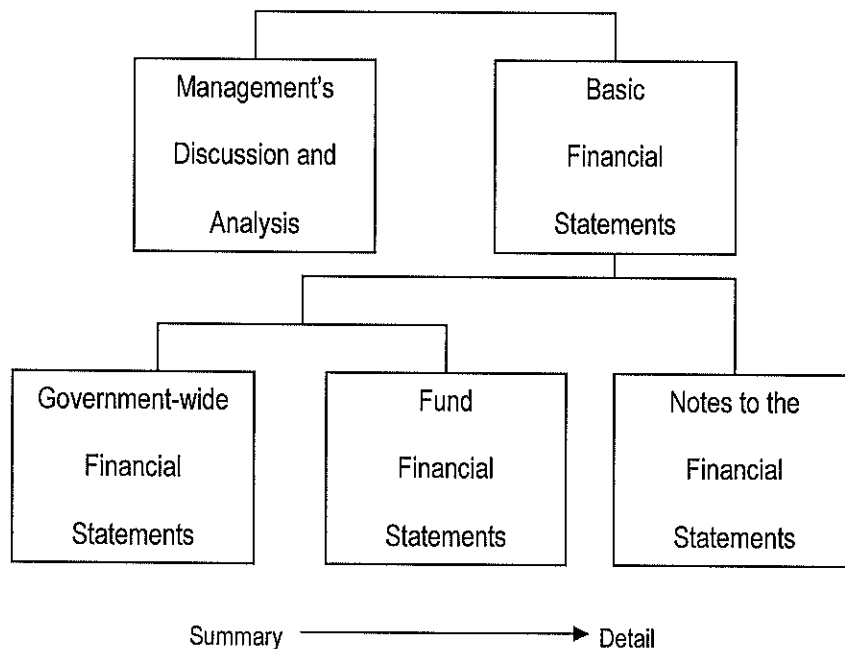
### Financial highlights

- The assets and deferred outflows of resources of the Town of East Spencer exceeded its liabilities deferred inflows of resources at the close of the fiscal year by \$5,121,994 (*net position*).
- The government's total net position increased by \$295,120, primarily due to increases in governmental and business- type activities.
- As of the close of the current fiscal year, the Town of East Spencer's governmental funds reported combined ending fund balances of \$1,735,813 with a net increase of \$163,427 in fund balance. Approximately 72% of this total amount, or \$1,282,751, restricted or assigned.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$453,062, or 30% of total general fund expenditures for the fiscal year.
- The Town of East Spencer's total debt and other long-term liabilities increased by \$25,491 due to principal payments of \$52,093 on the bonds and installment purchases, an increase in net pension liability (LGERS) of \$30,362, an increase in net pension obligation (LEO) of \$60,821, and a decrease of \$13,599 in compensated absences.

### Overview of the Financial Statements

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

**Required Components of Annual Financial Report**  
**Figure 1**



**Basic Financial Statements**

The first two statements (Exhibits 1 and 2) in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the Town's financial status.

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

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

## **Government-Wide Financial Statements**

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

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

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

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

## **Fund Financial Statements**

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

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



### **Governmental Funds (continued)**

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

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

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

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

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

Management Discussion and Analysis  
Town of East Spencer

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

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	<i>2021</i>	<i>2020</i>	<i>2021</i>	<i>2020</i>	<i>2021</i>	<i>2020</i>
Current assets	\$ 1,978,093	\$ 1,841,625	\$ (564,755)	\$ (562,058)	\$ 1,413,338	\$ 1,279,567
Other assets	1,762,436	1,829,163	3,947,292	3,846,848	5,709,728	5,676,011
Deferred outflow of resources	156,956	102,619	-	-	156,956	102,619
Total assets	3,897,485	3,773,407	3,382,537	3,284,790	7,280,022	\$7,058,197
Long-term liabilities	621,255	554,165	1,402,000	1,430,000	2,023,255	1,984,165
Other liabilities	17,644	31,243	-	-	17,644	31,243
Current liabilities	58,302	57,053	41,845	133,252	100,147	190,305
Deferred inflow of resources	16,983	25,612	-	-	16,983	25,612
Total liabilities	714,184	668,072	1,443,845	1,563,252	2,158,029	2,231,324
Net position:						
Net investment in						
capital assets	1,404,463	1,447,097	2,545,292	2,416,848	3,949,755	3,863,945
Restricted:						
Stabilization by State Statute	1,061,408	1,152,963	-	-	1,061,408	1,152,963
Streets	209,740	232,708	-	-	209,740	232,708
Capital projects	-	-	191	71,818	191	-
Unrestricted	507,690	272,567	(606,791)	(767,128)	(99,101)	(494,561)
Total net position	\$ 3,183,301	\$ 3,105,335	\$ 1,938,693	\$ 1,721,538	\$ 5,121,994	\$ 4,826,873

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets and deferred outflows of the Town exceeded liabilities and deferred inflows by \$5,121,994 as of June 30, 2021. The Town's net position increased by \$295,120 for the fiscal year ended June 30, 2021. However, a large portion \$3,949,755 or 77% reflects the Town's net investment in capital assets (road improvements, equipment, machinery, utility plant). The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's net investment in its capital assets is reported net of the outstanding debt, the resources needed to repay that debt must be provided by other sources, since capital assets cannot be used to liquidate these liabilities. An additional portion of the Town's net position, \$1,271,339, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$(99,101) is unrestricted.

Management Discussion and Analysis  
Town of East Spencer

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

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

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

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>	
	<i>2021</i>	<i>2020</i>	<i>2021</i>	<i>2020</i>	<i>2021</i>	<i>2020</i>
Revenues						
Program revenues:						
Charges for services	\$ 106,610	\$ 109,861	\$ 985,102	\$ 868,947	\$ 1,091,712	\$ 978,808
Grants and contributions	128,857	109,831	-	-	128,857	109,831
Capital grants and contributions	15,677	56,744	230,731	71,627	246,408	128,371
General revenues:						
Property taxes	804,027	850,798	-	-	804,027	850,798
Other taxes	2,559	2,426	-	-	2,559	2,426
Unrestricted intergovernmental	542,270	500,338	-	-	542,270	500,338
Other	84,661	41,622	286	1,010	84,947	42,632
Total revenues	1,684,661	1,671,620	1,216,119	941,584	2,900,780	2,613,204
Expenses:						
General government	344,346	339,188	-	-	344,346	339,188
Zoning	39,003	30,529	-	-	39,003	30,529
Public safety	825,042	838,108	-	-	825,042	838,108
Public works	275,900	349,828	-	-	275,900	349,828
Environmental protection	39,666	68,071	-	-	39,666	68,071
Cultural and recreational	54,645	(1,847)	-	-	54,645	(1,847)
Projects	15,677	63,729	-	-	15,677	63,729
Interest on long-term debt	12,417	13,176	-	-	12,417	13,176
Water and sewer	-	-	998,964	1,076,827	998,964	1,076,827
Total expenses	1,606,696	1,700,782	998,964	1,076,827	2,605,660	2,777,609
Increase (decrease) in net position before transfers	77,965	(29,162)	217,155	(135,243)	295,121	(164,405)
Transfers	-	-	-	-	-	-
Increase (decrease) in net position after transfers	77,966	(29,162)	217,155	(135,243)	295,121	(164,405)
Net position, July 1	3,105,335	3,134,496	1,721,538	1,856,781	4,826,873	4,991,277
Net position, June 30	\$ 3,183,301	\$ 3,105,335	\$ 1,938,693	\$ 1,721,538	\$ 5,121,994	\$ 4,826,873

**Governmental activities.** Governmental activities increased the Town's net position by \$77,966, thereby accounting for 27% of the total increase in net position of the Town. This increase was mainly due to increased local option sales tax as well as COVID relief funds. Town management acknowledges that 2021 was a successful year and plans on improving upon these approaches as a long-term strategy to realize continued fiscal health.

Management Discussion and Analysis  
Town of East Spencer

**Business-type activities:** Business-type activities increased the Town's net position by \$217,155, accounting for 73% of the total increase in the government's net position. Key elements of this increase are as follows:

- Decrease in water purchase costs
- Leak reimbursement

**Financial Analysis of the Town's Funds**

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

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

The General Fund is the chief operating fund of the Town. At the end of the current fiscal year, the Town of East Spencer's fund balance available in the General Fund was 453,062, while total fund balance reached \$1,774,210. The Town currently has an available fund balance of 30% of general fund expenditures, while total fund balance represents 116% of the same amount.

At June 30, 2021, the governmental funds of the Town reported a combined fund balance of \$1,735,813 with a net increase in fund balance of \$163,427. Included in this change in fund balance are increases in fund balance in the General Fund as well as an increase in fund balance in the Park Capital Project Fund.

**General Fund Budgetary Highlights:** During the fiscal year, the Town made several revisions to the budget. Generally, budget amendments fall into one of three categories:

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

Revenues were more than the budgeted amounts primarily because the Town received an unexpected COVID relief funds as well as increased local option sales tax revenue. Expenditures were held in check to comply with its budgetary requirements.

Management Discussion and Analysis  
Town of East Spencer

**Proprietary Funds:** The Town's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net position in the Water and Sewer Fund at the end of the fiscal year amounted to (\$656,791). The total increase in net position was \$167,155. Other factors concerning the finances of this fund have already been addressed in the discussion of the Town's business-type activities.

**Capital Asset and Debt Administration**

**Capital assets.** The Town's investment in capital assets for its governmental and business-type activities as of June 30, 2021, totals \$5,709,728 (net of accumulated depreciation). These assets include buildings, land, roads, machinery and equipment, and construction in progress.

Major capital assets transactions during the year include the following:

- Public safety vehicles \$30,000
- Equipment \$36,769
- Computers and computer equipment \$42,824
- Water and Sewer construction in progress \$230,731

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

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>	
	<i>2021</i>	<i>2020</i>	<i>2021</i>	<i>2020</i>	<i>2021</i>	<i>2020</i>
Land and CIP	\$ 327,689	\$ 1,130,566	\$ 302,358	\$ 71,627	\$ 630,047	\$ 1,202,193
Buildings	834,001	88,723	-	-	834,001	88,723
Vehicles	477,788	491,526	-	-	477,788	491,526
Equipment	122,958	118,348	-	-	122,958	118,348
Plant and distribution	-	-	3,644,936	3,775,221	3,644,936	3,775,221
	<u>\$ 1,762,436</u>	<u>\$ 1,829,163</u>	<u>\$ 3,947,292</u>	<u>\$ 3,846,848</u>	<u>\$ 5,709,728</u>	<u>\$ 5,676,011</u>

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

Management Discussion and Analysis  
Town of East Spencer

**Long-term Debt and Liabilities.** As of June 30, 2021, the Town had General Fund debt obligations of \$357,973. As of June 30, 2021, the Town had Water and Sewer debt obligations of \$1,402,000

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

	<i>Governmental</i>		<i>Business-type</i>		<i>Total</i>	
	<i>Activities</i>		<i>Activities</i>			
	<i>2021</i>	<i>2020</i>	<i>2021</i>	<i>2020</i>	<i>2021</i>	<i>2020</i>
Installment purchase	\$ 357,973	\$ 382,066	\$ -	\$ -	\$ 357,973	\$ 382,066
USDA loan	-	-	1,402,000	1,430,000	1,402,000	1,430,000
Net pension liability (LGERS)	146,153	115,791	-	-	146,153	115,791
Net pension obligation (LEO)	117,129	56,308	-	-	117,129	56,308
Compensated absences	17,644	31,243	-	-	17,644	31,243
	<u>\$ 638,899</u>	<u>\$ 585,408</u>	<u>\$ 1,402,000</u>	<u>\$ 1,430,000</u>	<u>\$ 2,040,899</u>	<u>\$ 2,015,408</u>

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

The Town of East Spencer's total debt and other long-term liabilities increased by \$25,491 due to principal payments of \$52,093 on the bonds and installment purchases, an increase in net pension liability (LGERS) of \$30,362, an increase in net pension obligation (LEO) of \$60,821, and a decrease of \$13,599 in compensated absences.

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of property located within that government's boundaries. The legal debt margin for the Town is \$9,788,291.

Additional information regarding the Town's long-term debt can be found in Note III.B.5 of this report.

**Economic Factors and Next Year's Budgets and Rates**

The following key economic indicators reflect the growth and prosperity of the Town.

- Covid-19 affected our ability in adequately marketing to potential business
- Started incremental pay raises so that each employee is working at a living wage
- Purchased four new police vehicles to better service the community
- Started the abatement process on several vacant or abandoned houses
- Several annexation requests from developers to develop major subdivisions
- Increased the amount of funding to repair roads

Management Discussion and Analysis  
Town of East Spencer

**Budget Highlights for the Fiscal Year Ending June 30, 2022**

**Governmental Activities:**

- Second installment of ARP fund \$247K will be allocated in August 2022
- Selling nearly \$1M in surplus property
- Hiring more employees to facilitate "in-house" services
- Develop a plan for a new/renovated fire station

The Town has chosen not to appropriate fund balance in the fiscal year 2022 budget. Management believes that increased revenues and continued restrictions on spending will maintain the Town's financial position. As the Town considers future revenue sources, it has determined that a \$0.01 increase in the property tax rate will result in additional revenues of approximately \$11,618 at current values and collection rate. Though management believes current growth will generate enough revenue to support Town operations, a careful analysis of property tax revenue will be considered in future years' budgets.

**Business-type Activities:**

- State allocated \$23.3M to the town for repair of water and sewer lines

**Requests for Information**

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

**Town of East Spencer, North Carolina**  
**Statement of Net Position**  
**June 30, 2021**

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents - unrestricted	\$ 545,688	\$ 18,448	\$ 564,136
Property taxes receivable (net)	183,979	-	183,979
Internal balances	913,400	(913,400)	-
Due from other governments	109,610	-	109,610
Accounts receivable	15,677	287,963	303,640
Accounts receivable - projects	-	18,292	18,292
Restricted cash and cash equivalents	209,740	23,941	233,681
	<u>1,978,093</u>	<u>(564,755)</u>	<u>1,413,338</u>
Capital assets:			
Land and construction in progress	327,689	302,358	630,047
Capital assets, net of depreciation	1,434,747	3,644,934	5,079,681
Total capital assets	<u>1,762,436</u>	<u>3,947,292</u>	<u>5,709,728</u>
 Total assets	 <u>3,740,529</u>	 <u>3,382,537</u>	 <u>7,123,066</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pension deferrals - LGERS	105,525	-	105,525
Pension deferrals - LEO	51,431	-	51,431
Total deferred inflows of resources	<u>156,956</u>	<u>-</u>	<u>156,956</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	39,006	18,095	57,100
Accrued salaries	19,296	-	19,296
Accrued vacation	17,644	-	17,644
Current portion of long-term liabilities	24,876	29,000	53,876
Payable from restricted assets	-	23,750	23,750
Long-term liabilities:			
Net pension liability - LGERS	146,153	-	146,153
LEO separation allowance	117,129	-	117,129
Due in more than one year	333,097	1,373,000	1,706,097
Total liabilities	<u>697,201</u>	<u>1,443,845</u>	<u>2,141,046</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred pension inflows - LGERS	14,426	-	14,426
Deferred pension inflows - LEO	2,557	-	2,557
Total deferred inflows of resources	<u>16,983</u>	<u>-</u>	<u>16,983</u>
<b>NET POSITION</b>			
Net investment in capital assets	1,404,463	2,545,292	3,949,755
Restricted for:			
Stabilization by State Statute	1,061,408	-	1,061,408
Streets	209,740	-	209,740
Capital projects	-	191	191
Unrestricted	507,690	(606,791)	(99,101)
Total net position	<u>\$ 3,183,301</u>	<u>\$ 1,938,693</u>	<u>\$ 5,121,994</u>

The accompanying notes are an integral part of the financial statements



Town of East Spencer, North Carolina  
Statement of Activities  
For the year ended June 30, 2021

EXHIBIT 2

Function / Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Governmental activities:</b>							
General government	\$ 344,346	\$ -	\$ 69,695	\$ 15,677	\$ (258,974)	\$ -	\$ (258,974)
Zoning	39,003	-	-	-	(39,003)	-	(39,003)
Public safety	825,042	-	9,668	-	(815,374)	-	(815,374)
Public works	275,900	-	49,494	-	(226,406)	-	(226,406)
Environmental protection	39,666	106,610	-	-	66,944	-	66,944
Cultural and recreational	54,645	-	-	-	(54,645)	-	(54,645)
Projects	15,677	-	-	-	(15,677)	-	(15,677)
Interest on long-term debt	12,417	-	-	-	(12,417)	-	(12,417)
Total governmental activities	<u>1,606,693</u>	<u>106,610</u>	<u>128,857</u>	<u>15,677</u>	<u>(1,355,549)</u>	<u>-</u>	<u>(1,355,549)</u>
<b>Business-type activities</b>							
Water and sewer	<u>998,964</u>	<u>985,102</u>	<u>-</u>	<u>230,731</u>	<u>-</u>	<u>216,869</u>	<u>216,869</u>
Total business activities	<u>998,964</u>	<u>985,102</u>	<u>-</u>	<u>230,731</u>	<u>-</u>	<u>216,869</u>	<u>216,869</u>
<b>Total government</b>	<u>\$ 2,605,658</u>	<u>\$ 1,091,712</u>	<u>\$ 128,857</u>	<u>\$ 246,408</u>	<u>(1,355,549)</u>	<u>216,869</u>	<u>(921,812)</u>
<b>General revenues:</b>							
Taxes:							
Property taxes levied for general purposes					804,027	-	804,027
Other taxes					2,559	-	2,559
Unrestricted investment earnings					205	286	490
Unrestricted intergovernmental revenues					542,270	-	542,270
Other unrestricted revenues					84,456	-	84,456
Transfers					-	-	-
Total general government revenues and transfers					<u>1,433,517</u>	<u>286</u>	<u>1,433,803</u>
Change in net position					77,966	217,155	295,121
Net position, beginning					<u>3,105,335</u>	<u>1,721,538</u>	<u>4,826,873</u>
Net position, ending					<u>\$ 3,183,301</u>	<u>\$ 1,938,693</u>	<u>\$ 5,121,994</u>

The accompanying notes are an integral part of the financial statements

**Town of East Spencer, North Carolina**  
**Balance Sheet**  
**Governmental Fund**  
**June 30, 2021**

	Major Funds	Non-major			Total
	General	Capital Project Revitalization	Capital Project Park Project	Capital Project Brownsfield	Governmental Fund
<b>ASSETS</b>					
Cash and investments	\$ 545,688	\$ -	\$ -	\$ -	\$ 545,688
Cash - restricted	209,740	-	-	-	209,740
Taxes receivable, net	183,979	-	-	-	183,979
Accounts receivable-projects	-	15,677	-	-	15,677
Due (to) from other funds	901,797	-	-	11,603	913,400
Due from other governmental units	109,610	-	-	-	109,610
Total assets	<u>\$ 1,950,814</u>	<u>\$ 15,677</u>	<u>\$ -</u>	<u>\$ 11,603</u>	<u>\$ 1,978,093</u>
<b>LIABILITIES AND FUND BALANCE</b>					
Liabilities:					
Accounts payable	\$ 23,329	\$ 15,677	\$ -	\$ -	\$ 39,006
Accrued salaries	19,296	-	-	-	19,296
Total current liabilities	<u>42,626</u>	<u>15,677</u>	<u>-</u>	<u>-</u>	<u>58,302</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Property taxes receivable	183,979	-	-	-	183,979
Total deferred inflows of resources	<u>183,979</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>183,979</u>
Fund balance:					
Restricted:					
Stabilization by State Statute	1,061,408	-	-	-	1,061,408
Streets	209,740	-	-	-	209,740
Assigned:					
Capital project	-	-	-	11,603	11,603
Subsequent year's expenditures	-	-	-	-	-
Unassigned	453,062	-	-	-	453,062
Total fund balance	<u>1,724,210</u>	<u>-</u>	<u>-</u>	<u>11,603</u>	<u>1,735,813</u>
Total liabilities and fund balance	<u>\$ 1,950,814</u>	<u>\$ 15,677</u>	<u>\$ -</u>	<u>\$ 11,603</u>	
Amounts reported for governmental activities in the statement of net position (Exhibit 1) are different because:					
Capital assets used in governmental activities are not financial and therefore are not reported in the funds.					1,762,436
Deferred outflows of resources related to pensions are not reported in the funds					156,956
Liabilities for earned revenues considered deferred inflows of resources in fund statements					183,979
Long-term liabilities used in governmental activities are not financial uses and therefore are not reported in the funds.					
Long-term debt				\$ (357,973)	
Net pension liability				(146,153)	
LEO separation allowance				(117,129)	
Compensated absences				(17,644)	(638,899)
Deferred inflows of resources related to pensions are not reported in the funds					(16,983)
Net position of governmental activities					<u>\$ 3,183,301</u>

The accompanying notes are an integral part of the financial statements

**Town of East Spencer, North Carolina**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Governmental Funds**  
**For the Year Ended June 30, 2021**

	Major Funds	Non-major			Total Governmental Fund
	General	Capital Project Revitalization	Capital Project Park Project	Capital Project Brownsfield	
<b>REVENUES</b>					
Ad valorem taxes	\$ 832,236	\$ -	\$ -	\$ -	\$ 832,236
Other taxes, licenses and fees	109,169	-	-	-	109,169
Unrestricted intergovernmental revenues	542,270	-	-	-	542,270
Restricted intergovernmental revenues	127,536	15,677	-	-	143,213
Sales and services	-	-	-	-	-
Other general	85,981	-	-	-	85,981
Total revenues	<u>1,697,192</u>	<u>15,677</u>	<u>-</u>	<u>-</u>	<u>1,712,868</u>
<b>EXPENDITURES</b>					
General government	380,090	-	-	-	380,090
Zoning	39,003	-	-	-	39,003
Public Safety	748,231	-	-	-	748,231
Public works	251,836	-	-	-	251,836
Environmental protection	64,166	-	-	-	64,166
Cultural and recreation	13,930	-	-	-	13,930
Capital projects	-	15,677	-	-	15,677
Debt service	36,510	-	-	-	36,510
Total expenditures	<u>1,533,765</u>	<u>15,677</u>	<u>-</u>	<u>-</u>	<u>1,549,441</u>
Revenues over expenditures	<u>163,427</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>163,427</u>
<b>OTHER SOURCES (USES)</b>					
Interest income	-	-	-	-	-
Transfers (to) from other funds	-	-	-	-	-
Transfers (to) from capital projects	(49,997)	-	49,997	-	-
	<u>(49,997)</u>	<u>-</u>	<u>49,997</u>	<u>-</u>	<u>-</u>
Revenues and other financing sources over (under) expenditures	113,430	-	49,997	-	163,427
Fund balance - beginning of year	<u>1,610,780</u>	<u>-</u>	<u>(49,997)</u>	<u>11,603</u>	<u>1,572,385</u>
Fund balance - end of year	<u>\$ 1,724,210</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,603</u>	<u>\$ 1,735,813</u>

The accompanying notes are an integral part of the financial statements

**Town of East Spencer, North Carolina**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Governmental Funds**  
**For the Year Ended June 30, 2021**

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

Net changes in fund balances - total governmental funds	\$	163,427
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period		
Capital outlay	\$	109,593
Construction in progress		-
Depreciation		(176,320)
		(66,727)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		
Change in unavailable revenue for tax revenue		(28,209)
Change in pension expense		
Changes in net pension asset-LGERS		-
Changes in deferred outflows - LGERS		18,152
Changes in net pension liability-LGERS		(30,362)
Changes in deferred inflows-LGERS		7,735
		(4,475)
Changes in deferred outflows - LEO		36,185
Changes in net pension liability-LEO		(60,821)
Changes in deferred inflows-LEO		894
		(23,742)
The issuance of long-term debt provides current financial resource to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.		
Principal payments on debt		24,093
Proceeds from long-term debt		-
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		
Compensated absences		13,599
Total changes in net assets of governmental activities	\$	77,966

The accompanying notes are an integral part of the financial statements

## Town of East Spencer, North Carolina

## General Fund

Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual  
For the Year Ended June 30, 2021

	Original	Final	Actual Amounts	Variance with Final Budget- Positive (Negative)
<b>REVENUES:</b>				
Ad valorem taxes	\$ 784,617	\$ 861,432	\$ 832,236	\$ (29,196)
Other taxes, licenses and fees	107,950	107,950	109,169	1,219
Unrestricted intergovernmental	401,468	401,468	542,270	140,802
Restricted intergovernmental	56,192	56,192	127,536	71,344
Sales and services	-	-	-	-
Other general revenues	79,040	153,935	85,981	(67,954)
Total revenues	<u>1,429,267</u>	<u>1,580,977</u>	<u>1,697,192</u>	<u>116,215</u>
<b>EXPENDITURES:</b>				
General government	360,717	427,254	380,090	47,164
Zoning	42,950	42,950	39,003	3,947
Public safety	746,385	784,367	748,231	36,136
Public works	209,777	237,768	251,836	(14,068)
Environmental protection	56,669	70,669	64,166	6,503
Cultural and recreation	26,259	31,459	13,930	17,529
Debt service	36,510	36,510	36,510	-
Total expenditures	<u>1,479,267</u>	<u>1,630,977</u>	<u>1,533,765</u>	<u>97,212</u>
Revenues over (under) expenditures	<u>(50,000)</u>	<u>(50,000)</u>	<u>163,427</u>	<u>213,427</u>
<b>OTHER SOURCES (USES):</b>				
Debt proceeds	-	-	-	-
Transfers to Capital Project Funds	(50,000)	(50,000)	(49,997)	3
Transfers from other funds	50,000	50,000	-	(50,000)
Appropriated Fund Balance	50,000	50,000	-	(50,000)
Total other financing sources (uses)	<u>50,000</u>	<u>50,000</u>	<u>(49,997)</u>	<u>(99,997)</u>
Revenues and other financing sources over (under) expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>113,430</u>	<u>\$ 113,430</u>
Fund balance, beginning of year			<u>1,610,780</u>	
Fund balance, end of year			<u>\$ 1,724,210</u>	

The accompanying notes are an integral part of the financial statements

**Town of East Spencer, North Carolina**  
**Statement of Fund Net Position**  
**Proprietary Fund**  
**June 30, 2021**

**ASSETS**

## Current assets:

Cash and investments - unrestricted	\$ 18,448
Cash and investments - restricted	23,941
Accounts receivable (net)	287,963
Accounts receivable-project	18,292
	<u>348,644</u>

## Capital assets:

Construction in progress	302,358
Other capital assets, net of depreciation	3,644,934
	<u>3,947,292</u>

Total assets	<u>4,295,937</u>
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**LIABILITIES**

## Current liabilities:

Accounts payable	18,095
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## Other liabilities:

Due to other funds	913,400
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## Liabilities payable from restricted assets:

Customer deposits	23,750
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## Long-term debt:

Due within one year	29,000
Due in more than one year	1,373,000

Total liabilities	<u>2,357,244</u>
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**NET POSITION**

Net investment in capital assets	2,545,292
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Restricted for other uses	191
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Unrestricted	<u>(606,791)</u>
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Total net position	<u>\$ 1,938,693</u>
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**Town of East Spencer, North Carolina**  
**Statement of Revenues, Expenses, and Changes in Fund Net Position**  
**Proprietary Fund**  
**For the Year Ended June 30, 2021**

	<u>Actual</u>
<b>REVENUES:</b>	
Operating revenues:	
Water charges	\$ 442,536
Sewer charges	418,129
Leak reimbursement	123,750
Other charges	687
Total operating revenue	<u>985,102</u>
 <b>EXPENSES:</b>	
Operations	
Water purchases	649,425
Service and maintenance	159,453
Depreciation	130,287
Other operating expenses	275
Total operating expenses	<u>939,441</u>
Operating income (loss)	<u>45,661</u>
 <b>Nonoperating revenues (expenses):</b>	
Interest earned	286
CDBG grant	230,731
Interest on long-term debt	<u>(59,524)</u>
	<u>171,493</u>
Income (loss) before transfers	217,155
Transfers to other funds	<u>-</u>
Change in net position	217,155
Net position, beginning of year	<u>1,721,538</u>
Net position, end of year	<u><u>\$ 1,938,693</u></u>

The accompanying notes are an integral part of the financial statements

**Town of East Spencer, North Carolina**  
**Statement of Cash Flows**  
**Proprietary Fund**  
**For the Year Ended June 30, 2021**

**Cash flows from operating activities:**

Cash received from customers	\$ 947,978
Cash payment to suppliers of goods and services	(903,110)
<b>Net Cash Used By Operating Activities</b>	<u>44,868</u>

**Cash flows from noncapital financial activities:**

Proceeds from interfund receivables	1,888
Repayment of interfund receivables	(50,000)
<b>Net Cash Provided by Noncapital Financing Activities</b>	<u>(48,112)</u>

**Cash from capital and related financing activities:**

Grants received	230,731
Acquisition and construction of capital assets	-
Construction in progress	(230,731)
Payments on notes payable	(28,000)
Interest paid	(59,524)
<b>Net Cash Used by Capital and Related Financing Activities</b>	<u>(87,524)</u>

**Cash flows from investing activities:**

Interest on investments	286
<b>Net Cash Provided by Investing Activities</b>	<u>286</u>

Net Increase (Decrease) In Cash (90,482)

Cash - Beginning of Year, July 1 132,871

Cash - End of Year, June 30 \$ 42,389

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

Net Operating Income	\$ 45,661
Depreciation	130,287
Changes in Current Assets and Liabilities:	
(Increase) decrease in accounts receivable	(39,674)
Increase (Decrease) in accounts payable	(93,957)
Increase (Decrease) in customer deposits	2,550
<b>Net Cash Used By Operating Activities</b>	<u><u>\$ 44,868</u></u>

Interest paid \$ 59,524



## ***Town of East Spencer, North Carolina***

### **NOTES TO FINANCIAL STATEMENTS As of or for the Fiscal Year Ended June 30, 2021**

#### ***I. Summary of Significant Accounting Policies***

The accounting policies of the Town of East Spencer conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant accounting policies:

##### ***A. Reporting entity***

The Town of East Spencer is a municipal corporation governed by an elected mayor and a six-member board of commissioners. As required by generally accepted accounting principles, these financial statements present the Town and its component unit, a legally separate entity for which the Town is financially accountable. For the year ended June 30, 2021 the Town had no component units.

##### ***B. Basis of presentation***

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

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

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

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

## **NOTES TO THE FINANCIAL STATEMENTS (continued)**

### **B. Basis of presentation (continued)**

The Town reports the following major governmental funds:

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

The Town reports the following non- major governmental funds:

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

**General Capital Projects- Park Project Project:** This fund is used to account for grants fund expended over more than one year.

**General Capital Project – Brownsfield:** This fund is used to account for grants fund expended over more than one year.

The Town reports the following major enterprise funds:

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

### **C. Measurement Focus and Basis of Accounting**

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

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

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

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

## **NOTES TO THE FINANCIAL STATEMENTS (continued)**

### **C. Measurement Focus and Basis of Accounting (continued)**

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

The Town considers all revenue available if they are collected within 90 days after year end, except for property taxes. Ad valorem taxes receivable are not accrued as revenues because the amount is not susceptible to accrual. At June 30, taxes receivable for property other than motor vehicles are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of September 1, 2013, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, the State of North Carolina is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts. Property taxes are due when vehicles are registered. The billed taxes are applicable to the fiscal year in which they are received. Uncollected taxes that were billed in periods prior to September 1, 2013 and for limited registration plates are shown as a receivable in these financial statements and are offset by deferred inflows of resources.

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

### **D. Budgetary data**

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

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

#### **1. Deposits and Investments**

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

## **NOTES TO THE FINANCIAL STATEMENTS (continued)**

### **1. Deposits and Investments**

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

State law [G.S. 159-30(c)] authorizes the Town to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States, obligations of the State of North Carolina, bonds and notes of any North Carolina local government or public authority, obligations of certain non-guaranteed federal agencies, certain high quality issues of commercial paper and bankers' acceptances, and the North Carolina Capital Management Trust (NCCMT). The Town's investments are reported at fair value. The NCCMT Government Portfolio, a SEC-registered (2a-7) money market mutual fund, 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, 2021, The Term portfolio has a duration of .15 years. Because the NCCMT Government and Term Portfolios have a weighted average maturity of less than 90 days, they are presented as an investment with a maturity of less than 6 months. The Town does not have a formal investment or credit risk policy.

### **2. Cash and Cash Equivalents**

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

### **3. Prepaid Items**

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

### **4 Restricted Assets**

Grant money is classified as restricted cash because its use is restricted for specific capital projects. Customer deposits held by the Town before any services are supplied are restricted to the service for which the deposit was collected. Powell Bill funds are also classified as restricted cash because it can be expended only for the purposes of maintaining, repairing, constructing, reconstructing or widening of local streets per G.S. 136-41.1 through 136-41.4

#### Town of East Spencer Restricted Cash

<b>Governmental Activities</b>			
General Fund	Streets	\$209,740	
	Capital projects	-	
Total governmental activities		<u>209,740</u>	
<b>Business-type Activities</b>			
Water and Sewer Fund	Customer deposits	23,750	
	Capital projects	191	
Total Business-type Activities		<u>23,941</u>	
Total Restricted Cash		<u>\$233,681</u>	

## **NOTES TO THE FINANCIAL STATEMENTS (continued)**

### **5. Ad Valorem Taxes Receivable**

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad valorem taxes on property taxes other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, interest does not accrue until the following January 6. These taxes are based on the assessed values as of January 1, 2020. As allowed by State law, the Town has established a schedule of discounts that apply to taxes which are paid prior to the due date. In the Town's General Fund, ad valorem tax revenues are reported net of such discounts.

### **6. Allowances for Doubtful Accounts**

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

### **7. Capital Assets**

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

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

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

### **8. Deferred Outflows / Inflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Town has one item that meet this criterion, contributions made to the pension plan in the 2021 fiscal year and other pension deferrals. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Town has two items that meet the criterion for this category – property taxes receivable and deferrals of pension expense that result from the implementation of GASB Statement 68.

## **NOTES TO THE FINANCIAL STATEMENTS (continued)**

### **9. Long-Term Obligations**

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. The Town's long-term debt for water and sewer purposes is carried in the General Fund. The debt service requirements for the water and sewer debt are being met by the Town of Salisbury lease payments, but the taxing power of the Town is pledged to make these payments if lease and other payments should ever be insufficient. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method that approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance cost are reported as deferred charges and amortized over the term of the related debt.

In fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual net proceeds received, are reported as debt service expenditures.

### **10. Compensated Absences**

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

The Town's sick leave policies provide for an unlimited accumulation of earned sick leave. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since the Town does not have any obligation for the accumulation of sick leave until it is actually taken, no accrual for sick leave has been made.

### **11. Net position / Fund Balances**

#### Net position

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

#### Fund Balances

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

## **NOTES TO THE FINANCIAL STATEMENTS (continued)**

### **11. Net position / Fund Balances (continued)**

The governmental fund types classify fund balances as follows:

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

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

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

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

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

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

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

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

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

## **NOTES TO THE FINANCIAL STATEMENTS (continued)**

### **12. Pensions**

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

### **II. Stewardship, Compliance, and Accountability**

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

- 1) The Town exceeded budgeted disbursements in the Public Works department. This is in violation of General Statute Chapter 159, Article 3 – The Local Government Budget and Fiscal Control Act. This is also in violation of the pre-audit certification required by this act.
- 2) The Town's budget ordinance was not adopted in the proper format with required legal language of a budget ordinance.

#### **B. Deficit in Fund Balance or Net position of Individual Funds: None**

#### **C. Excess of Expenditures over Appropriation:**

The Town exceeded budgeted disbursements in the Public Works department. This is in violation of General Statute Chapter 159, Article 3 – The Local Government Budget and Fiscal Control Act. This is also in violation of the pre-audit certification required by this act.

This violation incurred because the Town did not adjust their budget for street maintenance.

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



## **NOTES TO THE FINANCIAL STATEMENTS (continued)**

### **III. Detail Notes on All Funds**

#### **A. Assets:**

##### **1. Deposits**

All the deposits of the Town are either insured or collateralized by using the Pooling Method. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town, these deposits are considered to be held by the Town's agents in their names. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits.

The State Treasurer does not confirm this information with the Town, or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Town under the Pooling Method, the potential exists for under-collateralization, and the risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Town has no policy regarding credit risk for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The Town complies with provisions of GS 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2021, the Town's deposits had a carrying amount of \$75,843 and a bank balance of \$91,137. All of the bank balance was covered by federal depository insurance.

##### **2. Investments**

At June 30, 2021, the Town had \$721,974 invested with the North Carolina Capital Management Trust Cash Portfolio which carried a credit rating of AAAm by Standard and Poor's. The Town has no policy regarding credit risk.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 3. Capital Assets

Capital asset activity for the Town for the year ended June 30, 2021, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
<b>Governmental activities:</b>				
<b>Capital assets not being depreciated</b>				
Land	\$ 327,689	\$ -	\$ -	\$ 327,689
Construction in progress	802,877	-	802,877	-
Total capital assets not being depreciated	<u>1,130,566</u>	<u>-</u>	<u>802,877</u>	<u>327,689</u>
<b>Capital assets being depreciated:</b>				
Buildings	855,752	787,904	-	1,643,656
Equipment	972,403	70,066	-	1,042,469
Vehicles and motorized equipment	1,309,229	54,500	-	1,363,729
Total capital assets being depreciated	<u>3,137,384</u>	<u>912,470</u>	<u>-</u>	<u>4,049,854</u>
<b>Less accumulated depreciation for:</b>				
Buildings	767,029	42,626	-	809,655
Equipment	854,055	65,456	-	919,511
Vehicles and motorized equipment	817,703	68,238	-	885,941
Total accumulated depreciation	<u>2,438,787</u>	<u>176,320</u>	<u>-</u>	<u>2,615,107</u>
Total capital assets being depreciated, net	<u>698,597</u>	<u>736,150</u>	<u>-</u>	<u>1,434,747</u>
<b>Governmental activity capital assets, net</b>	<u>\$ 1,829,163</u>	<u>\$ 736,150</u>	<u>\$ 802,877</u>	<u>\$ 1,762,436</u>

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

General government	\$ 20,400
Public safety	92,768
Public works	22,437
Cultural and recreational	40,715
Total depreciation expense	<u>\$176,320</u>

<b>Business-type activities:</b>	Beginning Balances	Increases	Decreases	Ending Balances
<b>Water and sewer fund:</b>				
<b>Capital assets not being depreciated:</b>				
Construction in progress	\$ 71,627	\$ 230,731	\$ -	\$ 302,358
<b>Capital assets being depreciated:</b>				
Water system	5,032,705	-	-	5,032,705
Sewer system	727,796	-	-	727,796
Equipment	46,433	-	-	46,433
Total capital assets being depreciated:	<u>5,806,934</u>	<u>-</u>	<u>-</u>	<u>5,806,934</u>
<b>Less, accumulated depreciation for:</b>				
Water system	1,319,826	117,152	-	1,436,978
Sewer system	651,907	13,135	-	665,042
Equipment	59,978	-	-	59,978
Total accumulated depreciation	<u>2,031,711</u>	<u>130,287</u>	<u>-</u>	<u>2,161,998</u>
Total capital assets being depreciated, net	<u>3,775,223</u>	<u>(130,287)</u>	<u>-</u>	<u>3,644,936</u>
<b>Business-type activity capital assets, net</b>	<u>\$ 3,846,848</u>	<u>\$ 100,444</u>	<u>\$ -</u>	<u>\$ 3,947,292</u>

## **NOTES TO THE FINANCIAL STATEMENTS (continued)**

### **B. Liabilities:**

#### **1. Pension Plan Obligations:**

##### **a. Local Governmental Employees' Retirement System**

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

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

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

*Contributions.* Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. Town employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Town's contractually required contribution rate for the year ended June 30, 2021, was 10.1% of compensation for law enforcement officers and 9.1% for general employees and firefighters, actuarially

## **NOTES TO THE FINANCIAL STATEMENTS (continued)**

### **a. Local Governmental Employees' Retirement System (continued)**

determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Town were \$42,602 for the year ended June 30, 2021.

*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, 2021, the Town reported a liability of \$146,153 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2019. The total pension liability was then rolled forward to the measurement date of June 30, 2020 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, 2020 (measurement date), the Town's proportion was 0.00409%, which was an increase of 0.00015% from its proportion measured as of June 30, 2019.

For the year ended June 30, 2021, the Town recognized pension expense of \$47,079. At June 30, 2021, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 18,457	\$ -
Changes of assumptions	10,877	-
Net difference between projected and actual earnings on pension plan investments	20,567	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	13,022	14,426
Town contributions subsequent to the measurement date	42,602	-
Total	\$ 105,525	\$ 14,426

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### a. Local Governmental Employees' Retirement System (continued)

\$42,602 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, 2021. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

#### Year ended June 30:

2022	\$	11,032
2023		16,036
2024		15,341
2025		6,087
2026		-
	\$	<u>48,496</u>

*Actuarial Assumptions.* The total pension liability in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

The actuarial assumptions used in the December 31, 2019 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014

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

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

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### a. Local Governmental Employees' Retirement System (continued)

The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2020 are summarized in the following table:

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

The information above is based on 30 year expectations developed with the consulting actuary for the 2019 asset liability and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.00%. All rates of return and inflation are annualized.

*Discount rate.* The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the Town's proportionate share of the net pension asset to changes in the discount rate.* The following presents the Town's proportionate share of the net pension asset calculated using the discount rate of 7.00 percent, as well as what the Town's proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00 percent) or one percentage point higher (8.00 percent) than the current rate:

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Town's proportionate share of the net pension liability (asset)	\$ 296,529	\$ 146,153	\$ 21,180

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

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### **b. Law Enforcement Officers' Special Separation Allowance**

**1. Plan description.** The Town administers a public employee retirement system (the "Separation Allowance"); a single-employer defined benefit pension plan that provides retirement benefits to the Town's qualified sworn law enforcement officers under the age of 62 who have completed at least 30 years of creditable service or have attained 55 years of age and have completed five or more years of creditable service.. The Separation Allowance is equal to .85% of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of GS Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

All full-time law enforcement officers of the Town are covered by the Separation Allowance. At December 31, 2019, the Valuation Date, the Separation Allowance's membership consisted of:

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

A separate report was not issued for the plan.

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

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

**3. Actuarial Assumptions.** The entry age actuarial cost method was used in the December 31, 2019 valuation. The total pension liability in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 percent
Salary increases	3.25 to 7.75 percent, including inflation and productivity factor
Discount rate	1.93 percent

The discount rate used to measure the TPL is based on the yield of the S&P Municipal Bond 20 Year High Grade Rate Index.

Mortality rates are based on Pub-2010 amount-weighted tables.

**4. Contributions.** The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the amounts necessary to cover the benefits earned on a pay as you go basis through appropriations made in the General Fund operating budget. There were no contributions made by employees. The Town's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. Administration costs of the Separation Allowance are financed through investment earnings. The Town paid \$0 as benefits came due for the reporting period.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

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

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

At June 30, 2021, the Town reported a total pension liability of \$117,129. The total pension liability was measured as of December 31, 2020 based on a December 31, 2019 actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2020 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2021, the Town recognized pension expense of \$23,742.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 21,389	\$ 709
Changes of assumptions	30,042	1,848
Benefit payments and plan administrative expense made subsequent to the measurement date	-	-
Total	<u>\$ 51,431</u>	<u>\$ 2,557</u>

\$0 reported as deferred outflows of resources related to pensions resulting from benefit payments made and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total pension liability in the year ended June 30, 2021. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	Deferred Outflows of Resources	Deferred Inflows of Resources	Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense
2022	\$ 13,430	\$ 894	\$ 12,536
2023	13,430	894	12,536
2024	12,228	690	11,538
2025	9,533	79	9,454
2026	2,810	-	2,810
Thereafter	-	-	-

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

Sensitivity of the Town's total pension liability to changes in the discount rate. The following presents the Town's total pension liability calculated using the discount rate of 1.93 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 (.93 percent) or 1-percentage-point higher (2.93percent) than the current rate:

	1% Decrease (.93%)	Discount Rate (1.93%)	1% Increase (2.93%)
Total pension liability	<u>\$ 112,417</u>	<u>\$ 117,129</u>	<u>\$ 112,089</u>



**NOTES TO THE FINANCIAL STATEMENTS (continued)**

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

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

	<b>2021</b>
Beginning balance	\$ 56,308
Service Cost	6,980
Interest on the total pension liability	4,226
Changes of benefit terms	-
Differences between expected and actual experience in the measurement of the total pension liability	17,576
Changes of assumptions or other inputs	32,039
Benefit payments	-
Other changes	-
<b>Net changes</b>	<b>60,821</b>
Ending balance of the total pension liability	\$ 117,129

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

The actuarial assumptions used in the December 31, 2019 valuation were based on the results of an actuarial experience study completed by the Actuary for the Local Government Employees' Retirement System for the five year period ending December 31, 2019.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

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

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

	LGERS	LEOSSA	Total
Pension Expense	\$ 47,079	\$ 23,742	\$ 70,821
Pension Liability	146,153	117,129	263,282
Proportionate share of the net pension liability	0.00409%	n/a	
Deferred of Outflows of Resources			
Differences between expected and actual experience	18,457	21,389	39,846
Changes of assumptions	10,877	30,042	40,919
Net difference between projected and actual earnings on plan investments	20,567	-	20,567
Changes in proportion and differences between contributions and proportionate share of contributions	13,022	-	13,022
Benefit payments and administrative costs paid subsequent to the measurement date	42,602	-	42,602
Deferred of Inflows of Resources			
Differences between expected and actual experience	-	709	709
Changes of assumptions	-	1,848	1,848
Net difference between projected and actual earnings on plan investments	-	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	14,426	-	14,426

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

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

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

The Town made contributions of \$18,276 for the reporting year. No amounts were forfeited.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 2. Other Employment Benefits

The Town has elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, State-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest months' salary in a row during the 24 months prior to the employee's death, but the benefit may not exceed \$50,000 or be less than \$25,000. Because all death benefit payments are made from the Death Benefit Plan and not by the Town, the Town does not determine the number of eligible participants. The Town has no liability beyond the payment of monthly contributions. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount. Contributions are determined as a percentage of monthly payroll based upon rates established annually by the State. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. The Town considers these contributions to be immaterial.

### 3. Deferred Outflows and Inflows of Resources

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

Source	Amount
Differences between expected and actual experience	\$ 39,846
Changes in assumptions	40,919
Net difference between projected and actual earnings on pension plan investments	20,567
Changes in proportion and differences between employer contributions and proportionate share of contributions	13,022
Town contribution subsequent to the measurement date	42,602
Total	<u>\$ 156,956</u>

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

	Statement of Net Position	General Fund Balance Sheet
Taxes Receivable, less penalties (General Fund)	\$ -	\$ 183,979
Changes in assumptions	1,848	-
Differences between expected and actual experience	709	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	14,426	-
Total	<u>\$ 16,983</u>	<u>\$ 183,979</u>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 4. Risk Management

The Town is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town participates in three self-funded risk financing pools administered by the North Carolina League of Municipalities. Through these pools, the Town obtains general liability and auto liability coverage of \$2 million per occurrence, property coverage up to specified values per building per occurrence, workers' compensation coverage up to the statutory limits, and employee health coverage up to a \$1 million lifetime limit. The pools are reinsured through commercial companies for single occurrence claims against general liability and auto liability in excess of \$500,000, up to \$500,000 for property, and \$250,000 up to \$5 million for workers' compensation. The pools are reinsured for annual employee health claims in excess of \$150,000. The property liability pool has an aggregate limit of \$1,000,000 for the aggregate losses in a single year. After the property pool has paid out \$1,000,000, then the pool will be liable for a \$10,000 per claim maintenance deductible on future property losses for that year. The remainder of each claim will be borne by the reinsurer.

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

### 5. Long-Term Obligations

#### a. Installment Purchases – General Fund

In July 2018, the Town entered into a direct placement installment purchase contract with LGFCU Financial Partners, LLC to purchase a new fire truck. The financing contract was for \$428,000 with an interest rate of 3.25%. The first of 15 annual principal and interest payments of \$36,510 was due on June 12, 2021. The final payment is due on June 12, 2033. The installment purchase is collateralized by the vehicle. The note is callable if the Town becomes substantially past due on required payments.

The future minimum payments of the installment purchase as of June 30, 2021, including \$80,025 of interest, are as follows:

Year Ending June 30	Principal	Interest	Total
2022	\$ 24,876	11,634	\$ 36,510
2023	25,684	10,826	36,510
2024	26,519	9,991	36,510
2026	27,381	9,129	36,510
2026	28,271	8,239	36,510
2027-2031	155,747	26,802	182,549
2032-2033	69,495	3,404	72,899
	<u>\$ 357,973</u>	<u>\$ 80,025</u>	<u>\$ 437,998</u>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 5. Long-Term Obligations (continued)

#### b. General Obligation Bonds

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

Bonds payable at June 30, 2021, are comprised of the following:

#### Serviced by Water and Sewer Fund

\$1,652,724 USDA financing, interest rate at 4.125%,  
Principal and interest due annually on June 1, due serially to 2049. \$1,402,000

Future maturities of long-term debt, including \$961,045 of interest, are as follows as of June 30, 2021:

Year Ending June 30	Business Type Activities	
	Principal	Interest
2022	\$ 29,000	\$ 58,369
2023	31,000	57,173
2024	32,000	55,894
2025	33,000	54,574
2026	34,000	53,213
2027-31	195,000	243,623
2032-36	240,000	199,856
2037-41	292,000	146,190
2042-46	351,000	80,768
2047-49	165,000	11,385
	<u>\$ 1,402,000</u>	<u>\$ 961,045</u>

At June 30, 2021, the Town of East Spencer had no authorized but unissued bonds and a legal debt margin of \$ 9,788,291.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**c. Changes in Long-Term Liabilities**

	Balance June 30, 2020	Increases	Decreases	Balance June 30, 2021	Current Portion
Governmental activities:					
Direct placement:					
Installment purchase	\$ 382,066	\$ -	\$ 24,093	\$ 357,973	\$ 24,876
Net pension liability (LGERS)	115,791	30,362	-	146,153	-
Net pension obligation (LEO)	56,308	60,821	-	117,129	-
Compensated absences	31,243	-	13,599	17,644	-
	<u>585,408</u>	<u>91,183</u>	<u>37,692</u>	<u>638,899</u>	<u>24,876</u>
Business-type activities:					
USDA loan	1,430,000	-	28,000	1,402,000	29,000
General obligation bonds	-	-	-	-	-
	<u>1,430,000</u>	<u>-</u>	<u>28,000</u>	<u>1,402,000</u>	<u>29,000</u>
Total	<u>\$ 2,015,408</u>	<u>\$ 91,183</u>	<u>\$ 65,692</u>	<u>\$ 2,040,899</u>	<u>\$ 53,876</u>

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

**C Interfund Balances and Activity**

Balances due to/from other funds at June 30, 2021, consist of the following:

Due to/from other funds:		
To	General Fund	\$ 901,797
To	General Fund Brownsfield Project	\$ 11,603
From	Water and Sewer Fund Capital Project	\$ 379
From	Water and Sewer Fund	\$ 913,021

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

Transfers to/from other funds at June 30, 2021 consist of the following:

From Park Capital Project to the General Fund	\$49,997
---	----------

Transfers are used to move unrestricted revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations. This transfers was budgeted to close out the Park capital project.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

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

The Town has recognized as revenue and an expenditure, on-behalf payments for fringe benefits and salaries of \$8,348 for the salary supplement and stipend benefits paid to eligible firemen by the local board of trustees of the Firemen's Relief Fund during the fiscal year ended June 30, 2021. Under State law the local board of trustees for the Fund receives an amount each year, which the board may use at its own discretion for eligible firemen or their departments.

### **E. Construction Commitments**

The Town has active construction projects as of June 30, 2021. At year-end, the Town's commitments with contractors are as follows:

Project	Spent-to-date	Remaining Commitment
Revitalization Project	\$ 15,677	\$ 734,324
Park Project	769,084	-
Brownsfield Project	396,498	78,502
W/S Project 18-I-3043	302,358	1,693,291
Total	<u>\$ 1,467,939</u>	<u>\$ 1,771,793</u>

### **F. Net Investment in Capital Assets**

	Governmental	Business-type
Capital Assets	\$ 1,762,436	\$ 3,947,292
less: long-term debt	357,973	1,402,000
add: unexpended debt proceeds	-	-
Net investment in capital assets	<u>\$ 1,404,463</u>	<u>\$ 2,545,292</u>

### **G. Fund Balance**

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

<b>Total fund balance - General Fund</b>	<b>\$ 1,724,210</b>
Less:	
Prepaid Items	-
Stabilization by State Statute	1,061,408
Streets - Powell Bill	209,740
Subsequent year's expenditures	-
Remaining Fund Balance	\$ 453,062

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### G. Fund Balance (continued)

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

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

### IV. Summary of Disclosure of Significant Contingencies

#### Federal and State Assisted Programs

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

### V. Significant Effects of Subsequent Events

Subsequent events occurring after the statement of financial position date have been evaluated through November 29, 2021, which is the date the financial statements were available to be issued.

In January 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a "Public Health Emergency of International Concern", which continues to spread throughout the world and has adversely impacted global commercial activity and contributed to significant declines and volatility in financial markets. The coronavirus outbreak and government responses are creating disruption in global supply chains and adversely impacting many industries. The outbreak could have a continued material adverse impact on economic and market conditions and trigger a period of global economic slowdown. The rapid development and fluidity of this situation precludes any prediction as to the ultimate material adverse impact of the coronavirus outbreak. The outbreak presents uncertainty and risk with respect to the Town and its ability to carry out its activities which could impact its financial results.



**Town of East Spencer, North Carolina**  
**Law Enforcement Officers' Special Separation Allowance**  
**Required Supplementary Information**  
**June 30, 2021**

**Schedule of Changes in Total Pension Liability**

	2021	2020	2019	2018	2017
Beginning balance	\$ 56,308	\$ 45,223	\$ 24,856	\$ 9,102	\$ 4,551
Service Cost	6,980	5,436	6,112	6,190	12,441
Interest on total pension liability	4,226	4,316	3,103	3,182	-
Changes of benefit terms	-	-	-	-	-
Differences between expected and actual experience in the measurement of the total pension liability	17,576	(1,129)	15,052	-	-
Changes of assumptions or other inputs	32,039	2,462	(3,900)	6,382	(7,890)
Benefit payments	-	-	-	-	-
Other changes	-	-	-	-	-
Ending balance of the total pension liability	<u>\$ 117,129</u>	<u>\$ 56,308</u>	<u>\$ 45,223</u>	<u>\$ 24,856</u>	<u>\$ 9,102</u>

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

**Schedule of Total Pension Liability as a Percentage of Covered Payroll**

	2021	2020	2019	2018	2017
Total pension liability	\$ 117,129	\$ 56,308	\$ 45,223	\$ 24,856	\$ 9,102
Covered payroll	290,732	237,342	250,096	277,062	329,521
Total pension liability as a percentage of covered payroll	40.29%	23.72%	18.08%	8.97%	2.76%

Notes to the schedules:

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

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

**Local Government Employees' Retirement System**

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 42,602	\$ 35,712	\$ 31,597	\$ 27,832	\$ 29,220	\$ 29,044	\$ 21,767	\$ 17,183
Contributions in relation to the contractually required contribution	<u>\$ 42,602</u>	<u>\$ 35,712</u>	<u>\$ 31,597</u>	<u>\$ 27,832</u>	<u>\$ 29,220</u>	<u>\$ 29,044</u>	<u>\$ 21,767</u>	<u>\$ 17,183</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
East Spencer's covered-employee payroll	\$ 397,395	\$ 373,480	\$ 381,546	\$ 344,798	\$ 375,271	\$ 413,130	\$ 279,494	\$ 302,863
Contributions as a percentage of covered-employee payroll	10.72%	9.56%	8.28%	8.07%	7.79%	7.03%	7.79%	7.14%

**Proportionate Share of Net Pension Liability (Asset)**

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
East Spencer's proportion of the net pension liability (asset) (%)	0.00409%	0.00424%	0.00361%	0.00862%	0.00751%	0.00741%	0.00324%	0.00350%
East Spencer's proportion of the net pension liability (asset) (\$)	\$ 146,153	\$ 115,791	\$ 85,642	\$ 131,690	\$ 159,387	\$ 33,256	\$ (19,106)	\$ 41,131
East Spencer's covered-employee payroll	\$ 373,480	\$ 381,546	\$ 344,798	\$ 375,271	\$ 413,130	\$ 279,494	\$ 302,863	\$ 254,355
East Spencer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	39.13%	30.35%	24.84%	35.09%	38.58%	11.90%	( 6.31%)	16.17%
Plan fiduciary net position as a percentage of the total pension liability**	88.61%	91.63%	94.18%	91.47%	98.09%	99.07%	102.64%	94.35%

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

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

**Town of East Spencer, North Carolina**  
**General Fund**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual**  
**For the Year Ended June 30, 2021**  
**(With Comparative Actual Amounts for the Year Ended June 30, 2020)**

	Budget	Actual	Variance Favorable (Unfavorable)	Actual Year ended June 30, 2020
<b>REVENUES:</b>				
Ad valorem taxes				
Current year collections		\$ 832,236		\$ 826,670
Penalties and interest		-		-
	<u>\$ 861,432</u>	<u>832,236</u>	<u>\$ (29,196)</u>	<u>826,670</u>
Other taxes, licenses and fees				
Landfill fees		106,610		109,861
Other fees, taxes and licenses		2,559		2,427
	<u>107,950</u>	<u>109,169</u>	<u>1,219</u>	<u>112,287</u>
Unrestricted intergovernmental				
Local option sales tax		415,104		371,169
Beer and wine tax		13,746		11,655
Utility franchise tax		113,420		117,514
	<u>401,468</u>	<u>542,270</u>	<u>140,802</u>	<u>500,338</u>
Restricted intergovernmental				
Powell Bill allocation		49,451		52,883
Powell Bill interest earned		43		2,999
COVID relief funds		69,695		-
On-behalf of payments - fire fighters		8,348		6,529
Fire grants		-		23,050
	<u>56,192</u>	<u>127,536</u>	<u>71,344</u>	<u>85,461</u>
Sales and services				
Other charges for services		-		-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other general revenues				
Investment earnings		205		3,269
Insurance proceeds		-		-
Donations		1,320		1,320
Sale of assets		3,000		19,652
Sales tax refund		29,812		-
Rents		9,866		7,997
Miscellaneous		41,779		33,525
	<u>153,935</u>	<u>85,981</u>	<u>(67,954)</u>	<u>65,763</u>
Total revenues	<u>1,580,977</u>	<u>1,697,192</u>	<u>116,215</u>	<u>1,590,519</u>

**Town of East Spencer, North Carolina**  
**General Fund (Continued)**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual**  
**For the Year Ended June 30, 2021**  
**(With Comparative Actual Amounts for the Year Ended June 30, 2020)**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>2020 Actual</u>
<b>EXPENDITURES:</b>				
General Government				
Town Commissioners				
Salaries and benefits		\$ 24,992		\$ 22,881
Special events		-		-
Other operating expenditures		8,700		30,554
	<u>\$ 47,224</u>	<u>33,692</u>	<u>\$ 13,532</u>	<u>53,434</u>
Administration				
Salaries and benefits		118,408		120,853
Operating expenses		172,896		147,585
Capital outlay		55,093		-
	<u>380,030</u>	<u>346,398</u>	<u>33,632</u>	<u>268,438</u>
Total general government	<u>427,254</u>	<u>380,090</u>	<u>47,164</u>	<u>321,873</u>
Zoning				
Salaries and employee benefits		37,280		23,895
Operating expenses		1,723		3,734
Demolition and Rehabilitation		-		2,900
Capital outlay		-		-
	<u>42,950</u>	<u>39,003</u>	<u>3,947</u>	<u>30,529</u>
Public Safety				
Fire				
Salaries and benefits		120,283		121,305
Operating expenses		78,188		111,496
On-behalf payments		8,348		6,529
Capital outlay		15,000		14,891
	<u>245,137</u>	<u>221,819</u>	<u>23,318</u>	<u>254,221</u>
Police				
Salaries and employee benefits		437,911		392,467
Operating expenses		73,501		67,425
Capital outlay		15,000		29,749
	<u>539,230</u>	<u>526,413</u>	<u>12,817</u>	<u>489,642</u>
Total public safety	<u>784,367</u>	<u>748,231</u>	<u>36,136</u>	<u>743,863</u>
Public Works				
Streets and highways				
Salaries and benefits		97,231		102,027
Operating expenses		57,643		65,045
Powell Bill - capital outlay		-		-
Powell Bill - other		72,462		167,072
Capital outlay		24,500		-
Total transportation	<u>237,768</u>	<u>251,836</u>	<u>(14,068)</u>	<u>334,143</u>

**Town of East Spencer, North Carolina**  
**General Fund (Continued)**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual**  
**For the Year Ended June 30, 2021**  
**(With Comparative Actual Amounts for the Year Ended June 30, 2020)**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>2020 Actual</u>
<b>EXPENDITURES:</b>				
Environmental Protection				
Solid Waste				
Operating expenses		\$ 64,166		\$ 68,071
Capital outlay		-		-
Total environmental	<u>\$ 70,669</u>	<u>64,166</u>	<u>\$ 6,503</u>	<u>68,071</u>
Culture and Recreation				
Parks and recreation				
Salaries and benefits		-		1,724
Operating expenses		4,390		18,248
Special events		9,540		-
Capital outlay		-		-
	<u>31,459</u>	<u>13,930</u>	<u>17,529</u>	<u>19,972</u>
Debt service				
Principal		24,093		22,600
Interest		12,417		13,910
	<u>36,510</u>	<u>36,510</u>	<u>-</u>	<u>36,510</u>
Total expenditures	<u>1,630,977</u>	<u>1,533,765</u>	<u>97,212</u>	<u>1,554,961</u>
Revenues over expenditures	<u>(50,000)</u>	<u>163,427</u>	<u>213,427</u>	<u>35,558</u>
<b>OTHER SOURCES (USES)</b>				
Debt proceeds	-	-	-	-
Operating transfers:				
Transfer to capital project funds	(50,000)	(49,997)	3	-
Transfer (to) from other funds	50,000	-	(50,000)	-
Appropriated Fund Balance	50,000	-	(50,000)	-
	<u>50,000</u>	<u>(49,997)</u>	<u>(99,997)</u>	<u>-</u>
Revenues and other financing sources over (under) expenditures	<u>\$ -</u>	<u>113,430</u>	<u>\$ 113,430</u>	<u>35,558</u>
Fund balances - beginning of year		<u>1,610,780</u>		<u>1,575,222</u>
Fund balances - end of year		<u>\$ 1,724,210</u>		<u>\$ 1,610,780</u>

**Town of East Spencer, North Carolina**  
**General Non-Major Capital Projects Fund - Revitalization CDBD-I 18-I-3070**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual**  
**From inception and for the fiscal year ended June 30, 2021**

	<u>Project Authorization</u>	<u>Prior Year</u>	<u>Actual Current Year</u>	<u>Total to Date</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:					
Restricted intergovernmental					
CDBG Grant	\$ 750,000	\$ -	\$ 15,677	\$ 15,677	\$ (734,324)
Total revenues	<u>750,000</u>	<u>-</u>	<u>15,677</u>	<u>15,677</u>	<u>(734,324)</u>
Expenditures:					
Rehabilitation of buildings -CDBG	675,000	-	15,677	15,677	659,324
Administration - CDBG	<u>75,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>75,000</u>
Total	<u>750,000</u>	<u>-</u>	<u>15,677</u>	<u>15,677</u>	<u>734,324</u>
Total expenditures	<u>750,000</u>	<u>-</u>	<u>15,677</u>	<u>15,677</u>	<u>734,324</u>
Revenues over expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other financing sources (uses):					
Interest earned	-	-	-	-	-
Transfer from general fund	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>	<u>\$ -</u>
Fund balance, beginning			<u>-</u>		
Fund balance, ending			<u>\$ -</u>		

**Town of East Spencer, North Carolina**  
**General Non-Major Capital Projects Fund - Park Project**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual**  
**From inception and for the fiscal year ended June 30, 2021**

	Project Authorization	Prior Year	Actual Current Year	Total to Date	Variance Favorable (Unfavorable)
Revenues:					
Restricted intergovernmental					
Grants	\$ 300,000	\$ 300,000	\$ -	\$ 300,000	\$ -
Contributions	300,000	296,658	-	296,658	(3,342)
Total revenues	600,000	596,658	-	596,658	(3,342)
Expenditures:					
Park renovations	757,950	757,035	-	757,035	(915)
Equipment	12,050	12,049	-	12,049	(1)
Total	770,000	769,084	-	769,084	(916)
Total expenditures	770,000	769,084	-	769,084	(916)
Revenues over expenditures	(170,000)	(172,426)	-	(172,426)	2,426
Other financing sources (uses):					
Interest earned	-	2,429	-	2,429	2,429
Transfer from other funds	-	-	-	-	-
Transfer from general fund	170,000	120,000	49,997	169,997	(3)
Total other financing sources	170,000	122,429	49,997	172,426	2,426
Net change in fund balance	\$ -	\$ (49,997)	49,997	\$ -	\$ -
Fund balance, beginning			(49,997)		
Fund balance, ending			\$ -		

**Town of East Spencer, North Carolina**  
**General Non-Major Capital Projects Fund - Brownsfield Building Project**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual**  
**From inception and for the fiscal year ended June 30, 2021**

	<u>Project Authorization</u>	<u>Prior Year</u>	<u>Actual Current Year</u>	<u>Total to Date</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:					
Restricted intergovernmental					
EPA Grants	\$ 475,000	\$ 400,000	\$ -	\$ 400,000	\$ (75,000)
Total revenues	<u>475,000</u>	<u>400,000</u>	<u>-</u>	<u>400,000</u>	<u>(75,000)</u>
Expenditures:					
Building		414	-	414	
Contract services		386,076	-	386,076	
Administration		-	-	-	
Capital outlay		10,000	-	10,000	
Equipment and supplies		7	-	7	
Total	<u>475,000</u>	<u>396,498</u>	<u>-</u>	<u>396,498</u>	<u>(78,502)</u>
Total expenditures	<u>475,000</u>	<u>396,498</u>	<u>-</u>	<u>396,498</u>	<u>(78,502)</u>
Revenues over expenditures	<u>-</u>	<u>3,502</u>	<u>-</u>	<u>3,502</u>	<u>(3,502)</u>
Other financing sources (uses):					
Interest earned	-	100	-	100	100
Debt proceeds	-	8,000	-	8,000	8,000
Total other financing sources	<u>-</u>	<u>8,100</u>	<u>-</u>	<u>8,100</u>	<u>8,100</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 11,603</u>	<u>-</u>	<u>\$ 11,603</u>	<u>\$ 11,603</u>
Fund balance, beginning			11,603		
Fund balance, ending			<u>\$ 11,603</u>		



**Town of East Spencer, North Carolina**  
**Water and Sewer Fund**  
**Schedule of Revenue and Expenditures - Budget and Actual (Non-GAAP)**  
**For the Year Ended June 30, 2021**  
**(With Comparative Actual Amounts for the Year Ended June 30, 2020)**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>Actual Year ended June 30, 2020</u>
<b>Revenues:</b>				
Operating revenues:				
Water charges		\$ 442,536		\$ 455,818
Sewer charges		418,129		408,184
Leak reimbursement		123,750		-
Other charges		687		4,945
Total operating revenues	<u>\$ 956,422</u>	<u>985,102</u>	<u>\$ 28,680</u>	<u>868,947</u>
Nonoperating revenues:				
Grants		-		-
Interest income		286		1,000
Total nonoperating revenues	<u>1,200</u>	<u>286</u>	<u>(914)</u>	<u>1,000</u>
Total revenues	<u>957,622</u>	<u>985,387</u>	<u>27,765</u>	<u>869,946</u>
<b>Expenditures:</b>				
Operations				
Water purchases		649,425		755,991
Service and maintenance		159,453		129,483
Other operating expenses		275		19
	<u>819,984</u>	<u>809,154</u>	<u>10,830</u>	<u>885,493</u>
Budgetary appropriations:				
Capital outlay and construction		-		-
Payment on debt - principal		28,000		27,000
Payment on debt - interest		59,524		60,638
	<u>87,638</u>	<u>87,524</u>	<u>114</u>	<u>87,638</u>
Total expenditures	<u>907,622</u>	<u>896,677</u>	<u>10,945</u>	<u>973,130</u>
Revenues over (under) expenditures	<u>50,000</u>	<u>88,710</u>	<u>(38,710)</u>	<u>(103,184)</u>
<b>OTHER SOURCES (USES)</b>				
Transfer from (to) other funds	(50,000)	-	(50,000)	-
Transfer from (to) capital project	-	-	-	127
Contingency	-	-	-	-
	<u>(50,000)</u>	<u>-</u>	<u>(50,000)</u>	<u>127</u>
Revenues and other sources over (under) expenditures and other uses	<u>\$ -</u>	<u>\$ 88,710</u>	<u>\$ (88,710)</u>	<u>\$ (103,057)</u>

**Town of East Spencer, North Carolina**  
**Water and Sewer Fund (continued)**  
**Schedule of Revenue and Expenditures - Budget and Actual (Non-GAAP)**  
**For the Year Ended June 30, 2021**  
**(With Comparative Actual Amounts for the Year Ended June 30, 2020)**

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

	<u>2021</u>	<u>2020</u>
Revenues over expenditures	\$ 88,710	\$ (103,057)
Reconciling items:		
Depreciation	(130,287)	(130,697)
Principal paid on debt	28,000	27,000
Interest earned - capital projects	-	10
Transfer from capital project	-	(127)
Grants - capital projects	<u>230,731</u>	<u>71,627</u>
Change in net position	<u><u>\$ 217,155</u></u>	<u><u>\$ (135,243)</u></u>

**Town of East Spencer North Carolina**  
**Water and Sewer Capital Projects Fund - CDBG-I 18-I-3043**  
**Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)**  
**From inception and for the fiscal year ended June 30, 2021**

	<u>Project Authorization</u>	<u>Prior Year</u>	<u>Actual Current Year</u>	<u>Total to Date</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:					
Restricted intergovernmental					
CDBG Infrastructure grant	\$ 1,995,649	\$ 71,627	\$ 230,731	\$ 302,358	\$ (1,693,291)
Total revenues	<u>1,995,649</u>	<u>71,627</u>	<u>230,731</u>	<u>302,358</u>	<u>(1,693,291)</u>
Expenditures:					
Administration	196,925	5,577	23,313	28,890	168,035
Engineering	203,339	66,050	207,418	273,468	(70,129)
Construction	1,595,385	-	-	-	1,595,385
Total	<u>1,995,649</u>	<u>71,627</u>	<u>230,731</u>	<u>302,358</u>	<u>1,693,291</u>
Total expenditures	<u>1,995,649</u>	<u>71,627</u>	<u>230,731</u>	<u>302,358</u>	<u>1,693,291</u>
Revenues over expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other financing sources (uses):					
Interest earned	-	10	-	10	10
Operating fund - Water	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources	<u>-</u>	<u>10</u>	<u>-</u>	<u>10</u>	<u>10</u>
Revenues and other sources over (under) expenditures	<u>\$ -</u>	<u>\$ 10</u>	<u>\$ -</u>	<u>\$ 10</u>	<u>\$ 10</u>

**Town of East Spencer, North Carolina**  
**General Fund**  
**Schedule of Ad Valorem Taxes Receivable**  
**June 30, 2021**

<u>Fiscal Year</u>	<u>Uncollected Balance June 30, 2020</u>	<u>Additions</u>	<u>Collections And Credits</u>	<u>Uncollected Balance June 30, 2021</u>
		\$ 807,534	766,792	\$ 40,742
2019-2020	\$ 47,836		25,463	22,373
2018-2019	26,938		7,535	19,403
2017-2018	23,355		7,696	15,659
2016-2017	18,102		5,044	13,058
2015-2016	15,072		1,954	13,118
2014-2015	15,179		2,554	12,625
2013-2014	14,659		2,917	11,742
2012-2013	13,323		2,765	10,558
2011-2012	11,462		1,188	10,274
2010-2011	11,522		3,279	8,243
2009-2010	8,516		2,330	6,186
2008-2009	6,225		6,225	-
	<u>\$ 212,189</u>	<u>\$ 807,534</u>	<u>\$ 835,742</u>	<u>\$ 183,979</u>

Reconciliation with revenues:

Taxes-Ad Valorem-General	\$ 832,236
Amounts written off per statute of limitations	6,225
Discounts and releases	<u>(2,719)</u>
Total collections and credits	<u>\$ 835,742</u>

**Town of East Spencer, North Carolina**  
**Analysis of Current Tax Levy**  
**Town-Wide Levy**  
**For the Year Ended June 30, 2021**

	Total Property Valuation	Rate	Amount of Levy	Total Levy	
				Property excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Property taxed at current years rate	\$ 122,353,636	0.66	\$ 807,534	\$ 762,803	\$ 44,731
Discoveries - current and prior years	-		-	-	-
Penalties	-		-	-	-
Releases	-		-	-	-
Total property valuation	<u>\$ 122,353,636</u>		<u>807,534</u>	<u>762,803</u>	<u>44,731</u>
Net Levy			807,534	762,803	44,731
Uncollected taxes at June 30, 2021			<u>40,742</u>	<u>40,742</u>	<u>-</u>
Current year's taxes collected			<u>\$ 766,792</u>	<u>\$ 722,061</u>	<u>\$ 44,731</u>
Percent current year collected			<u>94.95%</u>	<u>94.66%</u>	<u>100.00%</u>

**Town of East Spencer, North Carolina**  
**Ten Largest Taxpayers**  
**For the Fiscal Year Ended June 30, 2021**

<u>Name</u>	<u>Type of Business</u>	<u>Property Value</u>	<u>Tax Levy</u>	<u>Percentage of Total Assessed Valuation</u>
Aldi, Inc	Grocery Distribution	\$ 41,046,490	\$ 270,907	31.59%
Isenhour Brick & Tile	Manufacturing	13,296,026	87,754	10.23%
Boral Composites, Inc	Manufacturing	12,389,714	81,772	9.53%
Duke Energy	Utility	2,605,605	17,197	2.01%
Waste Management	Waste Removal	706,918	4,666	0.54%
Jarrell A L III	Contractor	593,270	3,916	0.46%
Kiddie Land Kindergarten Inc	Private School	581,948	3,841	0.45%
Hallco Industries, Inc	Manufacturing	503,500	3,323	0.39%
Johnson Frances H Heirs	Individual	334,323	2,207	0.26%
Connell Finance Company	Leasing Company	311,195	2,054	0.24%
Fresh Word Outreach Ministries	Religious	302,196	1,994	0.23%
Staclean Diffuser Company	Manufacturing	295,480	1,950	0.23%
		<u>\$ 72,966,665</u>	<u>\$ 481,580</u>	<u>56.15%</u>

# EDDIE CARRICK, CPA, PC

Certified Public Accountant

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

To the Honorable Mayor and the Board

Town of East Spencer, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of East Spencer, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Town of East Spencer's basic financial statements, and have issued our report thereon dated January 12, 2021.

### Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did identify deficiencies in internal control that we consider to be material weaknesses. The Town was in violation of the Local Government Budgeting Act and NC General Statutes relating to pre-audit certification. See Findings 2021-1. Also, the Town's budget ordinance was not adopted in the proper format with required legal language of a budget ordinance. See Findings 2021-2.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of East Spencer's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The Town was in violation of the Local Government Budgeting Act and NC General Statutes relating to pre-audit certification. See Findings 2021-1, 2. Also, the Town's budget ordinance was not adopted in the proper format with required legal language of a budget ordinance. See Findings 2021-3.

### Purpose of this Report

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

A handwritten signature in black ink, appearing to read "E.C. Carrick, CPA". The signature is fluid and cursive.

Eddie Carrick, CPA, PC  
Lexington, North Carolina  
November 29, 2021



***Town of East Spencer, North Carolina***  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2021**

**II Financial Statement Findings**

**Material weakness**

**2021-1 Violation of State Statutes**

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

Condition: The Town over expended its budget in the Public Works department

Effect: Material violation of State Statutes - The Town's current budget monitoring procedures do not allow management to timely monitor budget verses actual expenditures. Budget amendments were not made to recognize street improvement purchases. This condition may allow incorrect reporting, fraudulent transactions to occur which may not be identified on a timely basis, miscoding of expenditures which may not be corrected on a timely basis and erroneous reporting of financial information.

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

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

Management response: See Corrective Action Plan page 63

**2021-2 Violation of State Statutes**

Criteria: State Statutes require that budget ordinances contain legal language that constitutes a legally adopted budget ordinance.

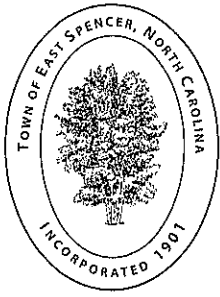
Condition: The Town 's budget ordinance was not adopted in the proper format with required legal language of a budget ordinance.

Effect: Material violation of State Statutes - The Town's current budget ordinance procedures do not allow management to legally adopt a budget ordinance. This condition may allow incorrect reporting, fraudulent transactions to occur which may not be identified on a timely basis, miscoding of expenditures which may not be corrected on a timely basis and erroneous reporting of financial information as well as legal remification associated with the improper adoption of a budget ordinance.

Cause: Format and legal language was not used in the budget adoption process.

Recommendation: The budget should be adopted in the format and legal language of a budget ordinance.

Management response: See Corrective Action Plan page 63



# TOWN OF EAST SPENCER

*"Home of Heritage & Promise"*

***Town of East Spencer North Carolina***  
**Corrective Action Plan**  
**For the Year Ended June 30, 2021**

## I Financial Statement Findings

### Material weakness

#### 2021-1 Violation of State Statutes

Name of contact person: Michael Douglas, Town Administrator

Corrective Action: Line item budgeted amounts will be monitored timely and budget adjustments made prior to expenditures exceeding budgeted amounts. The Town is currently in the process of converting their current accounting system to a more favorable system that allows the use of an encumbrance system as well as better budget monitoring functions.

Proposed Completion Date: The Council and management will implement the above procedures immediately.

#### 2021-2 Violation of State Statutes

Name of contact person: Michael Douglas, Town Administrator

Corrective Action: Approved budget will be adopted using the proper format and legal language that constitutes a legally adopted budget.

Proposed Completion Date: The Council and management will implement the above procedures immediately.

***Town of East Spencer North Carolina***  
**Summary Schedule of Prior Audit Findings**  
**For the Year Ended June 30, 2021**

**Finding 2020 -1,2 Violation of State Statutes**

Status: See page 62 - 2021-1. This was also a prior audit finding