

**REVIEWED**

*By SLGFD at 12:28 pm, Jul 29, 2022*

**TOWN OF SPENCER,  
NORTH CAROLINA**

Financial Statements and Supplementary Information

For the Year Ended June 30, 2021

**TOWN OF SPENCER, NORTH CAROLINA**

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## **Independent Auditors' Report**

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

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of 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.

### **Auditors' 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 auditors' 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, each major fund, and the aggregate remaining fund information of the Town of Spencer, North Carolina, as of June 30, 2021, and the respective changes in financial position and the respective budgetary comparison for the General Fund and the Capital Projects Fund – Park Plaza Municipal Complex for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 12, the Local Government Employees' Retirement System – Schedule of Proportionate Share of Net Pension Liability (Asset) and Contributions, on pages 48 through 49, and the Law Enforcement Officers' Special Separation Allowance Schedules of Changes in Total Pension Liability and Total Pension Liability as a Percentage of Covered Payroll, on pages 50 through 51 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

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

The combining and individual nonmajor fund financial 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, the combining and individual nonmajor fund financial 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 July 14, 2022, on our consideration of the Town of Spencer, North Carolina's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town of Spencer, North Carolina's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Spencer, North Carolina's internal control over financial reporting and compliance

*RH CPA, PLLC*

Lexington, North  
July 14, 2022

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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## **Management's Discussion and Analysis**

As management of the Town of Spencer (the Town), we offer readers of the Town of Spencer's financial statements this narrative overview and analysis of the financial activities of the Town of Spencer for the fiscal year ended June 30, 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***

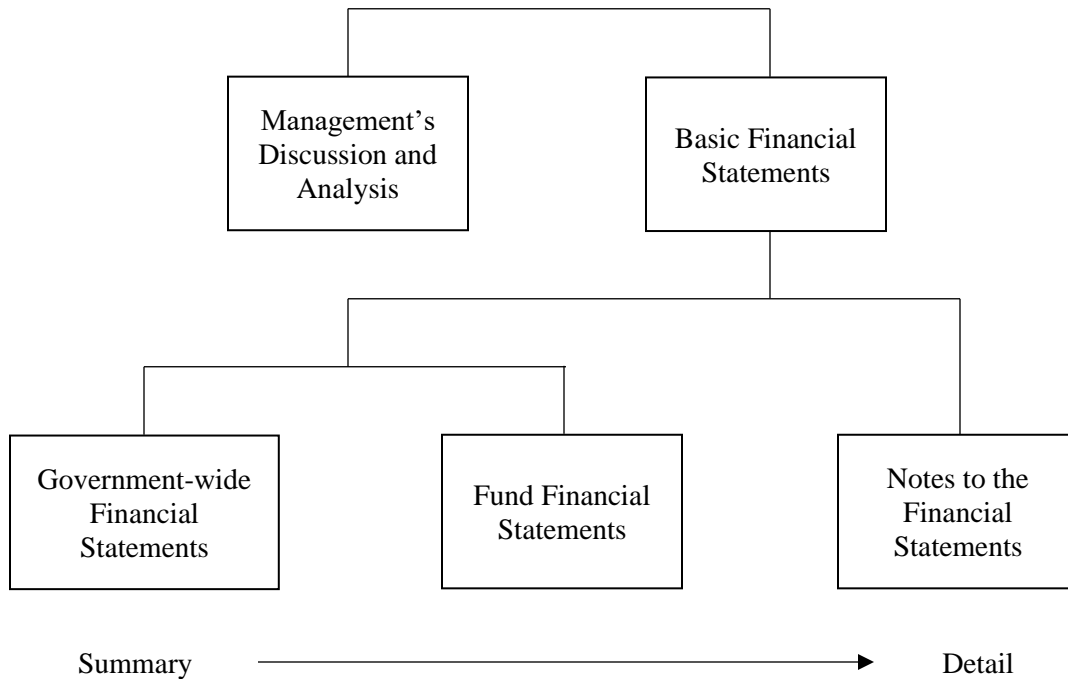
- The assets and deferred outflow of resources of the Town of Spencer exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$7,365,269(*net position*).
- The government's total net position increased by \$306,365, primarily due to conservative spending in the General Fund.
- As of the close of the current fiscal year, the Town of Spencer's governmental funds reported ending fund balances of \$5,099,086 with a net change of \$2,329,317 in fund balance. Approximately 72% of this total amount, or \$3,694,235, is restricted, non-spendable, or assigned.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$1,404,851, or 41% of total general fund expenditures for the fiscal year.
- The Town of Spencer's total debt and long-term obligations increased by \$2,864,598 due to principal payments of \$40,094, debt proceeds of \$2,826,202, increase in separation allowance of \$32,190, increase in pension liability of \$48,356, and a decrease in compensated absences of \$2,056.

### ***Overview of the Financial Statements***

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



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



### ***Basic Financial Statements***

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

The next statements (Exhibits 3 through 5) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the Town's government. These statements provide more detail than the government-wide statements. There are two parts to the Fund Financial Statements: 1) the governmental funds statements and 2) the budgetary comparison statements.

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

### ***Government-Wide Financial Statements***

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

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

The government-wide statements consist of one category: 1) governmental activities. The governmental activities include most of the Town's basic services such as public safety, parks and recreation, and general administration. Property taxes and State and federal grant funds finance most of these activities.

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

## ***Fund Financial Statements***

The fund financial statements (see Figure 1) provide a more detailed look at the Town's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of 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 the General Statutes or the Town's budget ordinance. All of the funds of Town of Spencer consist of governmental funds.

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

The Town of Spencer adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the Town, the management of the Town, and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the Town to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the Town complied with the budget ordinance and whether the Town succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the board; 2) the final budget as amended by the board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges.

**Notes to the Financial Statements** – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 21 of this report.

**Other Information** – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the Town of Spencer's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 48 of this report.

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

## Government-Wide Financial Analysis

The fund financial statements (see Figure 1) provide a more detailed look at the Town's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of 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 the General Statutes or the Town's budget ordinance. All of the funds of Town of Spencer consist of governmental funds.

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

	Governmental Activities		Total	
	2021	2020	2021	2020
Current and other assets	\$ 5,368,397	\$ 3,315,678	\$ 5,368,397	\$ 3,315,678
Noncurrent assets	5,548,283	4,490,095	5,548,283	4,490,095
Deferred outflows of resources	332,005	255,058	332,005	255,058
Total assets and deferred outflow of resources	11,248,685	8,060,831	11,248,685	8,060,831
Long-term liabilities outstanding	734,036	726,584	734,036	726,584
Other liabilities	3,010,354	164,034	3,010,354	164,034
Deferred inflows of resources	139,026	111,299	139,026	111,299
Total liabilities and deferred inflows of resources	3,883,416	1,001,917	3,883,416	1,001,917
Net position				
Net investment in capital assets	2,639,133	4,377,054	2,639,133	4,377,054
Restricted	3,406,886	775,084	3,406,886	775,084
Unrestricted	1,319,250	1,906,466	1,319,250	1,906,466
Total net position	\$ 7,365,269	\$ 7,058,604	\$ 7,365,269	\$ 7,058,604

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets and deferred outflows of the Town of Spencer exceeded liabilities and deferred inflows by \$7,365,269 as of June 30, 2021. The Town's net position increased by \$306,665 for the fiscal year ended June 30, 2021. A major portion of net position reflects the Town's net investment in capital assets (e.g. land, buildings, machinery, and equipment). The Town of Spencer uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Spencer's net investment in capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. The largest portion of the Town of Spencer's net position, \$3,406,886, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$1,319,250 is unrestricted.

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

- Conservative approach to spending
- Purchase of fixed assets

**Town of Spencer's Changes in Net Position**  
**Figure 3**

	Governmental Activities		Total	
	2021	2020	2021	2020
<b>Revenues:</b>				
Program revenues:				
Charges for services	\$ 138,825	\$ 136,564	\$ 138,825	\$ 136,564
Operating grants and contributions	110,417	126,220	110,417	126,220
Capital grants and contributions	213,249	125,426	213,249	125,426
General revenues:				
Property taxes	1,626,987	1,541,150	1,626,987	1,541,150
Other taxes	1,346,061	1,249,917	1,346,061	1,249,917
Other	75,548	97,587	75,548	97,587
<b>Total revenues</b>	<u>3,511,087</u>	<u>3,276,864</u>	<u>3,511,087</u>	<u>3,276,864</u>
<b>Expenses:</b>				
General government	568,231	544,574	568,231	544,574
Land management	117,272	141,611	117,272	141,611
Public safety	1,523,775	1,278,346	1,523,775	1,278,346
Transportation	519,614	438,179	519,614	438,179
Environmental protection	402,527	333,647	402,527	333,647
Culture and recreation	73,303	72,239	73,303	72,239
<b>Total expenses</b>	<u>3,204,722</u>	<u>2,808,596</u>	<u>3,204,722</u>	<u>2,808,596</u>
Change in net position	306,365	468,268	306,365	468,268
Net position, beginning	<u>7,058,904</u>	<u>6,590,636</u>	<u>7,058,904</u>	<u>6,590,636</u>
Net position, ending	<u>\$ 7,365,269</u>	<u>\$ 7,058,904</u>	<u>\$ 7,365,269</u>	<u>\$ 7,058,904</u>

**Governmental activities.** Governmental activities increased the Town's net position by \$306,365, accounting for 100% of the total growth in the net position of the Town of Spencer. The increase in net position was the result of a concerted effort to control costs and manage expenditures while providing for future expansion by capital expenditures. Management believes healthy investment in the Town will result in additional revenues, and in that vein added to the Town's net position by investing in capital assets. Increased efforts to maximize tax collections also contributed to the favorable net position. Tax revenue collections increased in the current year. 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.

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

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

**Governmental Funds.** The focus of the Town of Spencer's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the Town of Spencer's financing requirements.

The general fund is the chief operating fund of the Town of Spencer. At the end of the current fiscal year, Town of Spencer's fund balance available in the General Fund was \$1,404,851, while total fund balance reached \$2,578,945. The Town currently has an available fund balance of 41% of general fund expenditures, while total fund balance represents 75% of the same amount.

At June 30, 2021 the governmental funds of the Town reported a combined fund balance of \$5,099,086 with a net increase in fund balance of \$2,329,317. Included in this change in fund balance is an increase in fund balance in the newly created capital projects fund and an increase in the total nonmajor funds.

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

Ad valorem taxes and unrestricted revenues were more than originally anticipated. Certain expenses, including capital outlay, were not anticipated in the original budget.

### ***Capital Asset and Debt Administration***

**Capital assets.** The Town of Spencer's investment in capital assets for its governmental activities as of June 30, 2021, totals \$5,548,283 (net of accumulated depreciation). These assets include buildings, land, machinery and equipment, park facilities, and vehicles.

Major capital asset transactions during the year include the following:

- Construction in progress for the park plaza municipal complex and the yadkin river trail totaling \$816,435.
- The acquisition of vehicles and motorized equipment.
- Improvements to streets and sidewalks.

### Town of Spencer's Capital Assets (Net of Depreciation)

**Figure 4**

	Governmental Activities		Total	
	2021	2020	2021	2020
Land	\$ 543,965	\$ 543,965	\$ 543,965	\$ 543,965
Construction in progress	816,435	-	816,435	-
Improvements	2,136,026	1,876,199	2,136,026	1,876,199
Buildings	1,274,348	1,330,670	1,274,348	1,330,670
Equipment	409,841	401,266	409,841	401,266
Vehicles and motorized equipment	367,668	337,995	367,668	337,995
<b>Total</b>	<b>\$ 5,548,283</b>	<b>\$ 4,490,095</b>	<b>\$ 5,548,283</b>	<b>\$ 4,490,095</b>

Additional information on the Town's capital assets can be found in Note III.A.5 of the Basic Financial Statements.

**Long-term Debt.** As of June 30, 2021, the Town's debt consisted of the following:

### Outstanding Debt

**Figure 5**

	Governmental Activities		Total	
	2021	2020	2021	2020
General obligation bonds	\$ -	\$ 10,000	\$ -	\$ 10,000
Truist construction loan	2,826,202	-	2,826,202	-
Installment purchase	51,632	67,854	51,632	67,854
Installment purchase	31,316	45,188	31,316	45,188
Pension liability	469,191	420,835	469,191	420,835
Separation allowance	149,552	117,362	149,552	117,362
Compensated absences	63,289	65,345	63,289	65,345
<b>Total</b>	<b>\$ 3,591,182</b>	<b>\$ 726,584</b>	<b>\$ 3,591,182</b>	<b>\$ 726,584</b>

**Town of Spencer's Outstanding Debt.** The Town of Spencer's total debt and long-term obligations increased by \$2,864,598 (394.26%) during the current fiscal year. The key factors in this increase were proceeds from the Truist construction loan, principal payments of \$40,094, increase in separation allowance of \$32,190, increase in pension liability of \$48,356, and a decrease in compensated absences of \$2,056.

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8% of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for the Town of Spencer is \$19,961,272. The Town has no authorized but un-issued bonds at June 30, 2021.

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

## ***Economic Factors and Next Year's Budget and Rates***

Innospec Performance Chemicals broke ground on May 12, 2021 on the announced \$11.75 million investment for its new Global Technology Center in Spencer. They are located adjacent to Interstate 85 in Spencer and plan on adding 30 jobs to its local facility. In anticipation of the completion and opening of the research facility, Innospec has already begun to expand its technical team with key additions in agrochemicals, home care, and personal care. Additional improvements include adding a rail spur that will allow the company to expand its' core product lines. This is in addition to two new 30,000 square-foot warehouses that will accommodate future growth.

Chewy, an online pet-food retailer has made a \$55 million investment and has moved into a 700,000 square-foot building. Chewy was expected to hire over 1,200 jobs in the next five years, however it exceeded this number the first year and announce the hiring of another 200 jobs. Though not in the Town of Spencer corporate limits, Chewy is located adjacent the Town of Spencer's ETJ and is having a positive impact on the local economy.

The Town of Spencer continues to develop the Yadkin Riverpark Trail Head in conjunction with The Friends for Rowan and Davidson County. During FY 2020-21 the Town received additional grants of \$20,559. The Friends of Rowan also have announced another \$250,000 towards this project. Private donations to date for this project totally nearly \$400,000, and the Town has applied for \$150,000 in additional grant funding to allow design and construction to take place in 2022.

The Town of Spencer has been awarded a \$750,000 from the N.C. Department of Commerce's Rural Economic Development Division for its Neighborhood Revitalization program. The grant will be used for rehabilitation of 10 to 15 homes in Spencer. The Town is partnering with the Salisbury Community Development Corporation assist with the grant and identification of homeowners who have property repair needs

Modest revenue growth is projected for the upcoming year. At the same time, the Town has also made significant investments in recruiting and retaining a talented staff, and construction of the new Town Hall and Police Department. The FY2021-22 Budget accommodates full implementation of the new Pay Plan (including developmental increases) and begins the 30-year process of paying the debt service on the \$2.8 million USDA loan. The Town also will begin the process to create a Capital Reserve Fund of \$300,000 - \$400,000, to for current and future capital investments utilizing a portion of Fund Balance. The Budget includes \$185,245 of the Capital Reserve Fund to begin planning for a Fire Station addition, an LED lighting conversion at the Fire Station, vehicle purchases for Police and Public Works, and a variety of Technology upgrades that will provide efficiency and customer service improvements. This will be done while maintaining the current Ad Valorem Tax Rate of \$0.655 in the new FY2021-22 Budget.

## ***Budget Highlights for the Fiscal Year Ending June 30, 2021***

**Governmental Activities:** Governmental Activities: The Town of Spencer's current Ad Valorem Tax Rate was \$0.655 per One Hundred Dollars (\$100.00) valuation of taxable property. The Mayor and Board of Alderman began the implementing the market study to improve recruitment and retention of all Town employees.

On January 18, 2021, work officially began on renovating a portion of the Park Plaza Shopping Center to house a new Town Hall and Police Department. Construction is on schedule and the Town anticipates moving into the new facility by December 2021. The total cost of the project is estimated at \$3,915,164. In addition to the Town's contribution toward the project of \$1,013,775, the Town will receive a 30-year, 2.25 percent loan of \$2,826,202 from the USDA.

Public Safety: In order to update the Spencer Police Department's fleet, the Town of Spencer purchased and upfitted three police vehicles at a cost of \$128,167. The Spencer Fire Department was in need of a complete set of portable extrication tools to replace those 25 years old. The Town is staging this purchase of \$23,511 over two years and purchased the first group of them this year for \$14,688. The Fire Department also purchased six iPads for use on their responding vehicles. They have built-in cellular service including real-time tracking of apparatus. They will utilize Freedom CAD service which available free of charge from the Rowan County 911 Center. The Department was reorganized in FY21 to have the first full-time Chief.

Public Works: The Town of Spencer Public Works Department completed the resurfacing of Fourth Street at a cost of \$129,501 and spent another \$131,765 on resurfacing other streets. A replacement mower was purchased at a cost of \$8,549. Another \$8,911 was spent on the repair and updating of the Christmas Decorations. A local Eagle Scout leadership project partnered with the Town to upgrade Downtown planters that provided both volunteers and donations with some additional funding from the Town to complete the project.

### ***Requests for Information***

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



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**BASIC FINANCIAL STATEMENTS**  
**(Government-wide)**

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**TOWN OF SPENCER, NORTH CAROLINA**  
**Statement of Net Position**  
**June 30, 2021**

Exhibit 1

	<b>Primary Government</b>	
	<b>Governmental</b>	
	<b>Activities</b>	<b>Total</b>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 4,710,415	\$ 4,710,415
Taxes receivable (net)	116,301	116,301
Due from other governments	245,765	245,765
Cash and cash equivalents - restricted	295,916	295,916
Total current assets	<u>5,368,397</u>	<u>5,368,397</u>
Non-current assets		
Capital assets		
Land	543,965	543,965
Construction in progress	816,435	816,435
Other capital assets, net of depreciation	4,187,883	4,187,883
Total capital assets	<u>5,548,283</u>	<u>5,548,283</u>
Total assets	<u>10,916,680</u>	<u>10,916,680</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Pension deferrals	332,005	332,005
Total deferred outflows of resources	<u>332,005</u>	<u>332,005</u>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable and accrued liabilities	153,208	153,208
Due within one year	2,857,146	2,857,146
Total current liabilities	<u>3,010,354</u>	<u>3,010,354</u>
Long-term liabilities		
Compensated absences	63,289	63,289
Separation allowance	149,552	149,552
Pension liability	469,191	469,191
Due in more than one year	52,004	52,004
Total long-term liabilities	<u>734,036</u>	<u>734,036</u>
Total liabilities	<u>3,744,390</u>	<u>3,744,390</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Pension deferrals	139,026	139,026
Total deferred outflows of resources	<u>139,026</u>	<u>139,026</u>
<b>NET POSITION</b>		
Net investment in capital assets	2,639,133	2,639,133
Restricted for		
Stabilization by State Statute	303,480	303,480
Streets	295,916	295,916
Park plaza municipal complex	2,389,608	2,389,608
Yadkin river trail	130,533	130,533
Unrestricted	1,606,599	1,606,599
Total net position	<u>\$ 7,365,269</u>	<u>\$ 7,365,269</u>

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

**TOWN OF SPENCER, NORTH CAROLINA**  
**Statement of Activities**  
**For the Year Ended June 30, 2021**

Exhibit 2

					Net (Expense) Revenue and Changes in Net Position	
					Primary Government	
	Program Revenues					
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Total
<b>Primary Government:</b>						
Governmental Activities:						
General government	\$ 568,231	\$ -	\$ -	\$ 75,000	\$ (493,231)	\$ (493,231)
Land management	117,272	-	-	26,306	(90,966)	(90,966)
Public safety	1,523,775	138,825	15,567	-	(1,369,383)	(1,369,383)
Transportation	519,614	-	94,850	-	(424,764)	(424,764)
Environmental protection	402,527	-	-	-	(402,527)	(402,527)
Culture and recreation	73,303	-	-	111,943	38,640	38,640
Total Governmental Activities	3,204,722	138,825	110,417	213,249	(2,742,231)	(2,742,231)
Total Primary Government	\$ 3,204,722	\$ 138,825	\$ 110,417	\$ 213,249	(2,742,231)	(2,742,231)
General revenues						
Taxes						
Property taxes levied for general purposes					1,626,987	1,626,987
Other taxes					1,346,061	1,346,061
Miscellaneous					75,548	75,548
Total general revenues					3,048,596	3,048,596
Change in net position					306,365	306,365
Net position, beginning as previously reported					7,058,904	7,058,904
Net position, ending					\$ 7,365,269	\$ 7,365,269

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

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## **FUND FINANCIAL STATEMENTS**

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## TOWN OF SPENCER, NORTH CAROLINA

Exhibit 3

**Balance Sheet**  
**Governmental Funds**  
**June 30, 2021**

	Major Funds			
	General	Capital Park Plaza Municipal Complex	Total Nonmajor Funds	Total Governmental Funds
	Fund			
<b>ASSETS</b>				
Cash and cash equivalents	\$ 2,132,757	\$ 2,447,125	\$ 130,533	\$ 4,710,415
Restricted cash and cash equivalents	295,916	-	-	295,916
Taxes receivable, net	116,301	-	-	116,301
Due from other governments	245,765	-	-	245,765
Due from other funds	57,715	-	-	57,715
Total assets	<u>\$ 2,848,454</u>	<u>\$ 2,447,125</u>	<u>\$ 130,533</u>	<u>\$ 5,426,112</u>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities	\$ 153,208	\$ -	\$ -	\$ 153,208
Due to other funds	-	57,517	-	57,517
Total liabilities	<u>153,208</u>	<u>57,517</u>	<u>-</u>	<u>210,725</u>
<b>DEFERRED INFLOW OF RESOURCES</b>				
Property taxes receivable	116,301	-	-	116,301
Total deferred inflows of resources	<u>116,301</u>	<u>-</u>	<u>-</u>	<u>116,301</u>
<b>FUND BALANCES</b>				
Restricted				
Stabilization by state statute	303,480	-	-	303,480
Streets	295,916	-	-	295,916
Park plaza municipal complex	-	2,389,608	-	2,389,608
Yadkin river trail	-	-	130,533	130,533
Assigned				
Subsequent year's expenditures	287,349	-	-	287,349
Unassigned	1,692,200	-	-	1,692,200
Total fund balances	<u>2,578,945</u>	<u>2,389,608</u>	<u>130,533</u>	<u>5,099,086</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 2,848,454</u>	<u>\$ 2,447,125</u>	<u>\$ 130,533</u>	

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

**Balance Sheet**  
**Governmental Funds**  
**June 30, 2021**

**Reconciliation of the balance sheet to the statement of net position:**

**Amounts reported for governmental activities in the Statement of Net Position**  
**(Exhibit 1) are different because:**

Total fund balance, governmental funds		\$ 5,099,086
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:		
Gross capital assets at historical cost	10,367,414	
Accumulated depreciation	<u>(4,819,329)</u>	5,548,085
Deferred outflows of resources related to pensions are not reported in the funds		332,005
Earned revenues considered deferred inflows of resources in fund statements		116,301
Long-term liabilities used in governmental activities are not financial uses and therefore are not reported in the funds:		
Long-term debt		(2,909,150)
Compensated absences		(63,289)
Separation allowance		(149,552)
Pension liability		(469,191)
Deferred inflows of resources related to pensions are not reported in the funds		(139,026)
Net position of governmental activities		<u><u>\$ 7,365,269</u></u>

**TOWN OF SPENCER, NORTH CAROLINA**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2021**

Exhibit 4

	Major Funds			
	General	Capital Park Plaza Municipal Complex	Total Nonmajor Funds	Total Governmental Funds
	Fund			
<b>REVENUES</b>				
Ad valorem taxes	\$ 1,677,751	\$ -	\$ -	\$ 1,677,751
Other taxes and licenses	232,332	-	-	232,332
Unrestricted intergovernmental	1,113,729	-	-	1,113,729
Restricted intergovernmental	228,106	75,158	20,559	323,823
Sales and services	177,296	-	-	177,296
Miscellaneous	45,420	-	-	45,420
Total revenues	<u>3,474,634</u>	<u>75,158</u>	<u>20,559</u>	<u>3,570,351</u>
<b>EXPENITURES</b>				
Current				
General government	634,134	605,852	-	1,239,986
Land management	116,362	-	4,284	120,646
Public safety	1,488,514	-	-	1,488,514
Transportation	761,502	-	-	761,502
Environmental protection	364,602	-	-	364,602
Culture and recreation	42,370	-	-	42,370
Debt service				
Principal retirement	40,094	-	-	40,094
Interest and other charges	3,622	-	-	3,622
Total expenditures	<u>3,451,200</u>	<u>605,852</u>	<u>4,284</u>	<u>4,061,336</u>
Excess (deficiency) of revenues over expenditures	<u>23,434</u>	<u>(530,694)</u>	<u>16,275</u>	<u>(490,985)</u>
<b>OTHER FINANCING SOURCES USES)</b>				
Transfers from other funds	-	100,000	114,258	214,258
Transfers to other funds	(214,258)	-	-	(214,258)
Installment purchase obligations issued	-	2,820,302	-	2,820,302
Total other financing sources (uses)	<u>(214,258)</u>	<u>2,920,302</u>	<u>114,258</u>	<u>2,820,302</u>
Net change in fund balances	(190,824)	2,389,608	130,533	2,329,317
Fund balances, beginning as previously reported	2,976,069	-	-	2,976,069
Prior period adjustment	(206,300)	-	-	(206,300)
Fund balances, beginning as restated	<u>2,769,769</u>	<u>-</u>	<u>-</u>	<u>2,769,769</u>
Fund balances, ending	<u>\$ 2,578,945</u>	<u>\$ 2,389,608</u>	<u>\$ 130,533</u>	<u>\$ 5,099,086</u>

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

**TOWN OF SPENCER, NORTH CAROLINA**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**June 30, 2021**

Exhibit 4 (Continued)

**Balances of Governmental Funds to the Statement of Activities**

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

Net changes in fund balances - total governmental funds		2,329,317
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		
Capital outlay expenditures which were capitalized	1,220,469	
Depreciation expense for governmental assets	<u>(258,176)</u>	962,293
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Change in unavailable revenue for tax revenues		(50,764)
Collection of long-term receivables is not recognized as a revenue in the Statement of Activities		
		(8,500)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.		
Debt service - principal	40,094	
Debt proceeds	<u>(2,820,302)</u>	(2,780,208)
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	2,056	
Pension expense	LGERS (152,384)	
Separation allowance	LEOSSA <u>4,555</u>	(145,773)
Total changes in net position of governmental activities		<u>\$ 306,365</u>

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



**TOWN OF SPENCER, NORTH CAROLINA**  
**General Fund and Annually Budgeted Major Capital Projects Fund**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual**  
**For the Year Ended June 30, 2021**

Exhibit 5

	General Fund			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
<b>REVENUES</b>				
Ad valorem taxes	\$ 1,575,538	\$ 1,592,074	\$ 1,677,751	\$ 85,677
Other taxes and licenses	238,033	238,033	232,332	(5,701)
Unrestricted intergovernmental	952,178	952,178	1,113,729	161,551
Restricted intergovernmental	137,000	240,545	228,106	(12,439)
Sales and services	161,828	161,828	177,296	15,468
Miscellaneous	36,000	37,601	45,420	7,819
Total revenues	3,100,577	3,222,259	3,474,634	252,375
<b>EXPENDITURES</b>				
Current				
General government	691,078	691,608	634,134	57,474
Land management	164,483	137,650	116,362	21,288
Public safety	1,478,947	1,533,268	1,488,514	44,754
Transportation	648,755	801,588	761,502	40,086
Environmental protection	364,536	365,603	364,602	1,001
Culture and recreation	53,087	51,505	42,370	9,135
Debt service				
Principal retirement	43,131	43,136	40,094	3,042
Interest and other charges	580	580	3,622	(3,042)
Total expenditures	3,444,597	3,624,938	3,451,200	173,738
Revenues over (under) expenditures	(344,020)	(402,679)	23,434	426,113
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers to other funds	-	(402,232)	(214,258)	187,974
Total other financing sources (uses)	-	(402,232)	(214,258)	187,974
Fund balance appropriated	344,020	804,911	-	804,911
Net change in fund balance	\$ -	\$ -	(190,824)	\$ (190,824)
Fund balance, beginning as previously reported			2,976,069	
Prior period adjustment			(206,300)	
Fund balance, beginning as restated			2,769,769	
Fund balance, ending			\$ 2,578,945	

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

**TOWN OF SPENCER, NORTH CAROLINA**  
**General Fund and Annually Budgeted Major Capital Projects Fund**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual**  
**For the Year Ended June 30, 2021**

Exhibit 5 (Continued)

Park Plaza Municipal Complex Fund				
	Original	Final	Actual Amounts	Variance with Final Budget - Positive (Negative)
<b>REVENUES</b>				
Ad valorem taxes	\$ -	\$ -	\$ -	\$ -
Other taxes and licenses	-	-	-	-
Unrestricted intergovernmental	-	-	-	-
Restricted intergovernmental	-	75,000	75,158	158
Sales and services	-	-	-	-
Miscellaneous	-	-	-	-
Total revenues	-	75,000	75,158	158
<b>EXPENDITURES</b>				
Current				
General government	-	3,059,176	605,852	2,453,324
Land management	-	-	-	-
Public safety	-	-	-	-
Transportation	-	-	-	-
Environmental protection	-	-	-	-
Culture and recreation	-	-	-	-
Debt service				
Principal retirement	-	-	-	-
Interest and other charges	-	-	-	-
Total expenditures	-	3,059,176	605,852	2,453,324
Revenues over (under) expenditures	-	(2,984,176)	(530,694)	2,453,482
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers from other funds	-	157,974	100,000	(57,974)
Installment purchase obligations issued	-	2,826,202	2,820,302	(5,900)
Total other financing sources (uses)	-	2,984,176	2,920,302	(63,874)
Fund balance appropriated	-	-	-	-
Net change in fund balance	\$ -	\$ -	2,389,608	\$ 2,389,608
Fund balance, beginning			-	
Fund balance, ending			\$ 2,389,608	

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

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## **NOTES TO THE FINANCIAL STATEMENTS**

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**TOWN OF SPENCER, NORTH CAROLINA**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2021**

**I) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A) Reporting Entity**

The Town of Spencer (the Town) is a municipal corporation that is governed by an elected mayor and a six-member board of aldermen. As required by generally accepted accounting principles, these financial statements present the Town, a single entity with no other legally separate entities for which the Town is financially accountable.

**B) Basis of Presentation**

*Government-wide Statements:* The statement of net position and the statement of activities display information about the primary government. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the Town. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. The Town has no business-activities to report.

The statement of activities presents a comparison between direct expenses and program revenues 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 specific function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a specific program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

*Fund Financial Statements:* The fund financial statements provide information about the Town's funds. The Town has no proprietary or fiduciary funds to report. The emphasis of fund financial statements is on major governmental funds. All remaining governmental funds are aggregated and reported as non-major funds.

The Town 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.

**Park Plaza Municipal Complex Fund.** This capital projects fund is used to account for the construction of the new park plaza municipal complex.

**TOWN OF SPENCER, NORTH CAROLINA**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2021**

**I) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B) Basis of Presentation (Continued)**

The Town reports the following non-major governmental fund:

**Yadkin River Trail Fund.** This capital projects fund is used to account for the construction and maintenance of the Yadkin river trail.

**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-exchanges transactions, in which the Town gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

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

*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. Issuance of general long-term debt and acquisitions under capital leases are reported as other financing sources.

The Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable 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.

**TOWN OF SPENCER, NORTH CAROLINA**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2021**

**I) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C) Measurement Focus and Basis of Accounting (Continued)**

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

**D) Budgetary Data**

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund and the Powell Bill Fund. All annual appropriations lapse at the fiscal year-end. Project ordinances are adopted for the Park Plaza Municipal Complex and the Yadkin River Trail Capital Projects Funds. The appropriations for the Capital Projects Funds will lapse at the end of the respective projects. 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 project level for the multi-year funds. Amendments are required for any revisions that alter total expenditures of any fund or that change functional appropriations. All amendments must be approved by the governing board. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

**E) Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Fund Equity**

**1) Deposits and Investments**

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

State law [G.S. 159-30(c)] authorizes the Town to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States, obligations of the State of North Carolina, bonds and notes of any North Carolina local government or public authority, obligations of certain non-guaranteed federal agencies, certain high quality issues of commercial paper and bankers' acceptances, and the North Carolina Capital Management Trust (NCCMT). The Town's investments are generally 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 a bond fund, has no rating, and is measured at fair value. As of June 30, 2021, The Term portfolio has a duration of 0.15 years. Because the NCCMT Government Portfolio has a weighted average maturity of less than 90 days, it is presented as an investment with a maturity of less than 6 months.

**TOWN OF SPENCER, NORTH CAROLINA**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2021**

**I) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E) Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Fund Equity (Continued)**

**2) Cash and Cash Equivalents**

The Town pools money from several funds to facilitate disbursement and investment and to maximize investment income and considers all cash and investments to be cash and cash equivalents. The Town considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash and cash equivalents.

**3) Restricted Assets**

Powell Bill funds are classified as restricted cash because they can be expended only for the purposes outlined in G.S. 136-41.1 through 136-41.4

<u>Town of Spencer Restricted Cash</u>			
Governmental Activities			
General Fund	Streets	\$	295,916
Total Restricted Cash			<u>\$ 295,916</u>

**4) Ad Valorem Taxes Receivable**

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad valorem taxes on property other than motor vehicles on July 1<sup>st</sup>, the beginning of the fiscal year. The taxes are due on September 1<sup>st</sup> (lien date); however, interest does not accrue until the following January 6<sup>th</sup>. 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 that are paid prior to the due date. In the Town's General Fund, ad valorem tax revenues are reported net of such discounts.

**5) Allowance for Doubtful Accounts**

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

**6) Capital Assets**

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. Minimum capitalization cost is \$1,000 for all asset classes. Donated capital assets received prior to June 30, 2015, are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 30, 2015, are recorded at acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical cost. The 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.

**TOWN OF SPENCER, NORTH CAROLINA**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2021**

**I) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E) Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Fund Equity (Continued)**

**6) Capital Assets (Continued)**

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

Asset Class	Estimated Useful Lives
Infrastructure	30
Buildings	50
Improvements	25
Vehicles	6
Furniture and equipment	10
Computer equipment	3

**7) Deferred Outflows/Inflows of Resources**

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

**8) Long-Term Obligations**

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities 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. As of June 30, 2021, all long-term debt for water and sewer purposes have been retired.



**TOWN OF SPENCER, NORTH CAROLINA**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2021**

**I) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E) Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Fund Equity (Continued)**

**9) Compensated Absences**

The vacation policy of the Town provides for the accumulation of up to thirty days earned vacation leave with such leave being fully vested when earned. For the Town's government-wide fund, an expense and a liability for compensated absences and the salary-related payments are recorded as the leave is earned.

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

**10) Net Position/Fund Balances**

**Net Position**

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

**Fund Balances**

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

The governmental fund types classify fund balances as follows:

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

**TOWN OF SPENCER, NORTH CAROLINA**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2021**

**I) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E) Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Fund Equity (Continued)**

**10) Net Position/Fund Balances (Continued)**

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* – This 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 non-spendable. 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 unexpended Powell Bill funds.

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

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

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

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

**TOWN OF SPENCER, NORTH CAROLINA**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2021**

**I) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E) Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Fund Equity (Continued)**

**10) Net Position/Fund Balances (Continued)**

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

**11) Pensions**

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

**1. Late Filing of Annual Financial Report**

The Local Government Commission of the North Carolina Department of State Treasurer requires the completion and submission of audited financial statements within four (4) months of year-end. The Town is not in compliance with this requirement as the June 30, 2021 audit was due by October 31, 2021.

**B) Deficit in Fund Balance of Individual Funds not Appropriated in Subsequent Year's Budget Ordinance**

None

**C) Excess of Expenditures over Appropriations**

None

**TOWN OF SPENCER, NORTH CAROLINA**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2021**

**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 the entities' names. The amount of the pledged collateral is based on an approved averaging method for non-interest-bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Town or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Town under the Pooling Method, the potential exists for under-collateralization. This risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Town has no formal policy regarding custodial credit risk for deposits but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The Town complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2021 the Town's deposits had a carrying amount of \$2,710,048 and a bank balance of \$2,773,913. Of the bank balance, \$250,000 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method. At June 30, 2021, the Town's petty cash fund totaled \$180.

**2) Investments**

At June 30, 2021 the Town's investments balances consisted of \$2,296,103 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.

**TOWN OF SPENCER, NORTH CAROLINA**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2021**

**III) DETAIL NOTES ON ALL FUNDS (Continued)**

**A) Assets (Continued)**

**3) Receivables – Due from Other Governments**

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

Local options sales tax	\$ 158,615
Franchise and utility tax	41,549
Rowan County	21,005
Sales tax and other refunds	<u>24,596</u>
Total	<u><u>\$ 245,765</u></u>

**4) Receivables – Allowances for Doubtful Accounts**

The amounts presented in the Balance Sheet and the Statement of Net Position for the year ended June 30, 2021, are net of the following allowances for doubtful account:

General Fund:	
Taxes receivable	<u>\$ -</u>
Total General Fund	<u><u>\$ -</u></u>

**TOWN OF SPENCER, NORTH CAROLINA**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2021**

**III) DETAIL NOTES ON ALL FUNDS (Continued)**

**A) Assets (Continued)**

**5) Capital Assets**

**Primary Government**

Capital asset activity for the Primary Government 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	\$ 543,965	\$ -	\$ -	\$ 543,965
Construction in progress	-	816,435	-	816,435
Total capital assets not being depreciated	<u>543,965</u>	<u>816,435</u>	<u>-</u>	<u>1,360,400</u>
<b>Capital assets being depreciated:</b>				
Buildings	2,581,551	-	-	2,581,551
Improvements	2,227,846	321,576	-	2,549,422
Equipment	1,736,248	55,291	-	1,791,539
Vehicles and motorized equipment	<u>2,057,018</u>	<u>123,062</u>	<u>95,380</u>	<u>2,084,700</u>
Total capital assets being depreciated	<u>8,602,663</u>	<u>499,929</u>	<u>95,380</u>	<u>9,007,212</u>
<b>Less accumulated depreciation for:</b>				
Buildings	1,250,881	56,322	-	1,307,203
Improvements	351,647	61,749	-	413,396
Equipment	1,334,982	46,716	-	1,381,698
Vehicles and motorized equipment	<u>1,719,023</u>	<u>93,389</u>	<u>95,380</u>	<u>1,717,032</u>
Total accumulated depreciation	<u>4,656,533</u>	<u>258,176</u>	<u>95,380</u>	<u>4,819,329</u>
Total capital assets being depreciated, net	<u>3,946,130</u>			<u>4,187,883</u>
Governmental activity capital assets, net	<u>\$4,490,095</u>			<u>\$5,548,283</u>

**TOWN OF SPENCER, NORTH CAROLINA**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2021**

**III) DETAIL NOTES ON ALL FUNDS (Continued)**

**A) Assets (Continued)**

**5) Capital Assets (Continued)**

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

General government	\$ 18,386
Land management	910
Public safety	121,477
Transportation	69,473
Environmental protection	16,997
Cultural and recreational	<u>30,933</u>
 Total depreciation expense	 <u><u>\$ 258,176</u></u>

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

Project	Spent-to-date	Remaining Commitment
Park plaza municipal complex	<u><u>\$ 1,825,926</u></u>	<u><u>\$ 2,089,238</u></u>

**B) Liabilities**

**1) Pension Plan Obligations**

**a) Local Governmental Employees' Retirement System**

*Plan Description.* The Town of Spencer is a participating employer in the statewide Local Governmental 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 Annual Comprehensive Financial Report for the State of North Carolina. The State's Annual Comprehensive Financial Report 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).

**TOWN OF SPENCER, NORTH CAROLINA**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2021**

**III) DETAIL NOTES ON ALL FUNDS (Continued)**

**B) Liabilities (Continued)**

**1) Pension Plan Obligations (Continued)**

**a) Local Governmental Employees' Retirement System (Continued)**

*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 agency service. Plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service (age 55 for firefighters). Survivor benefits are available to eligible beneficiaries of members who die while in active service or within 180 days of their last day of service and who have either completed 20 years of creditable service regardless of age (15 years of creditable service for firefighters and rescue squad members who are killed in the line of duty) or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

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

*Contributions.* Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. Town of Spencer employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Town of Spencer's contractually required contribution rate for the year ended June 30, 2021, was 9.70% of compensation for law enforcement officers and 8.95% for general employees and firefighters, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Town of Spencer were \$116,503 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.



**TOWN OF SPENCER, NORTH CAROLINA**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2021**

**III) DETAIL NOTES ON ALL FUNDS (Continued)**

**B) Liabilities (Continued)**

**1) Pension Plan Obligations (Continued)**

**a) Local Governmental Employees' Retirement System (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 liability of \$469,191 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 0.01313%, which was a decrease of 0.00228% from its proportion measured as of June 30, 2019.

For the year ended June 30, 2021, the Town recognized pension expense of \$152,384. At June 30, 2021, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 59,251	\$ -
Changes of assumptions	34,917	-
Net difference between projected and actual earnings on pension plan investments	66,026	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	2,585	44,121
Town contributions subsequent to the measurement date	116,503	-
Total	<u>\$ 279,282</u>	<u>\$ 44,121</u>

**TOWN OF SPENCER, NORTH CAROLINA**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2021**

**III) DETAIL NOTES ON ALL FUNDS (Continued)**

**B) Liabilities (Continued)**

**1) Pension Plan Obligations (Continued)**

**a) Local Governmental Employees' Retirement System (Continued)**

\$116,503 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2022. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2022	\$ 31,224
2023	47,005
2024	20,887
2025	19,542
2026	-
Thereafter	-
	\$ 118,658

*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	3.00 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.

**TOWN OF SPENCER, NORTH CAROLINA**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2021**

**III) DETAIL NOTES ON ALL FUNDS (Continued)**

**B) Liabilities (Continued)**

**1) Pension Plan Obligations (Continued)**

**a) Local Governmental Employees' Retirement System (Continued)**

The projected long-term investment returns, and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2020, are summarized in the following table:

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

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.

**TOWN OF SPENCER, NORTH CAROLINA**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2021**

**III) DETAIL NOTES ON ALL FUNDS (Continued)**

**B) Liabilities (Continued)**

**1) Pension Plan Obligations (Continued)**

**a) Local Governmental Employees' Retirement System (Continued)**

*Sensitivity of the Town's proportionate share of the net pension liability to changes in the discount rate.* The following presents the Town's proportionate share of the net pension liability 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)	\$ 951,937	\$ 469,191	\$ 67,995

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

**b) Law Enforcement Officers Special Separation Allowance**

***1. Plan Description.***

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

All full-time Town law enforcement officers are covered by the Separation Allowance.

At December 31, 2019, the valuation date, the Separation Allowance's membership consisted of:

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

**TOWN OF SPENCER, NORTH CAROLINA**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2021**

**III) DETAIL NOTES ON ALL FUNDS (Continued)**

**B) Liabilities (Continued)**

**1) Pension Plan Obligations (Continued)**

**b) Law Enforcement Officers Special Separation Allowance (Continued)**

***2. Summary of Significant Accounting Policies.***

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

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

***3. Actuarial Assumptions.***

The entry age actuarial cost method was used in the December 31, 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 is based on the yield of the S&P Municipal Bond 20 Year High Grade Rate Index as of December 31, 2019.

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

***4. Contributions***

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

**TOWN OF SPENCER, NORTH CAROLINA**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2021**

**III) DETAIL NOTES ON ALL FUNDS (Continued)**

**B) Liabilities (Continued)**

**1) Pension Plan Obligations (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 \$149,552. 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 a pension benefit of \$4,555.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 91,871
Changes of assumptions	52,723	3,034
Town benefit payments and plan administrative expense made subsequent to the measurement date	-	-
Total	<u>\$ 52,723</u>	<u>\$ 94,905</u>

\$0 paid as benefits came due subsequent to the measurement date have been reported as deferred outflows of resources. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2022	\$ (17,381)
2023	(17,175)
2024	(14,199)
2025	2,275
2026	3,004
Thereafter	1,294
	<u>\$ (42,182)</u>

**TOWN OF SPENCER, NORTH CAROLINA**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2021**

**III) DETAIL NOTES ON ALL FUNDS (Continued)**

**B) Liabilities (Continued)**

**1) Pension Plan Obligations (Continued)**

**b) Law Enforcement Officers Special Separation Allowance (Continued)**

*Sensitivity of the Town's total pension liability to changes in the discount rate.* The following presents the Town's total pension liability calculated using the discount rate of 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 (0.93 percent) or 1-percentage-point higher (2.93 percent) than the current rate:

	1% Decrease (0.93%)	Discount Rate (1.93%)	1% Increase (2.93%)
Total pension liability	\$ 161,482	\$ 149,552	\$ 138,447

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

Beginning balance	\$ 117,362
Service cost	9,046
Interest on the total pension liability	3,826
Changes of benefit terms	-
Differences between expected and actual experience in the measurement of the total pension liability	(35,511)
Changes of assumptions or other inputs	54,829
Benefit payments	-
Other changes	-
Ending balance of the total pension liability	<u>\$ 149,552</u>

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

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

**TOWN OF SPENCER, NORTH CAROLINA**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2021**

**III) DETAIL NOTES ON ALL FUNDS (Continued)**

**B) Liabilities (Continued)**

**1) Pension Plan Obligations (Continued)**

**b) Law Enforcement Officers Special Separation Allowance (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 (Benefit)	\$ 152,384	\$ (4,555)	\$ 147,829
Pension Liability	469,191	149,552	618,743
Proportionate share of the net pension liability	0.01313%	N/A	
Deferred Outflows of Resources			
Differences between expected and actual experience	59,251	-	59,251
Changes in assumptions	34,917	52,723	87,640
Net difference between projected and actual earnings on plan investments	66,026	-	66,026
Changes in proportion and differences between contributions and proportionate share of contributions	2,585	-	2,585
Benefit payments and administrative costs paid subsequent to the measurements date	116,503	-	116,503
Deferred Inflows of Resources			
Differences between expected and actual experience	-	91,871	91,871
Changes in assumptions	-	3,034	3,034
Net difference between projected and actual earnings on plan investments	-	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	44,121	-	44,121



**TOWN OF SPENCER, NORTH CAROLINA**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2021**

**III) DETAIL NOTES ON ALL FUNDS (Continued)**

**B) Liabilities (Continued)**

**1) Pension Plan Obligations (Continued)**

**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 employed by the Town. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Supplemental Retirement Income Plan for Law Enforcement Officers is included in the Annual Comprehensive Financial Report for the State of North Carolina. The State's Annual Comprehensive Financial Report includes the pension trust fund financial statements for the Internal Revenue Code Section 401(k) plan that includes the Supplemental Retirement Income Plan for Law Enforcement Officers. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

*Funding Policy.* Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to five percent of each officer's salary. The Town matches up to 5% of each general employee, and all amounts contributed are vested immediately. In addition, the law enforcement officers and general employees may make voluntary contributions to the plan.

The Town made contributions of \$48,918 for the reporting year. No amounts were forfeited.

**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.

**TOWN OF SPENCER, NORTH CAROLINA**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2021**

**III) DETAIL NOTES ON ALL FUNDS (Continued)**

**B) Liabilities (Continued)**

**3) Deferred Outflows and Inflows of Resources**

Deferred outflows of resources reported on the Statement of Net Position is comprised of the following:

Contributions to pension plan in current fiscal year	\$ 116,503
Benefits payments and administrative expenses for LEOSSA made subsequent to measurement date	-
Differences between expected and actual experience	59,251
Changes of assumptions	87,640
Net difference between projected and actual	66,026
Changes in proportion and differences between employer contributions and proportionate share of contributions	2,585
Charge on refunding	-
Total	<u>\$ 332,005</u>

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

	General Fund Balance Sheet	Statement of Net Position
Prepaid taxes (General Fund)	\$ -	\$ -
Taxes receivable	116,301	-
Changes in assumption	-	3,034
Differences between expected and actual experience	-	91,871
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	44,121
Total	<u>\$ 116,301</u>	<u>\$ 139,026</u>

**TOWN OF SPENCER, NORTH CAROLINA**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2021**

**III) DETAIL NOTES ON ALL FUNDS (Continued)**

**B) Liabilities (Continued)**

**4) Risk Management**

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

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

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

**5) Long-Term Obligations**

**a) General Obligation Bonds**

At June 30, 2021, the Town of Spencer had no authorized but unissued bonds and a legal debt margin of \$19,961,272

**b) Construction Loan**

In December of 2020, the Town obtained a construction loan from Truist in the amount of \$2,826,202, including 1.540% interest for the purpose of developing the Park Plaza Municipal Complex to house the current Town Hall and Police Department. The total amount of the note is due during fiscal year ending June 30, 2022.

**TOWN OF SPENCER, NORTH CAROLINA**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2021**

**III) DETAIL NOTES ON ALL FUNDS (Continued)**

**B) Liabilities (Continued)**

**5) Long-Term Obligations (Continued)**

**c) Installment Purchases**

In September 2016, the Town entered into an installment purchase contract to finance the purchase of fire equipment; the financing contract requires seven annual payments, beginning September 25, 2020, of \$18,251, including interest at 3.00%. The principal balance at June 30, 2021 was \$51,632.

In August 2016, the Town entered into an installment purchase contract to finance the purchase of a new garbage truck; the financing contract requires eighty four monthly payments beginning September 3, 2016, of \$1,240, including interest at 2.57%. The principal balance at June 30, 2021 was \$31,316.

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

The future minimum payments of the installment contracts as of June 30, 2021, including \$4,045 of interest, are as follows:

	Principal	Interest	Total
2022	\$ 30,944	\$ 2,191	\$ 33,135
2023	31,819	1,316	33,135
2024	20,185	538	20,723
	<u>\$ 82,948</u>	<u>\$ 4,045</u>	<u>\$ 86,993</u>

**d) Changes in Long-Term Liabilities**

	Beginning balance	Increased	Decreases	Ending balance	Current portion
Governmental activities:					
General obligation bonds	\$ 10,000	\$ -	\$ 10,000	\$ -	\$ -
Truist construction loan	-	2,826,202	-	2,826,202	2,826,202
Installment purchase	67,854	-	16,222	51,632	16,707
Installment purchase	45,188	-	13,872	31,316	14,237
Pension liability	420,835	48,356	-	469,191	-
Separation allowance	117,362	32,190	-	149,552	-
Compensated absences	65,345	-	2,056	63,289	-
Governmental activity long-term liabilities	<u>\$ 726,584</u>	<u>\$ 2,906,748</u>	<u>\$ 42,150</u>	<u>\$ 3,591,182</u>	<u>\$ 2,857,146</u>

**TOWN OF SPENCER, NORTH CAROLINA**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2021**

**III) DETAIL NOTES ON ALL FUNDS (Continued)**

**B) Liabilities (Continued)**

**5) Long-Term Obligations (Continued)**

**d) Changes in Long-Term Liabilities (Continued)**

Compensated absences for governmental activities have typically been liquidated in the general fund.

**6) Interfund Balances and Activity**

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

	<u>Amount</u>
Due to the general fund from the capital projects fund - park plaza municipal complex	<u>\$ 57,517</u>

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 the general fund to the capital projects fund - park plaza municipal complex	\$ 100,000
From the general fund to the capital projects fund - yadkin river trail	<u>114,258</u>
Total	<u>\$ 214,258</u>

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, including amounts provided matchings funds for various grant programs.

During the 2021 fiscal year, the Town made one time transfers from the general fund totaling \$214,258 to satisfy funding requirements for the applicable projects.

**TOWN OF SPENCER, NORTH CAROLINA**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2021**

**III) DETAIL NOTES ON ALL FUNDS (Continued)**

**C) Fund Balance**

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

<u>Total fund balance - general fund</u>	\$ 2,578,945
Less:	
Stabilization by state statute	303,480
Streets - powell bill	295,916
Appropriated fund balance in 2022 budget	<u>287,349</u>
Remaining fund balance	<u><u>\$ 1,692,200</u></u>

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

<u>Encumbrances</u>	<u>General fund</u>	<u>Non-major funds</u>
\$	-	\$ -

**IV) SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES**

Federal and State Assisted Programs

The Town has received proceeds from several federal and State grants. Periodic audits of these grants are required, and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant 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 moneys.

**V) RESTATEMENTS**

Prior Period Adjustment

During the fiscal year ended June 30, 2021, the Town determined that prepaid construction costs were incorrectly capitalized in the general fund as of June 30, 2020. Therefore, an adjustment to beginning fund balance has been recorded to recognize those expenses, the net effect of which decreased beginning fund balance by \$206,300. These expenses were properly capitalized in the government-wide statements; therefore, beginning net position was not affected.

**VI) SIGNIFICANT EFFECTS OF SUBSEQUENT EVENTS**

Management has evaluated subsequent events through July 14, 2022, which is the date the financial statements were available to be issued. There were no recognized subsequent events meriting disclosure.

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## **REQUIRED SUPPLEMENTARY INFORMATION**

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Schedule of Proportionate Share of Net Pension Liability  
Local Government Employees' Retirement System

Schedule of Contributions  
Local Government Employees' Retirement System

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

Schedule of Total Pension Liability as a Percentage of Covered Payroll  
Law Enforcement Officers' Special Separation Allowance

**TOWN OF SPENCER, NORTH CAROLINA**  
**Schedule of Proportionate Share of Net Pension Liability (Asset) for**  
**Local Government Employees' Retirement System**  
**Last Eight Fiscal Years**

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Spencer's proportion of the net pension liability (asset) (%)	0.01313%	0.01541%	1.71700%	0.01537%
Spencer's proportion of the net pension liability (asset) (\$)	\$ 469,191	\$ 420,835	\$ 407,331	\$ 234,811
Spencer's covered payroll	\$ 901,154	\$ 931,093	\$ 952,734	\$ 899,860
Spencer's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	52.07%	45.20%	42.75%	26.09%
Plan fiduciary net position as a percentage of the total pension liability	91.63%	94.18%	91.47%	98.09%
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Spencer's proportion of the net pension liability (asset) (%)	0.01553%	0.01701%	0.01569%	0.01640%
Spencer's proportion of the net pension liability (asset) (\$)	\$ 329,599	\$ 76,340	\$ (92,531)	\$ 192,730
Spencer's covered payroll	\$ 977,219	\$ 969,865	\$ 868,344	\$ 876,578
Spencer's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	33.73%	7.87%	( 10.66%)	21.99%
Plan fiduciary net position as a percentage of the total pension liability	99.07%	102.64%	94.35%	96.45%

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



**TOWN OF SPENCER, NORTH CAROLINA**  
**Schedule of Contributions to**  
**Local Government Employees' Retirement System**  
**Last Eight Fiscal Years**

	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>
Contractually required contribution	\$ 116,503	\$ 90,802	\$ 76,532	\$ 73,625
Contributions in relation to the contractually required contribution	116,503	90,802	76,532	73,625
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Spencer's covered payroll	\$ 1,106,521	\$ 901,154	\$ 931,093	\$ 952,734
Contributions as a percentage of covered payroll	10.53%	10.08%	8.22%	7.73%
	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Contractually required contribution	\$ 70,173	\$ 69,892	\$ 62,269	\$ 59,210
Contributions in relation to the contractually required contribution	70,173	69,892	62,269	59,210
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Spencer's covered payroll	\$ 899,860	\$ 977,219	\$ 969,865	\$ 868,344
Contributions as a percentage of covered payroll	7.80%	7.15%	6.42%	6.82%

**TOWN OF SPENCER, NORTH CAROLINA**  
**Schedule of Changes in Total Pension Liability**  
**Law Enforcement Officers' Special Separation Allowance**  
**Last Five Fiscal Years**

	<u><b>2021</b></u>	<u><b>2020</b></u>	<u><b>2019</b></u>	<u><b>2018</b></u>
Beginning balance	\$ 117,362	\$ 117,482	\$ 104,514	\$ 94,028
Service Cost	9,046	10,630	12,102	11,176
Interest on the total pension liability	3,826	4,103	6,986	8,128
Changes of benefit terms	-	-	-	-
Differences between expected and actual experience in the measurement of the total pension liability	(35,511)	(9,307)	13,219	(7,814)
Changes of assumptions or other inputs	54,829	3,968	(5,068)	13,267
Benefit payments	-	(9,514)	(14,271)	(14,271)
Other changes	-	-	-	-
Ending balance of the total pension liability	<u><u>\$ 149,552</u></u>	<u><u>\$ 117,362</u></u>	<u><u>\$ 117,482</u></u>	<u><u>\$ 104,514</u></u>

	<u><b>2017</b></u>
Beginning balance	\$ 93,213
Service Cost	11,301
Interest on the total pension liability	7,489
Changes of benefit terms	-
Differences between expected and actual experience in the measurement of the total pension liability	-
Changes of assumptions or other inputs	(3,704)
Benefit payments	(14,271)
Other changes	-
Ending balance of the total pension liability	<u><u>\$ 94,028</u></u>

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

**TOWN OF SPENCER, NORTH CAROLINA**  
**Schedule of Total Pension Liability as a Percentage of Covered Payroll**  
**Law Enforcement Officers' Special Separation Allowance**  
**Last Five Fiscal Years**

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total pension liability	\$ 149,552	\$ 117,362	\$ 117,482	\$ 104,514
Covered payroll	478,589	517,263	493,369	492,235
Total pension liability as a percentage of covered payroll	31.25%	22.69%	23.81%	21.23%
	<u>2017</u>			
Total pension liability	\$ 94,028			
Covered payroll	507,038			
Total pension liability as a percentage of covered payroll	18.54%			

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

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**INDIVIDUAL FUND STATEMENTS  
AND SCHEDULES**

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**TOWN OF SPENCER, NORTH CAROLINA**  
**General Fund**  
**Schedule of Revenues, Expenditures, and**  
**Changes in Fund Balances - Budget and Actual**  
**For the Year Ended June 30, 2021**

Schedule 1

	Budget	Actual	Variance Positive (Negative)
<b>REVENUES</b>			
Ad valorem taxes			
Taxes	\$	\$ 1,649,760	\$
Interest		27,991	
Total	<u>1,592,074</u>	<u>1,677,751</u>	<u>85,677</u>
Other taxes and licenses			
Landfill fees		219,566	
Other fees and taxes		12,766	
Total	<u>238,033</u>	<u>232,332</u>	<u>(5,701)</u>
Unrestricted intergovernmental			
Local option sales tax		899,751	
Beer and wine tax		13,707	
Utility franchise tax		182,639	
ABC revenue		17,632	
Total	<u>952,178</u>	<u>1,113,729</u>	<u>161,551</u>
Restricted intergovernmental			
Powell bill allocation		94,790	
Investment earnings		60	
Controlled substance tax		1,451	
Federal and state grants		131,805	
Total	<u>240,545</u>	<u>228,106</u>	<u>(12,439)</u>
Sales and services			
Sales of fixed assets		28,181	
Proceeds from City of Salisbury		10,290	
Security services		138,825	
Total	<u>161,828</u>	<u>177,296</u>	<u>15,468</u>

**TOWN OF SPENCER, NORTH CAROLINA**  
**General Fund**  
**Schedule of Revenues, Expenditures, and**  
**Changes in Fund Balances - Budget and Actual**  
**For the Year Ended June 30, 2021**

Schedule 1 (Continued)

Miscellaneous			
Lien payments		6,558	
Insurance reimbursements		238	
Miscellaneous		38,624	
Total	<u>37,601</u>	<u>45,420</u>	<u>7,819</u>
 Total revenues	 <u>3,222,259</u>	 <u>3,474,634</u>	 <u>252,375</u>

**EXPENDITURES**

General government			
Town Commissioners			
Salaries and employee benefits		22,876	
Other operating expenditures		50,521	
Total	<u>86,139</u>	<u>73,397</u>	<u>12,742</u>
 Administration			
Salaries and employee benefits		306,957	
Other operating expenditures		253,780	
Total	<u>605,469</u>	<u>560,737</u>	<u>44,732</u>
Total general government	<u>691,608</u>	<u>634,134</u>	<u>57,474</u>
 Land management			
Land maintenance			
Salaries and employee benefits		2,760	
Other operating expenditures		113,602	
Total land management	<u>137,650</u>	<u>116,362</u>	<u>21,288</u>
 Public safety			
Police			
Salaries and employee benefits		868,376	
Other operating expenditures		117,717	
Capital outlay		168,111	
Total	<u>1,183,080</u>	<u>1,154,204</u>	<u>28,876</u>
 Fire			
Salaries and employee benefits		213,701	
Other operating expenditures		103,093	
Capital outlay		17,516	
Total	<u>350,188</u>	<u>334,310</u>	<u>15,878</u>
Total public safety	<u>1,533,268</u>	<u>1,488,514</u>	<u>44,754</u>

**TOWN OF SPENCER, NORTH CAROLINA**  
**General Fund**  
**Schedule of Revenues, Expenditures, and**  
**Changes in Fund Balances - Budget and Actual**  
**For the Year Ended June 30, 2021**

Schedule 1 (Continued)

Transportation			
Streets and highways			
Salaries and employee benefits		267,464	
Other operating expenditures		126,791	
Powell Bill - repairs		24,265	
Powell Bill - capital outlay		302,520	
Capital outlay		40,462	
Total transportation	801,588	761,502	40,086
Environmental protection			
Solid waste			
Salaries and employee benefits		271,764	
Other operating expenditures		42,256	
Tipping fees		50,582	
Total environmental protection	365,603	364,602	1,001
Culture and recreation			
Parks and recreation			
Other operating expenditures		9,237	
Total	15,829	9,237	6,592
Libraries			
Salaries and employee benefits		14,634	
Other operating expenditures		18,499	
Total	35,676	33,133	2,543
Total culture and recreation	51,505	42,370	9,135
Debt service			
Principle retirement	43,136	40,094	
Interest and other charges	580	3,622	
Total debt service	43,716	43,716	-
Total expenditures	3,624,938	3,451,200	173,738
Revenues over (under) expenditures	(402,679)	23,434	426,113

**TOWN OF SPENCER, NORTH CAROLINA**  
**General Fund**  
**Schedule of Revenues, Expenditures, and**  
**Changes in Fund Balances - Budget and Actual**  
**For the Year Ended June 30, 2021**

Schedule 1 (Continued)

**OTHER FINANCING USES**

Transfers to other funds			
Yadkin river trail fund		(114,258)	
Park plaza municipal complex fund		(100,000)	
Total other financing sources	<u>(402,232)</u>	<u>(214,258)</u>	<u>187,974</u>
 Fund balance appropriated	 <u>804,911</u>	 <u>-</u>	 <u>804,911</u>
 Net change in fund balance	 <u><u>\$ -</u></u>	 <u>(190,824)</u>	 <u><u>\$ (190,824)</u></u>
 Fund balance, beginning as previously reported		2,976,069	
Prior period adjustment		<u>(206,300)</u>	
Fund balance, beginning as restated		<u>2,769,769</u>	
 Fund balance, ending		 <u><u>\$ 2,578,945</u></u>	



**TOWN OF SPENCER, NORTH CAROLINA**  
**Capital Projects Fund - Park Plaza Municipal Complex Fund**  
**Schedule of Revenues, Expenditures, and**  
**Changes in Fund Balances - Budget and Actual**  
**From Inception and For the Fiscal Year Ended June 30, 2021**

Schedule 2

	Project Authorization	Prior Year	Actual Current Year	Total to Date	Variance Positive (Negative)
<b>REVENUES</b>					
Restricted intergovernmental					
Cannon foundation grant	\$ 75,000	\$ -	\$ 75,000	\$ 75,000	\$ -
Investment earnings	-	-	158	158	158
Total revenues	<u>75,000</u>	<u>-</u>	<u>75,158</u>	<u>75,158</u>	<u>158</u>
<b>EXPENDITURES</b>					
General government					
Capital outlay	3,029,176	-	597,092	597,092	2,432,084
Other operating expenditures	30,000	-	8,760	8,760	21,240
Total expenditures	<u>3,059,176</u>	<u>-</u>	<u>605,852</u>	<u>605,852</u>	<u>2,453,324</u>
Revenues over (under) expenditures	(2,984,176)	-	(530,694)	(530,694)	2,453,482
<b>OTHER FINANCING SOURCES</b>					
Transfers from other funds					
General fund	157,974	-	100,000	100,000	(57,974)
Installment purchase obligations issued	2,826,202	-	2,820,302	2,820,302	(5,900)
Total other financing sources	<u>2,984,176</u>	<u>-</u>	<u>2,920,302</u>	<u>2,920,302</u>	<u>(63,874)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,389,608</u>	2,389,608	<u>\$ 2,389,608</u>
Fund balance, beginning				-	
Fund balance, ending				<u>\$ 2,389,608</u>	

**TOWN OF SPENCER, NORTH CAROLINA**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**June 30, 2021**

Schedule 3

	Capital Project Fund Yadkin River Trail	Total Nonmajor Governmental Funds
<b>ASSETS</b>		
Cash and cash equivalents	\$ 130,533	\$ 130,533
Total assets	<u>\$ 130,533</u>	<u>\$ 130,533</u>
<b>LIABILITIES AND FUND BALANCES</b>		
Total liabilities	<u>\$ -</u>	<u>\$ -</u>
Fund balances:		
Restricted - yadkin river trail	<u>130,533</u>	<u>130,533</u>
Total fund balances	<u>130,533</u>	<u>130,533</u>
Total liabilities and fund balances	<u>\$ 130,533</u>	<u>\$ 130,533</u>

**TOWN OF SPENCER, NORTH CAROLINA**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2021**

Schedule 4

	Capital Project Fund Yadkin River Trail	Total Nonmajor Governmental Funds
<b>REVENUES</b>		
Restricted intergovernmental	\$ 20,559	\$ 20,559
Total revenues	<u>20,559</u>	<u>20,559</u>
<b>EXPENDITURES</b>		
Land management		
Capital outlay	1,644	1,644
Other operating expenditures	<u>2,640</u>	<u>2,640</u>
Total expenditures	<u>4,284</u>	<u>4,284</u>
Revenues over expenditures	16,275	16,275
<b>OTHER FINANCING SOURCES</b>		
Transfers from other funds	114,258	114,258
Total other financing sources	<u>114,258</u>	<u>114,258</u>
Net change in fund balances	<u>130,533</u>	<u>130,533</u>
Fund balances, beginning	<u>-</u>	<u>-</u>
Fund balances, ending	<u><u>\$ 130,533</u></u>	<u><u>\$ 130,533</u></u>

**TOWN OF SPENCER, NORTH CAROLINA**  
**Capital Projects Fund - Yadkin River Trail Fund**

Schedule 5

**Schedule of Revenues, Expenditures, and  
Changes in Fund Balances - 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 Positive (Negative)
<b>REVENUES</b>					
Restricted intergovernmental					
Yadkin river trail	\$ 20,559	\$ -	\$ 20,559	\$ 20,559	\$ -
Total revenues	<u>20,559</u>	<u>-</u>	<u>20,559</u>	<u>20,559</u>	<u>-</u>
<b>EXPENDITURES</b>					
Land management					
Capital outlay	130,017	-	1,644	1,644	128,373
Other operating expenditures	4,800	-	2,640	2,640	2,160
Total expenditures	<u>134,817</u>	<u>-</u>	<u>4,284</u>	<u>4,284</u>	<u>130,533</u>
Revenues over expenditures	(114,258)	-	16,275	16,275	130,533
<b>OTHER FINANCING SOURCES</b>					
Transfers from other funds					
General fund	114,258	-	114,258	114,258	-
Total other financing sources	<u>114,258</u>	<u>-</u>	<u>114,258</u>	<u>114,258</u>	<u>-</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 130,533</u>	130,533	<u>\$ 130,533</u>
Fund balance, beginning				<u>-</u>	
Fund balance, ending				<u>\$ 130,533</u>	

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## **Other Schedules**

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**TOWN OF SPENCER, NORTH CAROLINA**  
**Schedule of Ad Valorem Taxes Receivable**  
**June 30, 2021**

Schedule 6

<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>
2020-2021	\$ -	\$ 1,635,247	\$ 1,604,935	\$ 30,312
2019-2020	68,086	-	43,971	24,115
2018-2019	35,235	-	21,642	13,593
2017-2018	26,930	-	11,953	14,977
2016-2017	10,321	-	416	9,905
2015-2016	6,986	-	201	6,785
2014-2015	5,925	-	408	5,517
2013-2014	5,168	-	202	4,966
2012-2013	3,605	-	110	3,495
2011-2012	3,050	-	414	2,636
2010-2011	1,759	-	1,759	-
	<u>\$ 167,065</u>	<u>\$ 1,635,247</u>	<u>\$ 1,686,011</u>	<u>116,301</u>

Reconciliation to revenues:

Ad valorem taxes - General Fund	1,672,583
Reconciling items:	
Discounts allowed and releases	13,428
Total collections and credits	<u>1,686,011</u>

**TOWN OF SPENCER, NORTH CAROLINA**  
**Analysis of Current Tax Levy**  
**Town - Wide Levy**  
**June 30, 2021**

Schedule 7

	Town-Wide			Total Levy	
	Property Valuation	Rate	Total Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy					
Property taxed at current rate	\$ 249,611,203	0.6550%	\$ 1,635,867	\$ 1,483,098	\$ 152,769
Discoveries - current and prior years	8,929		58	58	-
Abatements	<u>(104,232)</u>		<u>(678)</u>	<u>(678)</u>	<u>-</u>
Net levy	<u>\$ 249,515,900</u>		1,635,247	1,482,478	152,769
Uncollected taxes at June 30, 2021			<u>30,312</u>	<u>30,312</u>	<u>-</u>
Current year's taxes collected			<u>\$ 1,604,935</u>	<u>\$ 1,452,166</u>	<u>\$ 152,769</u>
Current levy collection percentage			<u>98.15%</u>	<u>97.96%</u>	<u>100.00%</u>

**TOWN OF SPENCER, NORTH CAROLINA**

Schedule 7 (Continued)

**Analysis of Current Tax Levy****Town - Wide Levy****June 30, 2021**Secondary Market Disclosures:

## Assessed valuation:

Assessment ratio 100%

Real property \$ 179,355,356

Personal property 35,330,389

Vehicles 23,323,449

Public service companies 11,506,706

Total assessed valuation 249,515,900

Tax rate per \$100 0.0655

Levy (includes discoveries, releases and abatements) 1,635,247



## TOWN OF SPENCER, NORTH CAROLINA

Schedule 8

**Ten Largest Taxpayers**  
**For the Year Ended June 30, 2021**

Name	Type of Business	Property Value	Tax Levy	Percentage of Total Assessed Valuation
Innospec	Manufacturing	\$ 23,195,941	\$ 151,933	9.30%
Packaging Corp	Manufacturing	10,639,850	69,691	4.26%
Swing Transport, Inc.	Utility	6,028,886	39,489	2.42%
Norfolk Southern	Utility	3,963,583	25,961	1.59%
Compass Realty	Nursing Home	3,446,790	22,576	1.38%
Chroma Color	Manufacturing	3,068,444	20,098	1.23%
Spencer Marketplace Ptrs	Property Management	2,991,884	19,597	1.20%
Duke Energy	Utility	2,654,128	17,385	1.06%
Fennegan & Murphy LLC	Property Mgt.	1,912,558	12,527	0.77%
Piedmont Natural Gas	Property Management	1,832,871	12,005	0.73%
		<u>\$ 59,734,935</u>	<u>\$ 391,262</u>	<u>23.94%</u>

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## **Compliance Section**

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**Independent Auditors' 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 Mayor and Board of Aldermen  
Town of Spencer, North Carolina

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Spencer, North Carolina (the Town) 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 and have issued our report thereon dated July 14, 2022.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Town's internal control over financial reporting (internal control) as a basis for designing 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's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as item 2021-001 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as item 2021-002 to be a significant deficiency.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Town'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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Town's Response to Finding**

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

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town'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, the communication is not suitable for any other purpose.

*RH CPA's, PLLC*

Lexington, North Carolina  
July 14, 2022

**TOWN OF SPENCER, NORTH CAROLINA**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2021**

Schedule 9

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**SECTION I - SUMMARY OF AUDITOR'S RESULTS**

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**Financial Statements**

Type of auditors' report issued on whether the financial statements audited were prepared in

accordance to GAAP:

Unmodified

Internal control over financial reporting:

Material weaknesses identified?

  X   Yes             No

Significant deficiency(s) identified that are  
not considered to be material weaknesses?

  X   Yes             None reported

Noncompliance material to financial statements noted?

       Yes        X   No

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**SECTION II - FINANCIAL STATEMENT FINDINGS**

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**Material Weakness**

**2021-001**      General Ledger

***Criteria:***

The Board's management is responsible for designing and maintaining internal controls that provide reasonable assurance that transactions are processed according to established procedures.

***Condition:***

The Board is required to maintain a system of controls over the preparation of financial statements in accordance with generally accepted accounting principles (GAAP). The Board's internal controls over GAAP financial reporting should include all closing journal entries necessary to summarize accounting transactions and reflect transactions accurately.

***Effect:***

Numerous audit adjustments were necessary to properly reflect accounting transactions accurately.

***Cause:***

Insufficient monitoring and oversight of the general ledger.

***Recommendation:***

The Board should continue to review their internal control procedure in place to ensure the required general ledger postings are made on a monthly basis and at year end.

***Views of responsible officials and planned corrective actions:***

The Board agrees with this finding and will adhere to the corrective action plan on page 69 of this audit report.

**TOWN OF SPENCER, NORTH CAROLINA**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2021**

Schedule 9  
(Continued)

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**SECTION II - FINANCIAL STATEMENT FINDINGS**

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**Significant Deficiency**

**2021-002**      Segregation of Duties

***Criteria:***

A good system of internal control contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion.

***Condition:***

Due to the limited number of personnel in the accounting department, there are inherent limitations to segregation of duties among Town personnel. Management is aware of this deficiency, but cost-benefit analysis indicates that hiring more personnel to mitigate this issue is not feasible.

***Effect:***

Inadequate segregation of duties could make fraud prevention, detection, and investigation difficult, and could potentially lead to misstated financial statements.

***Cause:***

The cost of hiring additional personnel to adequately address segregation of duties is not something management plans to do.

***Recommendation:***

We encourage management and the Board to continue to closely monitor financial statements for reasonableness and fluctuations from the budget. Additionally, we recommend reviewing internal controls on an ongoing basis to determine any additional controls that may be implemented with limited personnel.

***Views of responsible officials and planned corrective actions:***

The Board agrees with this finding and will adhere to the corrective action plan on page 69 of this audit report.

**TOWN OF SPENCER, NORTH CAROLINA**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2021**

Schedule 9  
(Continued)

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**SECTION III - QUESTIONED COSTS**

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Not applicable

704-633-2231  
spencernc.gov



Post Office Box 45  
Spencer, NC 28159-0045

**TOWN OF SPENCER, NORTH CAROLINA**  
**Corrective Action Plan**  
**Year Ended June 30, 2021**

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**SECTION II - FINANCIAL STATEMENT FINDINGS**

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**Material Weakness**

**2021-001** General ledger

Name of contract person:

Christie Hutchinson, Interim Finance Officer

Corrective action:

The Town is working to hire a new Finance Officer. Additionally, the following steps will be implemented: Complete ledger posting on a timely basis to ensure all accounts are being reported correctly within the appropriate month; budget balances are reviewed monthly to determine needed adjustments; review existing policies to address areas that need improvement; and continue internal training.

Proposed completion date: To begin immediately and continue through June, 2023.

**Significant Deficiency**

**2021-002** Segregation of Duties

Name of contract person:

Christie Hutchinson, Interim Finance Officer

Corrective action:

We agree with the finding as presented; however, we have determined through a cost-benefit analysis that it would not be cost effective or feasible to add the additional personnel to mitigate the inherent limitations to segregation of duties.

Proposed completion date: To begin immediately and continue through June, 2023.

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-Town Manager-



**TOWN OF SPENCER, NORTH CAROLINA**  
**Summary Schedule of Prior Year Audit Findings**  
**Year Ended June 30, 2021**

Schedule 11

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**SECTION II - FINANCIAL STATEMENT FINDINGS**

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<b>Finding</b>		
<b>Number</b>	<b>Description</b>	<b>Status</b>
None reported		