

**TOWN OF SPRUCE PINE  
NORTH CAROLINA**

Audit of the Financial Statements

June 30, 2013

Town Council Members

Phillip Hise, Mayor  
Rocky Buchanan  
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John Boone  
Larry McKinney  
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**FINANCIAL SECTION**

TOWN OF SPRUCE PINE, NORTH CAROLINA  
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June 30, 2013

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## INDEPENDENT AUDITOR'S REPORT

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

### Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Spruce Pine, North Carolina as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. I did not audit the financial statements of the Spruce Pine ABC Board. That statement was audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Spruce Pine ABC Board is based solely on the report of the other auditors. I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Spruce Pine ABC Board were not audited in accordance with Government Auditing Standards.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

### Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented

component units, each major fund, and the aggregate remaining fund information of the Town of Spruce Pine, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows, and the respective budgetary comparison for the General Fund thereof 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 and budgetary comparison information 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I 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*

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Spruce Pine's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, statistical section budgetary schedules, other schedules as well as the accompanying Schedule of Expenditures of Federal and State Awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the *State Single Audit Implementation Act* are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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

In accordance with Government Auditing Standards, we have also issued our report dated January 20, 2014 on our consideration of the Town of Spruce Pine'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 the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control of 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 Spruce Pine's internal control over financial reporting and compliance.



David Wylie, CPA

Spruce Pine, North Carolina  
January 20, 2014

**MANAGEMENT DISCUSSION AND ANALYSIS**

**TOWN OF SPRUCE PINE, NORTH CAROLINA**  
MANAGEMENT DISCUSSION AND ANALYSIS  
JUNE 30, 2013

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As management of the Town of Spruce Pine, we offer readers of the Town of Spruce Pine's financial statements this narrative overview and analysis of the financial activities of the Town of Spruce Pine for the fiscal year ended June 30, 2013. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

**Financial Highlights**

- The assets and deferred outflows of resources of the Town of Spruce Pine's exceeded its liabilities at the close of the fiscal year by \$21,864,485.
- The government's total net position increased by \$5,656,185, primarily due to a sale of assets to the General Fund.
- As of the close of current fiscal year, the Town of Spruce Pine's governmental funds reported combined ending fund balances of \$6,542,084 an increase of \$4,965,248 in comparison with the prior year. Approximately 96.4 percent of this total amount, or \$6,341,971, is available for spending at the government's discretion.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$5,958,151 or 335.2 percent of total general fund expenditures for the fiscal year.
- The Town of Spruce Pine's total debt increased by \$10,046 during the current fiscal year.

**Overview of the Financial Statements**

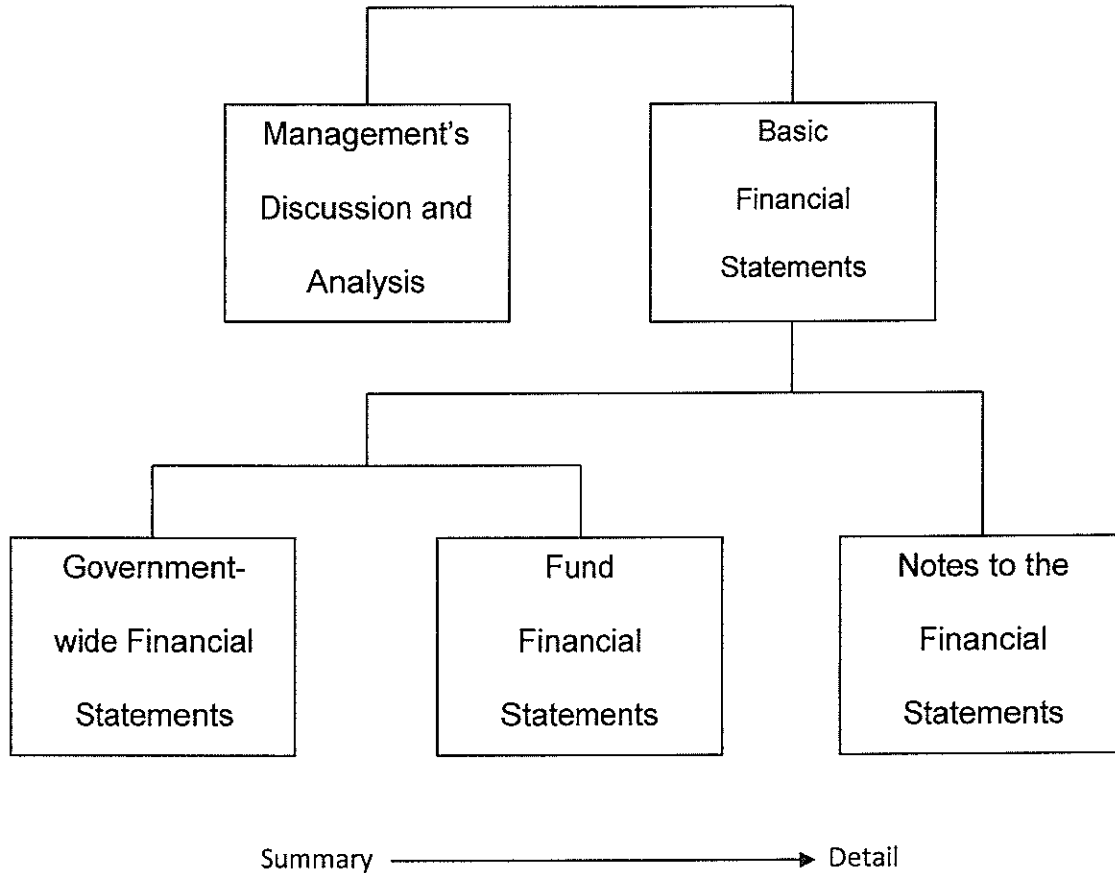
This discussion and analysis are intended to serve as an introduction to Town of Spruce Pine's basic financial statements. The Town's basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (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 Spruce Pine.

**TOWN OF SPRUCE PINE, NORTH CAROLINA**  
MANAGEMENT DISCUSSION AND ANALYSIS  
JUNE 30, 2013

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**Required Components of Annual Financial Report**

**Figure 1**



**Basic Financial Statements**

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

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

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



**TOWN OF SPRUCE PINE, NORTH CAROLINA**  
MANAGEMENT DISCUSSION AND ANALYSIS  
JUNE 30, 2013

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**Government-wide Financial Statements**

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

The government-wide statements are divided into two categories: 1) governmental activities; and 2) business-type activities. The governmental activities include most of the Town's basic service such as public safety, public works and sanitation, and general information. Property taxes and state and federal grant funds finance most of these activities. The business-type activities are those that the Town charges customers to provide. This includes the water and sewer services offered by the Town of Spruce Pine.

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

**Fund Financial Statements**

The fund financial statements 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 Spruce Pine, 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 of the Town's budget ordinance. All of the funds of the Town of Spruce Pine can be divided into two categories: governmental funds and proprietary funds.

**Governmental Funds** – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the Town's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting* that 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 governmental 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 Spruce Pine 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

**TOWN OF SPRUCE PINE, NORTH CAROLINA**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**JUNE 30, 2013**

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

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

**Notes to the Financial Statements** – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 23-40 of this report.

**Government-Wide Financial Analysis**

Town of Spruce Pine's Net Position  
 Figure 2

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 6,784,543	\$ 1,740,661	\$ 96,011	\$ 402,006	\$ 6,868,969	\$ 2,142,667
Capital Assets	1,421,605	1,564,632	15,113,589	13,857,295	16,535,194	15,421,927
Total assets	8,206,148	3,305,293	15,209,600	14,259,301	23,415,748	17,564,594
Current liabilities	129,895	70,574	335,212	99,854	464,539	170,428
Long-term liabilities	69,935	93,215	1,010,391	1,092,651	1,080,326	1,185,866
Total liabilities	199,262	163,789	1,345,603	1,192,505	1,544,865	1,356,294
Deferred inflows of resources	6,398	0	0	0	6,398	0
Net position:						
Net investment in capital assets, net of related debt	1,421,605	1,564,632	13,893,710	12,750,585	15,368,787	14,315,217
Restricted	441,259	-	0	147,625	441,259	147,625
Unrestricted	6,137,624	1,583,576	(29,713)	168,586	6,107,911	1,745,458
Total net position	\$ 8,000,488	\$ 3,141,504	\$ 13,863,997	\$ 13,066,796	\$ 21,864,485	\$ 16,208,300

**TOWN OF SPRUCE PINE, NORTH CAROLINA**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**JUNE 30, 2013**

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets of the Town of Spruce Pine exceeded liabilities and deferred inflows by \$21,864,485 as of June 30, 2013. The Town's net position increased by \$5,656,185 for the fiscal year ended June 30, 2013. However the largest portion (96%) reflects the Town's net investment in capital assets (e.g. machinery, and equipment and construction in progress), less any related debt still outstanding that was issued to acquire those items. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the net capital assets cannot be used to liquidate these liabilities.

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

- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 96.27%, which is comparable to the statewide average of 97.42%.
- Continued effort to control costs and seek additional grant sources.

Town of Spruce Pine  
**Changes in Net Position**  
**Figure 3**

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$ 41,294	\$ 59,607	\$ 1,998,171	\$ 2,017,332	\$ 2,039,465	\$ 2,076,939
Operating grants and contributions	106,223	359,551	-	-	106,223	359,551
Capital grants and contributions	-	-	1,023,289	1,517,275	1,023,289	1,517,275
General revenues:						
Property taxes	884,764	828,614	-	-	884,764	828,614
Other taxes	682,960	301,495	-	-	682,960	301,495
Grants and contributions not restricted to specific programs:						
	12,361	96,866	-	-	12,361	96,866
Other:	5,015,032	14,504	-	-	5,015,032	14,504
<b>Total Revenues</b>	<b>6,742,634</b>	<b>1,660,637</b>	<b>3,021,460</b>	<b>1,987,536</b>	<b>9,764,094</b>	<b>5,195,244</b>
<b>Expenses:</b>						
General government	326,921	315,579	-	-	326,921	315,579
Public safety	892,321	867,112	-	-	892,321	867,112
Transportation	183,955	196,117	-	-	183,955	196,117
Economic and physical development	124,090	79,828	-	-	124,090	79,828
Cultural and recreation	270,506	300,196	-	-	270,506	300,196
Environmental protection	68,846	64,447	-	-	68,846	64,447
Cemetery	17,011	17,302	-	-	17,011	17,302
Interest on long-term debt	-	-	-	-	-	-
Water and sewer	-	-	2,224,259	2,104,023	2,224,259	2,104,026
<b>Total Expenses</b>	<b>1,883,650</b>	<b>1,840,581</b>	<b>2,224,259</b>	<b>2,101,026</b>	<b>4,107,909</b>	<b>3,944,607</b>
Increase (decrease) in net position before transfers	-	-	-	(168,468)	-	-
Transfers in (out)	-	-	-	-	-	-
Increase (decrease) in net position	4,858,984	(179,944)	797,201	1,430,581	5,656,185	1,250,637
Net position, July 1	3,141,504	3,321,448	13,066,796	11,636,215	16,208,300	14,957,663
<b>Net position, June 30</b>	<b>\$ 8,000,488</b>	<b>\$ 3,141,504</b>	<b>\$ 13,863,997</b>	<b>\$ 13,066,796</b>	<b>\$ 21,864,485</b>	<b>\$ 16,208,300</b>

**TOWN OF SPRUCE PINE, NORTH CAROLINA**  
MANAGEMENT DISCUSSION AND ANALYSIS  
JUNE 30, 2013

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**Governmental activities:** Governmental activities increased the Town's net position by \$4,858,984. Key elements of this decrease are as follows:

- Gain on the sale of assets for \$5,005,938.

**Business-type activities.** Business-type activities increased the Town of Spruce Pine's net position by \$797,201, accounting for all the decreases in total net position. Key elements of this decrease are as follows:

- The Town expenses for water and sewer exceeded the revenues.

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

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

**Governmental Funds.** The focus of the Town of Spruce Pine'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 Spruce Pine's financing requirements.

The General Fund is the chief operating fund of the Town of Spruce Pine. At the end of the current fiscal year, fund balance available of the General Fund was \$5,958,151, while total fund balance reached \$6,542,084. The town has an available fund balance of 335.2% of the general fund expenditures, while total fund balance represents 381.7% of the same amount.

At June 30, 2013, the governmental funds of the Town of Spruce Pine reported a combined fund balance of \$6,542,084, and 415 percent increase over last year.

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

Overall, revenues increased by \$5,081,997 and expenditures increased by \$28,411.

**Proprietary Funds.** The Town's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the Water and Sewer Fund at the end of the fiscal year amounted to (\$29,713).

**TOWN OF SPRUCE PINE, NORTH CAROLINA**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**JUNE 30, 2013**

**Capital Asset and Debt Administration**

**Capital assets.** The Town's investment in capital assets for its governmental and business-type activities as of June 30, 2013, totals \$16,535,194 (net accumulated depreciation). These assets include buildings, infrastructure, land, machinery and equipment, vehicles, and water and sewer systems.

Major capital asset transactions during the year include the following disposal of the Town watershed:

- Disposal of the Town watershed for \$47,000.

Town of Spruce Pine  
 Capital Assets, net of depreciation  
 Figure 4

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Land	\$ 496,641	\$ 496,641	\$ 48,845	\$ 95,845	\$ 545,486	\$ 592,486
Buildings/Improvements	222,630	233,413	-	-	222,630	233,413
Recreation park	399,707	401,857	-	-	399,707	401,857
Equipment	48,983	50,075	87,151	112,415	136,138	162,519
Vehicles	81,930	101,433	-	-	81,930	101,433
Infrastructure	171,714	254,186	-	-	171,710	254,186
Water and sewer systems	-	-	13,112,573	13,475,516	13,112,573	13,475,516
Construction in progress	-	-	1,865,020	159,458	1,865,020	159,458
<b>Total</b>	<b>\$ 1,421,605</b>	<b>\$ 1,537,605</b>	<b>\$ 15,113,589</b>	<b>\$ 13,843,234</b>	<b>\$ 16,535,190</b>	<b>\$ 15,407,868</b>

Additional information regarding the Town's capital assets can be found in Note 2.A.4 of the Basic Financial Statements.

**Long-term Debt.** As of June 30, 2013, the Town of Spruce Pine had total debt outstanding of \$1,219,879. Of this, \$572,395 was for water and sewer bonds. Total general obligation payments during the year in the amount of \$647,484. This payment amount will vary slightly until the year 2018.

**TOWN OF SPRUCE PINE, NORTH CAROLINA**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**JUNE 30, 2013**

Town of Spruce Pine  
 Installment Contracts and General Obligation Bonds  
 Figure 5

	Governmental Activities		Business-type activities		Total	
	2013	2012	2013	2012	2013	2012
Installment contracts	\$ -	\$ 14,814	\$ 647,484	\$ 314,313	\$ 647,484	\$ 329,127
General obligation bonds	-	-	572,395	763,524	572,395	763,524
<b>Total</b>	<b>\$ -</b>	<b>\$ 14,814</b>	<b>\$ 1,219,879</b>	<b>\$ 1,077,837</b>	<b>\$ 1,219,879</b>	<b>\$ 1,092,651</b>

North Carolina General Statutes limit the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for the Town of Spruce Pine is \$16,843,247.

Additional information regarding the Town's long-term debt can be found in Note 2.B.4 of the Basic Financial Statements.

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

The Town's economy has remained steady for the past year and should remain that way for at least one more year. Revenue estimates for the next year's budget are projected at current fiscal year levels. Water and sewer usages also remain stagnant due to a slow increase in jobs as well as conservation by commercial and residential consumers.

Real estate and personal property rates remain at 40 cents per hundred. Water and sewer rates were increased by 2.7% overall to cover anticipated operating expense increase.

**Budget Highlights for the Fiscal Year Ending June 30, 2014**

*Governmental Activities:* The property tax rate for the Town of Spruce Pine remains at \$.40 per \$100 valuation. Operating costs increased due to a 2.25% wage increase and the associated fringes along with \$275,000 set aside to support Spruce Pine Main Street Central Park project. Other capital projects were funded in a concentrated effort by the town to use undesignated fund balance for long term capital needs.

The main revenue sources for the General Fund are: 1) Property and vehicle taxes (40.4%), 2) Other taxes including sales and use tax (31.7%), and 3) Other revenue sources (7.9%). These three sources reflect 80.0% of total General Revenue Sources. The town has budgeted to use \$433,393 of fund balance to meet expenditure obligations.

**TOWN OF SPRUCE PINE, NORTH CAROLINA**  
MANAGEMENT DISCUSSION AND ANALYSIS  
JUNE 30, 2013

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*Business – type Activities:* The Total Water and Sewer Fund budget for the Town of Spruce Pine is \$2,066,780. This is a 1.5 % increase over the previous year due to an increase in our contract with American Water.

**GOVERNMENT-WIDE  
FINANCIAL STATEMENTS**



TOWN OF SPRUCE PINE, NORTH CAROLINA  
STATEMENT OF NET POSITION  
June 30, 2013

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	<u>Town of Spruce Pine ABC Board</u>
<b>ASSETS</b>				
Current assets:				
Cash and equivalents	\$ 6,294,958	\$ 45,549	\$ 6,340,507	32,259
Taxes receivables, net	67,833	-	67,833	-
Accounts receivables, net	39,333	295,634	334,967	-
Due (to) from other funds	256,757	(256,757)	-	-
Notes receivable, net	82,527	-	82,527	-
Inventories	466	-	466	133,133
Prepaid items	24,732	-	24,732	-
Restricted cash and cash equivalents	17,937	-	17,937	-
Total current assets	<u>6,784,543</u>	<u>84,426</u>	<u>6,868,969</u>	<u>165,392</u>
Other assets:				
Bond issue costs, net	-	11,585	11,585	-
Non-current assets:				
Capital asset (Note 1):				
Land, improvements, and construction in progress	496,641	1,913,866	2,410,507	-
Other capital assets, net of depreciation	924,964	13,199,723	14,124,687	55,828
Total capital assets	<u>1,421,605</u>	<u>15,113,589</u>	<u>16,535,194</u>	<u>55,828</u>
Other post-employment benefits asset	-	-	-	-
Total non-current assets	<u>1,421,605</u>	<u>15,125,174</u>	<u>16,535,194</u>	<u>55,828</u>
Total assets	<u>\$ 8,206,148</u>	<u>\$ 15,209,600</u>	<u>\$ 23,415,748</u>	<u>\$ 221,220</u>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable and accrued expenses	\$ 89,338	\$ 84,699	\$ 174,037	\$ 30,047
Customer deposits	-	41,025	41,025	-
Bonds, capital leases and contracts	-	209,488	209,488	114,266
Compensated absences	39,989	-	39,989	-
Total current liabilities	<u>129,327</u>	<u>335,212</u>	<u>464,539</u>	<u>144,313</u>
Long-term liabilities:				
Note payable	-	373,004	373,004	-
Bonds, capital leases and contracts	-	637,387	637,387	-
Net pension obligation	41,490	-	41,490	-
Compensated absences	28,445	-	28,445	-
Total long-term liabilities	<u>69,935</u>	<u>1,010,391</u>	<u>1,080,326</u>	<u>-</u>
Total liabilities	<u>199,262</u>	<u>1,345,603</u>	<u>1,544,865</u>	<u>144,313</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Prepaid taxes	6,398	-	6,398	-
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>NET POSITION</b>				
Net investment in capital assets	1,421,605	13,893,710	15,315,315	55,828
Restricted for:				
Stabilization by state statute	415,135	-	415,135	-
Other functions	26,124	-	26,124	-
Unrestricted	6,137,624	(29,713)	6,107,911	21,079
Total net position	<u>\$ 8,000,488</u>	<u>\$ 13,863,997</u>	<u>\$ 21,864,485</u>	<u>\$ 76,907</u>

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

TOWN OF SPRUCE PINE NORTH CAROLINA  
STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2013

Functions/Programs	Net (Expense) Revenue and Changes in Net Position					
	Program Revenue			Primary Government		
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary government						Town of Spruce Pine ABC Board
Governmental activities						
General Government	\$ 326,921	\$ -	\$ -	\$ (326,921)	\$ -	\$ -
Public Safety	892,321	1,777	-	(882,049)	-	(882,049)
Transportation	183,955	-	8,495	(100,420)	-	(100,420)
Economic and physical development	124,090	13,184	-	(110,906)	-	(110,906)
Culture and Recreation	270,506	26,333	-	(244,173)	-	(244,173)
Environmental protection	68,846	-	-	(68,846)	-	(68,846)
Cemetery	17,011	-	14,193	(2,818)	-	(2,818)
Total governmental activities	1,883,650	41,294	106,223	(1,736,133)	-	(1,736,133)
Business-type activities:						
Water and sewer	2,224,259	1,998,171	-	-	797,201	797,201
Total business-type activities	2,224,259	1,998,171	1,023,289	-	797,201	797,201
Total primary government	\$ 4,107,909	\$ 2,039,465	\$ 1,023,289	\$ (1,736,133)	\$ 797,201	\$ (938,933)
Component Units						
Town of Spruce Pine ABC Board	1,120,464	1,139,045	-	-	-	18,581
Total component units	\$ 1,120,464	\$ 1,139,045	\$ -	\$ -	\$ -	\$ 18,581
General revenues:						
Taxes						
Property taxes, levied for general purposes				\$ 884,764	\$ -	\$ 884,764
Other taxes				682,960	-	682,960
Grants and contributions not restricted to specific programs				12,361	-	12,361
Unrestricted investment earnings				1,938	-	1,938
Miscellaneous				7,156	-	7,156
Special item - gain on sale of asset				5,005,938	-	5,005,938
Total general revenues, special items, and transfers				6,595,117	-	6,595,117
Change in net position				4,856,984	797,201	5,656,185
Prior period adjustment				-	-	-
Net position - beginning				3,141,504	13,066,796	16,208,300
Net position - ending				\$ 8,000,488	\$ 13,863,997	\$ 21,864,485

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

**FUND FINANCIAL  
STATEMENTS**

TOWN OF SPRUCE PINE, NORTH CAROLINA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2013

	Major Funds	
	General Fund	Total Governmental Funds
<b>ASSETS</b>		
Cash and cash equivalents	\$ 6,312,895	\$ 6,312,895
Receivables, net		
Taxes	67,833	67,833
Due from (to) other funds	256,757	256,757
Accounts	39,333	39,333
Notes receivable	82,527	82,527
Inventories	466	466
Prepaid expenses	24,732	24,732
Total assets	<u>6,784,543</u>	<u>6,784,543</u>
<b>LIABILITIES DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>		
Liabilities:		
Accounts payable	Total liabilities 89,338	89,338
Deferred inflow of resources:		
	153,121	153,121
	<u>242,459</u>	<u>242,459</u>
Fund balances:		
Non Spendable		
Inventories	466	466
Restricted		
Stabilization by State statute	415,135	415,135
Streets - Powell Bill	17,937	17,937
Police Equitable Sharing	8,187	8,187
Assigned		
Subsequent year's expenditures	88,736	88,736
Unassigned	6,011,623	6,011,623
Total fund balances	<u>6,542,084</u>	<u>6,542,084</u>
Total liabilities and fund balances	<u>\$ 6,784,543</u>	<u>\$ 6,784,543</u>

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

TOWN OF SPRUCE PINE, NORTH CAROLINA  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION  
GOVERNMENTAL FUNDS  
June 30, 2013

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Total fund balance, governmental funds \$ 6,542,084

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets. 1,475,077

Certain other long-term assets are not available to pay current period expenditures and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position. 39,989

Some liabilities, (such as Notes Payable, Capital Lease Contract Payable, Long-term Compensated Absences, and Bonds Payable), are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Position. (56,662)

Net Position of Governmental Activities in the Statement of Net Assets \$ 8,000,488

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

TOWN OF SPRUCE PINE, NORTH CAROLINA  
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
 GOVERNMENTAL FUNDS  
 June 30, 2013

	Major Funds	
	General Fund	Total Governmental Funds
<b>REVENUES</b>		
Ad valorem taxes	\$ 884,764	\$ 884,764
Other taxes and licenses	304,431	304,431
Unrestricted intergovernmental	390,831	390,831
Restricted intergovernmental	83,535	83,535
Permits and fees	60	60
Charges for services	26,333	26,333
Investment earnings	1,938	1,938
Miscellaneous	44,805	44,805
Total revenues	<u>1,736,697</u>	<u>1,736,697</u>
<b>EXPENDITURES</b>		
Current		
General government	294,175	294,175
Public Safety	847,280	847,280
Transportation	127,190	127,190
Economic and physical development	116,783	116,783
Environmental protection	68,846	68,846
Culture and recreational	227,007	227,007
Cemetary	17,011	17,011
Debt Service:		
Principal	4,416	4,416
Interest and other charges	357	357
Capital Outlay	74,322	74,322
Total expenditures	<u>1,777,387</u>	<u>1,777,387</u>
Excess (deficiency) of revenues over expenditures	<u>(40,690)</u>	<u>(40,690)</u>
<b>OTHER FINANCING SOURCES(USES)</b>		
Sales of capital assets	5,005,938	5,005,938
Proceeds from long-term debt, net	-	-
Total other financing sources and uses	<u>-</u>	<u>-</u>
Net change in fund balances	4,965,248	4,965,248
Fund balances-beginning	1,576,836	1,576,836
Fund balances - ending	<u>\$ 6,542,084</u>	<u>\$ 6,542,084</u>

(continued)

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

TOWN OF SPRUCE PINE, NORTH CAROLINA  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION  
GOVERNMENTAL FUNDS  
June 30, 2013

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Net change in fund balances - total governmental funds: \$ 4,965,248

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period.

This is the amount by which capital outlays (\$74,322) was not exceeded by depreciation (\$149,309) in the current period. (74,987)

Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned.

Change in unavailable revenue for property taxes 55,341

Governmental funds report bond proceeds as current financial resources. In contrast, the Statement of Activities treats such issuance of debt as a liability. Governmental funds report repayment of bond principal as an expenditure. In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities. This is the amount by which repayments exceeded proceeds. (104,183)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds:

Current pension costs 25,146  
Compensated absences (7,581)

Total changes in net position of governmental activities \$ 4,858,984

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

TOWN OF SPRUCE PINE, NORTH CAROLINA  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE --BUDGET AND ACTUAL  
For the year ended June 30, 2013

	General Fund			Variance with Final Budget- Positive (Negative)
	Budgeted Amounts		Actual Amounts	
	Original	Final		
<b>REVENUES</b>				
Ad valorem taxes	\$ 849,000	\$ 849,941	\$ 884,764	\$ 34,823
Other taxes and licenses	700,000	310,840	304,431	(6,409)
Unrestricted intergovernmental	9,000	396,211	390,831	(5,380)
Restricted intergovernmental	89,000	89,003	83,535	(5,468)
Permits and fees	6,000	5,827	60	(5,767)
Charges for services	40,000	40,128	26,333	(13,795)
Investment earnings	2,000	2,036	1,938	(98)
Miscellaneous	40,000	41,164	44,805	3,641
Total revenues	<u>1,735,000</u>	<u>1,735,150</u>	<u>1,736,697</u>	<u>1,547</u>
<b>EXPENDITURES</b>				
Current:				
General government	175,000	277,424	294,175	(16,751)
Public Safety	850,000	867,813	847,280	20,533
Transportation	360,000	272,287	127,190	145,097
Economic and physical development	75,000	109,928	116,783	(6,855)
Environmental protection	52,000	69,260	68,846	414
Culture and recreation	200,000	249,128	227,007	22,121
Cementary	18,100	18,776	17,011	1,765
Debt Service:				-
Principal	4,500	4,500	4,416	84
Interest and other charges	400	400	357	43
Capital Outlay	-	74,322	74,322	-
Total expenditures	<u>1,735,000</u>	<u>1,943,838</u>	<u>1,777,387</u>	<u>166,451</u>
Excess(deficiency of revenues over expenditures)	<u>-</u>	<u>(208,688)</u>	<u>(40,690)</u>	<u>167,998</u>
<b>OTHER FINANCING SOURCES(USES)</b>				
Sale of capital assets	-	-	5,005,938	5,005,938
Proceeds from installment contracts	-	-	-	-
Fund balance appropriation	-	208,688	-	(208,688)
Transfers out	-	-	-	-
Transfers in	-	-	-	-
Total other financing sources and uses	<u>-</u>	<u>208,688</u>	<u>5,005,938</u>	<u>4,797,250</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,965,248</u>	<u>\$ 4,965,248</u>
Fund balances-beginning			1,576,836	
Fund balances-ending			<u>\$ 6,542,084</u>	

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



TOWN OF SPRUCE PINE, NORTH CAROLINA  
STATEMENT OF FUND NET POSITION  
PROPRIETARY FUNDS  
June 30, 2013

	<u>Enterprise Funds</u> <u>Water and Sewer</u>
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$ 45,549
Accounts receivable, net	295,634
Due (to) from other funds	(256,757)
Inventories	-
Total current assets	<u>84,426</u>
Non-current assets:	
Bond issue cost, net	<u>11,585</u>
Capital Assets:	
Land and other non-depreciable assets	48,845
Other capital assets, net of depreciation	13,199,723
Construction in progress	1,865,021
Total capital assets, net	<u>15,113,589</u>
Total non-current assets	<u>15,125,174</u>
Total assets	<u><u>15,209,600</u></u>
<b>LIABILITIES</b>	
Current Liabilities:	
Accounts payable	84,699
Customer deposits	41,025
Bonds, notes and loans payable	209,488
Total current liabilities	<u>335,212</u>
Non-current liabilities:	
Note payable	373,004
Bonds, notes and loans payable	637,387
Total non-current liabilities	<u>1,010,391</u>
Total liabilities	<u><u>1,345,603</u></u>
<b>NET POSITION</b>	
Net Invested in capital assets	13,893,710
Restricted for other purposes	
Unrestricted	(29,713)
Total net position	<u><u>\$ 13,863,997</u></u>

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

TOWN OF SPRUCE PINE, NORTH CAROLINA  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION  
PROPRIETARY FUNDS  
For the Year Ended June 30, 2013

	<u>Water and Sewer</u>
<b>OPERATING REVENUES</b>	
Charges for services	\$ 1,986,092
Miscellaneous	12,025
Total operating revenues	1,998,117
<b>OPERATING EXPENSES</b>	
Administration	999,239
Water treatment and distribution	407,229
Wastewater collection and treatment	327,497
Depreciation	447,386
Total operating expenses	2,181,351
Operating income (loss)	(183,234)
<b>NON-OPERATING REVENUES (EXPENSES)</b>	
Interest and investment revenue	54
Interest expense	(40,434)
Bond amortization costs	(2,474)
Total non-operating revenue (expenses)	(42,854)
Income (loss) before contributions and transfers	(226,088)
Capital contributions	1,023,289
Change in net position	797,201
Total net position - beginning	13,066,796
Total net position - ending	\$ 13,863,997

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

TOWN OF SPRUCE PINE, NORTH CAROLINA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
For the Year Ended June 30, 2013

	<u>Water and Sewer Fund</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash received from customers	\$ 1,998,117
Cash paid for goods and services	(1,733,965)
Cash paid to or on behalf of employees for services	-
Customer deposits received	1,655
Customer deposits returned	-
Net cash provided (used) by operating activities	<u>265,807</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Short-term borrowings from other funds	256,757
Repayment of short-term borrowings	-
Total cash flows from noncapital financing activities	<u>256,757</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Acquisition and construction of capital assets	(1,650,011)
Principal paid on bond maturities and equipment contracts	(245,776)
Interest paid on bond maturities and equipment contracts	(40,434)
Capital contributions-federal grant	1,023,289
Loan proceeds	255,822
Net cash provided (used) by capital and related financing activities	<u>(657,110)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest and dividends	54
Net increase (decrease) in cash and cash equivalents	<u>(134,492)</u>
Beginning of the year	180,041
End of the year	<u>\$ 45,549</u>
<b>Reconciliation of operating income to net cash provided by operating activities</b>	
Operating income	(183,234)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	447,386
Changes in assets and liabilities:	
(Increase) decrease in inventory	18,114
(Increase) decrease in accounts receivable	28,965
Increase (decrease) in accounts payable and accrued liabilities	(47,079)
Increase (decrease) in customer deposits	1,655
Total adjustments	<u>449,041</u>
Net cash provided by operating activities	<u>\$ 265,807</u>

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

**NOTES TO THE FINANCIAL STATEMENTS**

**TOWN OF SPRUCE PINE, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2013**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

*Reporting Entity:*

The Town of Spruce Pine is a municipal corporation that is governed by an elected mayor and five-member council. As required by generally accepted accounting principles, these financial statements present the Town and its component unit, a legally separate entity for which the Town is financially accountable. The discretely presented component unit presented below is reported in a separate column in the Town's financial statements in order to emphasize that it is legally separate from the Town.

Town of Spruce Pine ABC Board

The members of the ABC Board's governing board are appointed by the Town. In addition, the ABC Board is required by State statute to distribute its surpluses to the General Fund of the Town. The ABC Board, which has a June 30 year-end, is presented as if it were a proprietary fund (discrete presentation). Complete financial statements for the ABC Board may be obtained from the entity's administrative offices at Spruce Pine ABC Board, 12344 South 226 Highway, Spruce Pine, NC 28777

*Basis of Presentation – Fund Accounting:*

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

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

Fund Financial Statements: The fund financial statements provide information about the

**TOWN OF SPRUCE PINE, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2013**

Town's funds. Separate statements for each fund category - *governmental and proprietary* -  
NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in separate columns. Any other funds would be reported as nonmajor funds, but the Town has no other funds at this time.

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

The Town reports the following major governmental funds:

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

The Town reports the following major enterprise funds:

**Water and Sewer Fund.** This fund is used to account for the Town's water and sewer operations.

*Measurement Focus and Basis of Accounting*

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

*Government-wide and Proprietary Fund Financial Statements.* The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange 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.

*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

**TOWN OF SPRUCE PINE, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2013**

on general long-term debt, claims and judgments, and compensated absences, which are  
NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

The Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable are materially past due and are not considered to be an available resource to finance the operation of the subsequent year.

Also, as of January 1, 1993, State law altered the procedures for assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, Mitchell County is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts in the County, including the Town of Spruce Pine. For motor vehicles registered under the staggered system, property taxes are due the first day of the fourth month after the vehicles are registered. The billed taxes are applicable to the fiscal year in which they become due. Therefore, the Town's vehicle taxes for vehicles registered in Mitchell County from March 2012 through February 2013 apply to the fiscal year ended June 30, 2013. Uncollected taxes that were billed during this period are shown as a receivable in these financial statements and are offset by deferred revenues. Those taxes for vehicles registered from March 1 through the fiscal year-end apply to the 2012-2013 fiscal year and are not shown as receivables at June 30, 2013. For vehicles registered under the annual system, taxes are due on May 1 of each year. For those vehicles registered and billed under the annual system, uncollected taxes are reported as a receivable on the financial statements and are offset by deferred revenues because the due date and the date upon which interest begins to accrue passed prior to June 30. The taxes for vehicles registered annually that have already been collected as of year-end are also reflected as deferred revenues at June 30, 2013 because they are intended to finance the Town's operations during the 2013 fiscal year.

Sales taxes and certain intergovernmental revenues, such as the utilities franchise tax, collected and held by the State at year-end on behalf of the Town are recognized as revenue. Intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. Grant revenues which are unearned at year-end are recorded as unearned 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 are both restricted and unrestricted net assets available to finance the program. It is the Town's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

As permitted by generally accepted accounting principles, the Town has elected to apply only applicable FASB Statements and Interpretations issued on or before November 30, 1989 that do not

**TOWN OF SPRUCE PINE, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2013**

contradict GASB Pronouncements in its accounting and reporting practices for its proprietary operations.

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)**

**Budgetary Data**

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General and Enterprise Fund. All annual appropriations lapse at the fiscal year-end. Project ordinances are adopted for the Enterprise Fund Capital Project Fund. All budgets are prepared using the modified accrual basis of accounting.

Expenditures may not legally exceed appropriations at the departmental level for all annually budgeted funds and at the object level for the multi-year funds. The Finance Officer is authorized by the budget ordinance to transfer appropriations between functional areas within a fund up to \$1,000; however, any revisions that alter total expenditures of any fund or that change functional appropriations by more than \$1,000 must be approved by the governing board. During the year, several immaterial amendments to the original budget were necessary. 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.

**Assets, Liabilities, and Fund Equity**

**1. Deposits and Investments**

All deposits of the Town and the ABC Board are made in board-designated official depositories and are collateralized as required by State law [G.S. 159-31]. The Town and the ABC Board 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 and the ABC Board to invest in obligations of the United States or obligations fully guaranteed both as to the principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government of public authority; obligations of certain nonguaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances; and the North Carolina Capital Management Trust, a SEC-registered mutual fund. Investments are stated at fair value as determined by quoted market prices. The securities of NCCMT – Cash Portfolio, SEC-registered (2a-7) money market mutual fund, are valued at fair value, which is the NCCMT's share price. The NCCMT – Term Portfolio securities are valued at fair value.

**2. Cash and Cash Equivalents**

The Town pools money from several funds to facilitate disbursement and investment and



**TOWN OF SPRUCE PINE, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2013**

to maximize investment income. Therefore, all cash and investments are essentially demand

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)**

deposits and are considered cash and cash equivalents. The ABC Board considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

**3. 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 July 1, the beginning of the fiscal year. The taxes are due on September 1; however, interest does not accrue until the following January 6. These taxes are based on the assessed values as of January 1, 2010.

**4. Allowances for Doubtful Accounts**

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

**5. Inventory**

The inventories of the Town and the ABC Board are valued at cost (first-in, first-out), which approximates market. The Town's General Fund inventory consists of expendable supplies that are recorded as expenditures when purchased. The inventories of the Town's Enterprise Fund and those of the ABC Board consist of materials and supplies held for subsequent use. The cost of these inventories is expensed when consumed rather than purchased.

**6. Capital Assets**

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. Minimum capitalization costs are as follows: all fixed assets \$5,000. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. General infrastructure assets acquired prior to July 1, 2003 have not been recorded under the allowable exemption for Phase III governments in GASB Statement No. 34. 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 SPRUCE PINE, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

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

Asset Class	Estimated Useful Lives (years)
Infrastructure	50
Buildings	50
Improvements	20
Vehicles	3 - 5
Furniture and equipment	5 - 7
Computer equipment	3

Property, plant, and equipment of the ABC Board are depreciated over their useful lives on a straight-line basis as follows.

	Useful Life	Cost	Accumulated Depreciation	Net Amount
Equipment	5-10 yrs.	\$ 70,944	\$ 34,364	\$ 36,580
Leasehold Improvements	10-39 yrs.	<u>23,457</u>	<u>4,209</u>	<u>19,248</u>
Total		<u>\$ 94,401</u>	<u>\$ 38,573</u>	<u>\$ 55,828</u>

7. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Material bond issuance costs are deferred and amortized over the life of the bonds using the straight-line method that approximates the effective interest method. Bonds payable are reported net of the applicable bond premiums or discount. Material issuance costs are reported as deferred charges and amortized over the term of the related debt.

8. Compensated Absences

**TOWN OF SPRUCE PINE, NORTH CAROLINA**  
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**For the Year Ended June 30, 2013**

NOTE 1: The vacation policy of the Town provides for the accumulation of up to thirty (30) days earned vacation leave with such leave being fully vested when earned. For the Town's SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

government-wide and proprietary funds, and expense and liability for compensated absences and the salary-related payments are recorded as the leave is earned. The Town has assumed a first-in, first-out method of using accumulated compensated time. The portion of that time that is estimated to be used in the next fiscal year has been designated as a current liability in the government-wide financial statements.

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

9. Net Assets / Fund Balances

Net Position

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

Fund Balances

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

The governmental fund types classify fund balances as follows:

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

- Inventories – portion of fund balance that is not available for appropriation because it represents the year-end fund balance of ending inventories, which are not expendable resources.

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 – portion of fund balance that is restricted by State Statute [G.S. 159-8(a)]

**TOWN OF SPRUCE PINE, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2013**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)**

Committed Fund Balance – portion of fund balance that can only be used for specific purposes imposed by majority vote by quorum of the Town of Spruce Pine governing body (highest level of decision making authority). Any changes or removal of specific purpose requires majority action by the governing body.

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

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

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

**NOTE 2: DETAIL NOTES ON ALL FUNDS**

**A. Assets**

**1. Deposits**

All the deposits of the Town and the ABC Board are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the Town's or the ABC Board's agent in the unit's name. Under the Pooling Method, which is collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer acting in a fiduciary capacity for the Town and the ABC Board, these deposits are considered to be held by the Town's agent in its name. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Town or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Town under the Pooling Method, the potential exists for undercollateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Town has no policy regarding custodial credit risk for deposits.

At June 30, 2013, the Town's deposits had a carrying amount of \$6,358,444 and a bank balance of \$6,365,485. Of the bank balance, \$500,000 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method. At June 30, 2013 the Town's petty cash funds totaled \$300. At June 30, 2013 the ABC Board's deposits had a carrying amount of \$32,259 and a bank balance of \$59,301. All of the bank balance was covered by federal depository insurance.

**TOWN OF SPRUCE PINE, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2013**

NOTE 2:      DETAIL NOTES ON ALL FUNDS (cont.)

2.   Receivables – Allowances for Doubtful Accounts

The amounts presented in the Balance Sheet and the Statement of Net Position are net of the following allowances for doubtful accounts:

General fund		
Taxes Receivable	\$ 46,765	
Vehicle Taxes Receivable	21,068	
Enterprise fund	<u>          -</u>	
Total	\$ 67,833	

3.   Capital Assets

    Primary Government

    Capital asset activity for the Primary Government for the year ended June 30, 2013 as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
<b>Capital assets not being depreciated:</b>				
Land	496,641	-	-	496,641
Construction in progress	-	-	-	-
Total capital assets not being depreciated	<u>496,641</u>	<u>-</u>	<u>-</u>	<u>496,641</u>
<b>Capital assets being depreciated:</b>				
Buildings	179,307	-	-	179,307
Building improvements	339,858	-	-	339,858
Equipment	530,850	5,312	-	536,162
Recreation park	757,632	-	-	757,632
Furniture and maintenance equipment	21,030	-	-	21,030
Vehicles	461,746	28,000	-	489,746
Infrastructure	599,942	-	-	599,942
Total capital assets being depreciated	<u>2,890,365</u>	<u>33,312</u>	<u>-</u>	<u>2,923,677</u>
<b>Less accumulated depreciation for:</b>				
Buildings	167,007	-	-	167,007

**TOWN OF SPRUCE PINE, NORTH CAROLINA**  
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**For the Year Ended June 30, 2013**

Building improvements	118,745	10,783	-	129,528
Equipment	480,775	6,404	-	487,179
Recreation park	355,775	2,150	-	357,925
Furniture and maintenance equipment	21,030		-	21,030
Vehicles	360,313	47,503	-	407,816
Infrastructure	345,756	82,472	-	428,228
Total accumulated depreciation	<u>1,849,401</u>	<u>149,309</u>	-	<u>1,998,713</u>
Total capital assets being depreciated, net	<u>1,040,964</u>			<u>924,964</u>
<b>Governmental activity capital assets, net</b>	<u><u>1,537,605</u></u>			<u><u>1,421,605</u></u>

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

General government	\$ 29,863
Public safety	28,109
Transportation	39,714
Economic development	7,307
Culture and recreation	<u>44,316</u>
Total depreciation expense	<u>\$149,309</u>

A. Assets (cont.)

1. Capital Assets (cont.)

	Beginning Balances	Increases	Decreases	Ending Balances
<b>Water and Sewer Fund</b>				
<b>Capital assets not being depreciated:</b>				
Land	95,845	-	47,000	48,845
Construction in progress	159,458	1,705,562	-	1,865,020
Total capital assets not being depreciated	<u>255,303</u>	<u>1,705,562</u>	<u>47,000</u>	<u>1,913,865</u>
<b>Capital assets being depreciated:</b>				
Water and sewer systems	19,765,344	59,180	-	19,824,524
Water meters	280,541	-	-	280,541
Equipment	<u>343,479</u>	-	-	<u>343,479</u>
Total capital assets being depreciated	<u>20,389,490</u>	-	-	<u>20,448,544</u>
<b>Less accumulated depreciation for:</b>				

**TOWN OF SPRUCE PINE, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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Water and sewer systems	6,384,247	412,664	-	6,796,911
Water meters	186,248	9,458	-	195,581
Equipment	231,064	25,264	-	256,328
	<hr/>			
Total accumulated depreciation	<u>6,801,559</u>	<u>447,386</u>		<u>7,248,820</u>
Total capital assets being depreciated, net	<u>13,587,931</u>			<u>13,199,724</u>
<b>Business-type capital assets, net</b>	<u><u>13,843,234</u></u>			<u><u>15,113,589</u></u>

**B. Liabilities**

**1. Pension Plan and Postemployment Obligations**

**a. Local Government Employees' Retirement System**

*Plan Description.* The Town of Spruce Pine contributes to 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 provides retirement and disability benefits to plan members and beneficiaries. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Local Government Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 3512 Bush Street, Raleigh, North Carolina 27609, or by calling (919) 981-5454.

*Funding Policy.* Plan members are required to contribute six percent of their annual covered salary. The Town is required to contribute at an actuarially determined rate. For the Town, the current rate for employees not engaged in law enforcement and for law enforcement officers is 7.17% and 7.05%, respectively of annual covered payroll. The contribution requirements of members and of the Town of Spruce Pine are established and may be amended by the North Carolina General Assembly. The Town's contributions to LGERS for the years ended June 30, 2013, 2012, and 2011 were \$54,127, \$56,315, \$52,074 respectively. The contributions made by the Town equaled the required contributions for each year.

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

*Plan Description*

The Town of Spruce Pine 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. The Separation Allowance is equal to .85 percent of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of credible service. The retirement benefits are not subject to any increases in salary or retirement allowance that may be authorized by the General Assembly. Article 12D of

**TOWN OF SPRUCE PINE, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2013**

NOTE 2:      DETAIL NOTES ON ALL FUNDS (cont.)

G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

All full-time law enforcement officers of the Town are covered by the Separation Allowance. At December 31, 2013, the Separation Allowance's membership consisted of:

Retirees receiving benefits	1
Terminated plan members entitled to but not yet receiving benefits	0
Active plan members	10
Total	11

A separate report was not issued for the plan.

**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.

**Method Used to Value Investments.** No funds are set aside to pay benefits and administration costs. These expenses are paid as they come due.

**Contributions:**

The town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to pay benefits and administration costs on a pay as you go basis. For the current year, the Town paid benefits of \$15,387. The town's obligation to make these payments was established and may be amended by the North Carolina General Assembly. There were no contributions made by employees.

**B. Liabilities**

1. Pension Plan Obligations
  - a. Law Enforcement Officers Special Separation Allowance

The annual required contribution for the current year was determined as part of the December 31, 2010 actuarial valuation using the projected unit credit actuarial cost method. The actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 5.00% investment rate of return (net of administrative expenses) and (b) projected salary increases of 4.5% to 7.85% per year. Both (a) and (b) included an inflation component of 3.00%. The assumptions did not include post-employment benefit increases. The actuarial value of assets was market value. The unfunded actuarial accrued liability is being amortized as a level percentage of pay on a closed basis. The remaining amortization period at December 31, 2010 was 20 years.



**TOWN OF SPRUCE PINE, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2013**

NOTE 2:      DETAIL NOTES ON ALL FUNDS (cont.)

Annual Pension Cost and Net Pension Obligation.

The Town's annual pension cost and net pension obligation to the Separation Allowance for the current year were as follows:

**Annual Pension Cost and Net Pension Obligation for Fiscal Year Ending June 30, 2013**

Employer annual required contribution	\$ 15,802
Interest on net pension obligation	1,695
Adjustment to annual required contribution	<u>(2,110)</u>
Annual pension cost	15,387
Employer contributions made for fiscal year ending 06/30/13	<u>7,806</u>
Increase (decrease) in net pension obligation	7,581
Net pension obligation beginning of fiscal year	<u>33,909</u>
Net pension obligation end of fiscal year	\$ 41,490

**Three Year Trend  
Information**

	Annual Pension Cost	Percentage of APC	Net Pension Obligation
Fiscal Year Ending	(APC)	Contributed	End of Year
06/30/11	16,753	81.98%	27,205
06/30/12	14,510	53.80%	33,909
06/30/13	15,387	50.73%	41,490

c.      Supplemental Retirement Income Plan for Law Enforcement Officers

Plan Description.

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

1.      Pension Plan Obligations      •

Funding Policy.

Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2013 were \$18,040 that consisted of \$18,040 from the Town and none from the law enforcement officers.

**TOWN OF SPRUCE PINE, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2013**

NOTE 2:      DETAIL NOTES ON ALL FUNDS (cont.)

b. Other Postemployment Benefits (OPEB)

At retirement, all employees have the option to purchase basic medical insurance at the Town's retirees group rate. The entire cost of this insurance is borne by the employees, thus no additional reporting is required under Governmental Accounting Standards Board Statement No. 45.

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. All death benefit payments are made from the Death Benefit Plan. 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. The Town considers these contributions to be immaterial.

Deferred Outflows and Inflows of Resources

The balance in deferred outflows and inflows of resources at year-end is composed of the following elements:

	Unavailable Revenue	Unearned Revenue
Prepaid taxes (General Fund)	\$ 6,398	\$ -
Reserve for tax and notes	146,723	
Total	\$153,121	\$ -

3.      Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town is a participant in three self-funded risk financing pools administered by the North Carolina League of Municipalities. Through these pools the Town obtains general liability and auto liability coverage of \$2 million per occurrence, property coverage up to \$20 million per occurrence, worker's compensation coverage of up to statutory limits, and employee health coverage up to a \$1 million lifetime limit.

**TOWN OF SPRUCE PINE, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2013**

**NOTE 2:      DETAIL NOTES ON ALL FUNDS (cont.)**

The pools are reinsured through commercial companies for single occurrence claims against general liability and auto liability in excess of \$300,000, \$500,000 for property, and \$250,000 up to 5 million in worker's compensation. The pools are reinsured for annual employee health claims in excess of \$150,000. The property liability pool has an aggregate limit for the total property losses in a single year, with reinsurance limit based upon a percentage of the total insurance values.

The Town carries commercial insurance for all other risks of loss. There have been no significant reductions in insurance coverage in the prior year, and settled claims have not exceeded commercial insurance coverage in any of the past three fiscal years.

The Town does not carry flood insurance.

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 and tax collector are each individually bonded for \$50,000 and \$25,000, respectively.

**4. Long-Term Obligations**

**a.      Installment Purchase**

In July 2007, the Town entered into an installment note contract to finance the construction of a utility building and belt press. Interest rate on the loan is 3.99%. In September 2010, the Town purchased a truck on an installment note. The loan was for five years at 2.75% interest.

Annual debt service payments of the installment purchases as of June 30, 2013, including \$28,100 of interest are as follows:

<u>Year Ending June 30</u>	<u>Government Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2014	\$ 56,850	\$ 10,390
2015	59,141	8,099
2016	61,524	5,716
2017	64,003	3,236
2018	32,962	657
<b>Total</b>	<b>\$ 274,480</b>	<b>\$ 28,098</b>

**b.      General Obligation Indebtedness**

In May 2003, Spruce Pine completed a current refunding bond issuance to refinance the outstanding water and sewer bonds at that time. All bond proceeds went to paying off the outstanding bonds, and the Town received no additional moneys from this issuance. All general obligation bonds are collateralized by the faith, credit, and taxing power of the Town. Principal and interest requirements are appropriated when due.

**TOWN OF SPRUCE PINE, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2013**

NOTE 2:       DETAIL NOTES ON ALL FUNDS (cont.)

Bonds payable at June 30, 2013 are comprised of the following issues:

2003 water and sewer refunding bond due in annual installments ranging from \$109,966 to \$123,512 through May 2018; varying interest rates between 3.67% and 4.44%. Annual debt service payment of obligation bonds as of June 30, 2013, including interest \$635,730.

At June 30, 2013 the Town of Spruce Pine had a legal debt margin of \$16,843,247.

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending June 30, 2013	Principal	Interest	Total
2014	\$105,789	\$ 21,357	\$127,146
2015	109,966	17,180	127,146
2016	114,308	12,838	127,146
2017	118,821	8,325	127,146
2018	123,512	3,634	127,146
Total	<u>\$ 572,396</u>	<u>\$ 63,334</u>	<u>\$ 635,730</u>

B. Liabilities (cont.)

5. Long-Term Obligations

c. Changes in Long-Term Liabilities

	Balance June 30, 2012	Increases	Decreases	Balance June 30, 2013	Current Portion of Balance
Governmental activities:					
Compensated absences	\$ 59,305	\$ 9,129	\$ -	\$ 68,434	\$ 39,989
Net pension obligation	33,909	7,581	-	41,490	0
Governmental long-term liabilities	<u>93,214</u>	<u>16,710</u>	<u>-</u>	<u>109,924</u>	<u>39,989</u>
Business-type activities:					
Note payable	117,182	255,822	-	373,004	-
General obligation bonds	763,524	-	191,129	572,395	152,639
Installment note	329,127	-	54,647	274,480	56,849
Business-type long-term liabilities	<u>\$ 1,209,833</u>	<u>\$ 255,822</u>	<u>\$ 245,776</u>	<u>\$ 1,219,879</u>	<u>\$ 209,488</u>

C. Interfund Receivables and Payables

The composition of interfund balances as of June 30, 2013 are as follows:

\$47,000 Interfund balances between Governmental – General Fund and Enterprise – Water & Sewer Fund

**TOWN OF SPRUCE PINE, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2013**

**NOTE 2:      DETAIL NOTES ON ALL FUNDS (cont.)**

**D. Fund Balance**

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

Total fund balances- General Fund	\$6,542,084
Less:	
Inventories	466
Stabilization by State statute	31,315
Streets - Powell Bill	17,937
Police Equitable Sharing	8,187
Subsequent year's expenditures	88,736
Remaining Fund Balance	<u>\$6,395,443</u>

**NOTE 3:      URBAN DEVELOPMENT ACTION GRANT**

In 1979, the Town was awarded an Urban Development Action Grant (UDAG) for \$600,000. The grant provisions required the total grant proceeds to be turned directly over to Henredon, Inc. for plant expansion in Spruce Pine. Henredon, Inc. was required to repay the grant proceeds back to the Town in ten annual payments of \$60,000 plus 10% interest on the unpaid principal. The last payment was received in 1991. Upon the repayment of the grant proceeds, the Town could use the funds as needed.

During 1988, the Town established a revolving loan fund of \$150,000, using UDAG funds repaid. The loans of up to \$15,000 are made to qualifying individuals for the purpose of economic development and downtown revitalization. The loan bears interest at 5%, with repayment terms extending twelve years. During the current year no loan applications were received or approved. For the year ended June 30, 2012, repayments of \$19,724 were received on a total of twelve outstanding loans, bringing the principle balance to \$53,761.

During 1990, the Town established a permanent loan fund, committing \$150,000, UDGA funds, for making loans to private individuals and profit making organizations for commercial and industrial rehabilitation within the Town of Spruce Pine. The loan bears interest at 6%, with repayment terms extending five years. During the current year no loan applications were received or approved.

**NOTE 4:      JOINT VENTURES**

The Town participates in a joint venture to operate a regional library with three other local governments: the counties of Avery, Mitchell and Yancey. The twelve member board is appointed equally from among the counties with four being chosen by the counties of Avery and Yancey and two each from the county of Mitchell and the Town of Spruce Pine. The Town has an ongoing financial responsibility for the joint venture because the Library's continued existence depends on the participating governments' continued funding. None of the participating governments have any equity interest in the Library, so no equity interest has been reflected in the financial statements at June 30, 2013.

The Town appropriated \$68,220 to the Library to supplement its activities. Complete financial statements for the Library can be obtained from the Library's offices at the Avery-Mitchell-Yancey Regional Library; P.O. Box 310; Burnsville, North Carolina 28714.

**TOWN OF SPRUCE PINE, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2013**

**NOTE 5: JOINTLY GOVERNED ORGANIZATION**

The Town, in conjunction with seven counties and nineteen other municipalities established the Region D Council of Governments (Council). The participating governments established the Council to coordinate various funding received from federal and state agencies. Each local government appoints one member to the Council's governing body and this governing body selects the management and determines the budget and financing requirements of the Council.

**NOTE 6: RELATED ORGANIZATION**

The mayor and town council of the Town of Spruce Pine appoint the board of the Spruce Pine Housing Authority. The Town is accountable for the Housing Authority because it appoints the governing board; however the Town is not financially accountable for the Housing Authority. The Town of Spruce Pine is also disclosed as a related organization in the notes to the financial statements for the Spruce Pine Housing Authority.

**NOTE 7: 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 monies to the grantor agencies. Management believes that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant monies.

**NOTE 8: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

The Town had a budget violation due to the sale of the Town watershed for \$5,041,300. This sale was not included in the budget due to the uncertainty that the sale would be completed during the budget year and because the sale of the property had been in process from the prior year.

**NOTE 9: CHANGE IN ACCOUNTING PRINCIPLES/RESTATEMENT**

The Town implemented Governmental Accounting Standards Board (GASB) Statement 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, and Statement 65, Items Previously reported as Assets and Liabilities, in the fiscal year ending June 30, 2013. In accordance with GASB 63, the Statement of Net Assets has been replaced with the Statement of Net Position. Items on Statement of Net Position are now classified into Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and net Position. Additionally, GASB Statement 65 requires that deferred costs from refunding of debt, which were previously deferred and amortized, be presented as deferred outflows of resources.

**NOTE 10: SPECIAL ITEM – GAIN ON SALE OF ASSET**

The Town sold the watershed land to a conservation group February 15<sup>th</sup> 2013 for a gain of \$4,994,300 and sold a building in the downtown area for \$11,638 for a total gain of \$5,005,938 on the sale of assets.

**REQUIRED SUPPLEMENTARY  
INFORMATION**

TOWN OF SPRUCE PINE, NORTH CAROLINA  
LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE  
REQUIRED SUPPLEMENTARY INFORMATION  
Schedule of Funding Progress  
For the year ended June 30, 2013

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
12/31/2007	-	131,635	131,635	0%	294,113	44.76%
12/31/2008	-	129,027	129,027	0%	312,874	41.24%
12/31/2009	-	153,003	153,003	0%	338,578	45.19%
12/31/2010	-	126,523	126,523	0%	366,176	34.55%
12/31/2011	-	133,302	133,302	0%	361,743	36.85%
12/31/2012	-	129,654	129,654	0%	335,461	38.65%



**INDIVIDUAL FUND FINANCIAL  
STATEMENTS**

TOWN OF SPRUCE PINE, NORTH CAROLINA  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -- BUDGET AND ACTUAL  
For the year ended June 30, 2013

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
<b>Revenues</b>			
Ad valorem taxes			
Taxes	\$ -	\$ 874,574	\$ -
Penalties and interest	-	10,190	-
Total	<u>849,941</u>	<u>884,764</u>	<u>34,823</u>
Other taxes			
Franchise tax	-	288,809	-
Privilege licenses	-	5,445	-
Other taxes	-	10,177	-
Total	<u>310,840</u>	<u>304,431</u>	<u>(6,409)</u>
Unrestricted intergovernmental revenues			
Payments in lieu of taxes	-	12,361	-
Local option sales taxes	-	378,470	-
Total	<u>396,211</u>	<u>390,831</u>	<u>(5,380)</u>
Restricted intergovernmental revenues			
"State Street-Aid" allocation	-	83,535	-
FEMA Winter Storms grant	-	-	-
Crime prevention grants	-	-	-
Total	<u>89,003</u>	<u>83,535</u>	<u>(5,468)</u>
Licenses and permits			
Total	<u>5,827</u>	<u>60</u>	<u>(5,767)</u>
Sales and services			
Recreation fees and sales	-	26,333	-
Garbage and collection fees	-	-	-
Total	<u>40,128</u>	<u>26,333</u>	<u>(13,795)</u>
Investment earnings			
Total	<u>2,036</u>	<u>1,938</u>	<u>(98)</u>
Other revenues			
Parking violations	-	1,425	-
Revolving loan repayments	-	13,184	-
Miscellaneous	-	30,196	-
Total	<u>41,164</u>	<u>44,805</u>	<u>3,641</u>
Total revenues	<u>1,735,150</u>	<u>1,736,697</u>	<u>1,547</u>

TOWN OF SPRUCE PINE, NORTH CAROLINA  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -- BUDGET AND ACTUAL  
For the year ended June 30, 2013

	Budget	Actual	Variance Favorable (Unfavorable)
Expenditures			
General government			
Governing body			
Salaries and employee benefits	-	15,602	-
Operating expenses	-	1,206	-
	-	16,808	-
Administration			
Salaries and employee benefits	-	251,744	-
Operating expenses	-	213,844	-
Allocated administrative costs	-	(188,221)	-
Capital outlay	-	-	-
	-	277,367	-
	282,324	294,175	(11,851)
Public safety			
Police			
Salaries and employee benefits	-	568,982	-
Operating expenses	-	95,215	-
Capital outlay	-	36,879	-
	-	701,076	-
Fire			
Operating expenses	-	163,566	-
Capital outlay	-	-	-
	-	163,566	-
Inspection			
Operating expenses	-	19,517	-
	904,692	884,159	20,533
Transportation			
Street repair and construction			
Salaries and employee benefits	-	325,750	-
Allocated administrative costs	-	(330,078)	-
Operating expenses	-	131,518	-
Capital outlay - equipment and infrastructure	-	37,443	-
	309,730	164,633	145,097
Environmental protection			
Sanitation			
Operating Expenses	-	68,846	-
	69,260	68,846	414

cont.

TOWN OF SPRUCE PINE, NORTH CAROLINA  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -- BUDGET AND ACTUAL  
For the year ended June 30, 2013

	Budget	Actual	Variance Favorable (Unfavorable)
Cultural and recreational			
Parks and recreation			
Salaries and employee benefits	-	82,757	-
Operating Expenses	-	68,126	-
Capital outlay - equipment and renovations	-	-	-
Total	<u>-</u>	<u>150,883</u>	<u>-</u>
Libraries			
Operating Expenses	-	73,624	-
Capital outlay - equipment and renovations	-	-	-
Total	<u>-</u>	<u>73,624</u>	<u>-</u>
Contribution to Toe River Arts Council	-	2,500	-
Total cultural and recreational	<u>249,128</u>	<u>227,007</u>	<u>22,121</u>
Cemetery			
Operating Expenses	-	17,011	-
Capital outlay	-	-	-
Total cemetery	<u>18,776</u>	<u>17,011</u>	<u>1,765</u>
Economic development			
Salaries and employee benefits	-	-	-
Operating Expenses	-	81,783	-
Capital outlay - equipment and renovations	-	-	-
Revolving loans made	-	35,000	-
Total economic development	<u>109,928</u>	<u>116,783</u>	<u>(6,855)</u>
Debt Service			
General long-term debt-principal	-	4,416	-
General long-term debt-interest	-	357	-
Total debt service	<u>-</u>	<u>4,773</u>	<u>(4,773)</u>
Contingency	-	-	-
Total expenditures	<u>1,943,838</u>	<u>1,777,387</u>	<u>166,451</u>
Revenues over (under) expenditures	(208,688)	(40,690)	167,998
Other financing sources (uses)			
Sale of capital assets	-	5,005,938	5,005,938
Proceeds from installment contracts	-	-	-
Operating transfers - in (out)	-	-	-
Fund balance appropriations	208,688	-	(208,688)
Total other financing sources (uses)	<u>208,688</u>	<u>5,005,938</u>	<u>4,797,250</u>
Revenues, appropriations and other sources over expenditures and other financing uses	<u>\$ -</u>	<u>\$ 4,965,248</u>	<u>\$ 4,965,248</u>
Fund balances			
Beginning of year		1,576,836	
End of year		<u>\$ 6,542,084</u>	

TOWN OF SPRUCE PINE, NORTH CAROLINA  
WATER & SEWER FUND  
SCHEDULE OF REVENUE AND EXPENDITURES  
BUDGET AND ACTUAL (NON-GAAP)  
For the year ended June 30, 2013

	Budget	Actual	Variance Favorable (Unfavorable)
<b>Operating revenue</b>			
Water sales	\$ -	\$ 1,162,607	\$ -
Sewer charges	-	809,585	-
Water taps	-	4,400	-
Sewer taps	-	-	-
Impact fees	-	9,500	-
Other operating revenues	-	12,025	-
Total operating revenues	<u>2,036,126</u>	<u>1,998,117</u>	<u>(38,009)</u>
<b>Non operating revenues</b>			
Interest on investments	-	54	-
Total nonoperating revenues	<u>401</u>	<u>54</u>	<u>(347)</u>
Total revenues	<u>2,036,527</u>	<u>1,998,171</u>	<u>(38,356)</u>
<b>Expenditures</b>			
Administration	-	-	-
Maintenance and repairs	-	-	-
Supplies and materials	-	19,662	-
Contracted services	-	743,702	-
Other departmental expenses	-	235,874	-
Total administration	<u>954,173</u>	<u>999,238</u>	<u>(45,065)</u>
Water department			
Utilities	-	70,978	-
Maintenance and repairs	-	320,551	-
Other departmental expenses	-	15,700	-
Total water department	<u>452,367</u>	<u>407,229</u>	<u>45,138</u>
Sewer department			
Utilities	-	93,342	-
Maintenance and repairs	-	197,564	-
Contracted services	-	24,436	-
Other departmental expenses	-	12,155	-
Total sewer department	<u>340,777</u>	<u>327,497</u>	<u>13,280</u>

TOWN OF SPRUCE PINE, NORTH CAROLINA  
WATER & SEWER FUND  
SCHEDULE OF REVENUE AND EXPENDITURES  
BUDGET AND ACTUAL (NON-GAAP)  
For the year ended June 30, 2013

	Budget	Actual	Variance Favorable (Unfavorable)
Budgetary appropriations			
Interest	-	40,434	-
Bond service charge/amortization	-	2,474	-
Bond & notes principal payments	-	236,602	-
Capital outlay	-	-	-
Total budgetary appropriations	<u>289,211</u>	<u>279,510</u>	<u>9,701</u>
Total expenditures	<u>2,036,528</u>	<u>2,013,474</u>	<u>23,054</u>
Other financing sources (uses)			
Transfers to capital projects funds	-	-	-
Appropriated retained earnings	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
Revenue and other sources over expenditures and other uses	<u>\$ -</u>	<u>\$ (15,303)</u>	<u>\$ (15,303)</u>
Reconciliation of modified accrual to full accrual basis:			
Excess of revenues over expenditures		(15,303)	
Reconciling items:			
Payment of debt principal		236,601	
Capital outlay		-	
Depreciation		(447,386)	
Capital contributions		<u>1,023,289</u>	
Change in net position (Exhibit 7)		<u>\$ 797,201</u>	

TOWN OF SPRUCE PINE, NORTH CAROLINA  
WATER & SEWER CAPITAL PROJECTS FUND  
SCHEDULE OF REVENUE AND EXPENDITURES  
BUDGET AND ACTUAL (NON-GAAP)  
For the year ended June 30, 2013

	Project Authorization	Actual		Total To Date	Variance Favorable (Unfavorable)
		Prior Years	Current Year		
<b>Revenues - Plant Filter Rehab</b>					
Restricted intergovernmental revenues					
SRF Loan/Grant	\$ 1,940,800	\$ 159,458	\$ 1,705,563	\$ 1,865,021	\$ (75,779)
Rural Center	250,000	-	-	-	(250,000)
Town of Spruce Pine	485,200	-	-	-	(485,200)
<b>Total Plant Filter Rehab</b>	<u>2,676,000</u>	<u>159,458</u>	<u>1,705,563</u>	<u>1,865,021</u>	<u>(810,979)</u>
<b>Total Revenues</b>	<u>2,676,000</u>	<u>159,458</u>	<u>1,705,563</u>	<u>1,865,021</u>	<u>(810,979)</u>
<b>Expenditures - Plant Filter Rehab</b>					
Assisted Living Facility	29,918	-	-	-	29,918
Engineering and Environmental Report	9,000	-	-	-	9,000
Engineering/Administration	244,000	130,175	51,751	181,926	62,074
Construction	2,288,000	29,283	1,653,812	1,683,095	604,905
Legal/Contingency	105,082	-	-	-	105,082
<b>Total Plant Filter Rehab</b>	<u>2,676,000</u>	<u>159,458</u>	<u>1,705,563</u>	<u>1,865,021</u>	<u>810,979</u>
<b>Total Expenditures</b>	<u>2,676,000</u>	<u>159,458</u>	<u>1,705,563</u>	<u>1,865,021</u>	<u>810,979</u>
Revenues under expenditures	-	-	-	-	-
<b>Other financing sources</b>					
Contributions from Water and Sewer Fund	-	-	-	-	-
<b>Total other financing sources</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Revenues and other sources over (under) expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**OTHER  
SCHEDULES**



TOWN OF SPRUCE PINE, NORTH CAROLINA  
 SCHEDULE OF AD VALOREM TAXES  
 June 30, 2013

Fiscal Year	Uncollected Balance June 30, 2012	Additions	Collections and Credits	Releases	Uncollected Balance June 30, 2013
2012 - 2013	\$ -	\$ 834,405	\$ 802,134	\$ 1,232	\$ 31,039
2011 - 2012	18,978	72	6,096		12,954
2010 - 2011	8,366	1,367	4,686		5,047
2009 - 2010	1,493	3,738	4,122		1,109
2008 - 2009	340	6,734	6,766		308
2007 - 2008	301	-	7		294
2006 - 2007	208	-	44		164
2005 - 2006	277	-			277
2004 - 2005	103	-			103
2003 - 2004	473	-			473
2002 - 2003	492	-	-		492
	<u>\$ 31,031</u>	<u>\$ 846,316</u>	<u>\$ 823,855</u>	<u>\$ 1,232</u>	<u>\$ 52,260</u>

Less: Allowance for uncollectible ad valorem taxes receivable:

Property taxes	5,000
Vehicle taxes	4,062
Ad valorem taxes receivable - net	<u>\$ 43,198</u>

Reconciliation with revenues:

Taxes - Ad Valorem - General Fund (Exhibit 5)	\$ 884,764
Less: Penalties and interest	(10,190)
Taxes written off	5,688
Vehicle tax adjustments	(6,703)
Total adjustments	<u>(11,205)</u>
Total collections and credits	<u>\$ 873,559</u>

TOWN OF SPRUCE PINE, NORTH CAROLINA  
ANALYSIS OF CURRENT TAX LEVY  
TOWN-WIDE LEVY  
For the Year Ended June 30, 2013

	City-wide		Total Levy			
	Property Valuation	Rate	Amount of Levy	Property excluding Registered Vehicles	Registered Vehicles	
Original Levy						
Real property	\$ 160,519,156	\$ 0.40	\$ 642,077	\$ 642,077	\$ -	
Personal property	50,374,083		201,496	127,792	73,704	
Public service companies	12,711,387		50,846	50,846	-	
	<u>223,604,626</u>		<u>894,419</u>	<u>820,715</u>	<u>73,704</u>	
Discoveries						
Current year taxes	3,422,405	\$ 0.40	13,690	13,690	-	
	<u>3,422,405</u>		<u>13,690</u>	<u>13,690</u>	<u>-</u>	
Abatements	(2,828,300)		(11,313)	(1,232)	(10,081)	
Total property valuation	<u>\$ 224,198,731</u>					
			Net levy	896,796	833,173	63,623
Uncollected taxes at June 30, 2013			<u>(51,346)</u>	<u>(31,038)</u>	<u>(20,308)</u>	
Current year's taxes collected			<u>\$ 845,450</u>	<u>\$ 802,135</u>	<u>\$ 43,315</u>	
Current levy collection percentage			<u>94.27%</u>	<u>96.27%</u>	<u>68.08%</u>	

**COMPLIANCE  
SECTION**

# DAVID E. WYLIE

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

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

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Spruce Pine, North Carolina, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise The Town of Spruce Pine, North Carolina's basic financial statements, and have issued my report thereon dated October 31, 2013.

### **Internal Control Over Financial Reporting**

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

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

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified. I did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies.

Schedule of Finding and Question Cost 2013-1 Segregation of Duties

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Town of Spruce Pine's financial statements are free from material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions

was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

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



David Wylie, CPA  
Spruce Pine, North Carolina  
January 20, 2014

# DAVID E. WYLIE

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## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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

### **Report on Compliance for Each Major Federal Program**

I have audited the Town of Spruce Pine's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the town of Spruce Pine, North Carolina's major federal programs for the year ended June 30, 2013. Town of Spruce Pine's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

#### ***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

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

My responsibility is to express an opinion on compliance for each of the Town of Spruce Pine's major federal programs based on my audit of the types of compliance requirements referred to above. I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town of Spruce Pine's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances.

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

#### ***Opinion on Each Major Federal Program***

In my opinion, Spruce Pine, North Carolina, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

#### **Report on Internal Control Over Compliance**

Management of Spruce Pine, North Carolina, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing my audit of compliance, I considered the Town of Spruce Pine's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over

compliance. Accordingly, I do not express an opinion on the effectiveness of Spruce Pine, North Carolina's internal control over compliance.

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

My consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of my testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Davie Wylie, CPA



Spruce Pine, North Carolina  
January 20, 2014

**Town of Spruce Pine**  
**Schedule of Federal and State Financial Awards**  
For the Fiscal Year Ended August 31, 2013

Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-through Grantor's Number	Total Expenditures
<b>FEDERAL GRANTS:</b>			
<u>Environmental Protection Agency</u>			
Passed through the N.C. Division of Water Resources of the Department of Environmental and Natural Resources	66.468	FS-984338-10	\$ 1,709,765
<u>Office of Justice Programs</u>			
Passed through the N.C. Department of Public Safety - Governors Crime Commission	16.803	PROJ008405	<u>7,025</u>
<b>TOTAL FEDERAL GRANT CASH ASSISTANCE:</b>			<u><u>1,716,790</u></u>
<b>STATE GRANTS:</b>			
<u>N.C. Division of Transportation</u>			
State Street-Aid (Powell Bill)			<u>71,892</u>
<b>TOTAL FEDERAL AND STATE ASSISTANCE</b>			<u><u>\$ 1,788,682</u></u>

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

- 1 **Basis of Presentation**  
The accompanying schedule of expenditures of Federal and State Awards includes the Federal and State grant activity of The Town of Spruce Pine and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and the State Single Audit Implementation Act. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements.





TOWN OF SPRUCE PINE, NORTH CAROLINA  
SCHEDULE OF FINDINGS AND RESPONSES  
For the Year Ended June 30, 2013

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Dollar threshold used to distinguish  
between Type A and Type B Programs \$300,000

Auditee qualified as low-risk auditee?  yes  no

State Awards

The only major state program for the Town of Spruce Pine is the pass through grant from the NC Department of Environment and Natural Resources. Therefore, this program has been included in the list of major federal programs above.

None reported

**Section II – Financial Statement Findings**

SIGNIFICANT DEFICIENCY

2013 – 1 Segregation of Duties

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

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

Effect: Transactions could be mishandled.

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

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

Views of responsible officials and planned corrective actions: The city agrees with this finding and will discuss ways to continue diligently separate duties as is reasonable considering the size of the Town.

**Section III – Federal Award Findings and Questioned Costs**

None reported.

**Section IV – State Award Findings and Questioned Costs**

None reported.

TOWN OF SPRUCE PINE, NORTH CAROLINA  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
For the Year Ended June 30, 2013

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**Finding: 2012 - 1**

Status: Duties are being separated as much as possible and alternative controls are being implemented to compensate for lack of separation. The governing board is becoming more involved in providing some of these controls.

# DAVID E. WYLIE

CERTIFIED PUBLIC ACCOUNTANT

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To the Honorable Mayor, Town Council  
and Management of the Town of Spruce Pine

In planning and performing my audit of the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Spruce Pine as of and for the year ended June 30, 2013, in accordance with auditing standards generally accepted in the United States of America, I considered the Town of Spruce Pine'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 my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Spruce Pine's internal control. Accordingly, I do not express an opinion on the effectiveness of the Town of Spruce Pine's internal control.

My 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 discussed below, I identified certain deficiencies in internal control that I consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. I did not identify any deficiencies in internal control that I consider to be material weaknesses.

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. I consider the following deficiencies in the Town of Spruce Pine's internal control to be significant deficiencies:

The size of the administrative and accounting staff precludes certain internal controls that would be preferred if the staff size were larger to provide optimum segregation of duties. Therefore the Town Council must remain involved in the financial affairs of the Town to provide oversight as well as review functions.

This communication is intended solely for the information and use of management, the Town Council, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.



David Wylie, CPA  
Spruce Pine, North Carolina  
January 20, 2014

# DAVID E. WYLIE

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January 20, 2014

To the Honorable Mayor and Town Council  
Town of Spruce Pine, North Carolina

I have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Spruce Pine for the year ended June 30, 2013. Professional standards require that I provide you with information about my responsibilities under generally accepted auditing as well as certain information related to the planned scope and timing of my audit. I have communicated such information in my letter to you dated January 20, 2014. Professional standards also require that I communicate to you the following information related to my audit.

## Significant Audit Findings

### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Town of Spruce Pine are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during year. I noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

The financial statement disclosures are neutral, consistent, and clear.

### *Difficulties Encountered in Performing the Audit*

I encountered no significant difficulties in dealing with management in performing and completing my audit.

### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

### *Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to my satisfaction, that could be significant to the financial statements or the auditor's report. I am pleased to report that no such disagreements arose during the course of my audit.

*Management Representations*

I have requested certain representations from management that are included in the management representation letter dated January 20, 2014.

*Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, my professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To my knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

I generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of my professional relationship and my responses were not a condition to my retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, I made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to my audit of the financial statements. I compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Town Council and management of the Town of Spruce Pine and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,



David Wylie, CPA

Spruce Pine, North Carolina