

**TOWN OF SPRUCE PINE, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2015**

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

*Actuarial Assumptions.* The total pension liability in the December 31, 2013 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	4.25 to 8.55 percent, including inflation and productivity factor
Investment rate of return	7.25 percent, net of pension plan investment expense, including inflation

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

The actuarial assumptions used in the December 31, 2013 valuation were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

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

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2014 are summarized in the following table:

**TOWN OF SPRUCE PINE, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Year Ended June 30, 2015

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	36.0%	2.5%
Global Equity	40.5%	6.1%
Real Estate	8.0%	5.7%
Alternatives	6.5%	10.5%
Credit	4.5%	6.8%
Inflation Protection	4.5%	3.7%
Total	<u>100%</u>	

The information above is based on 30 year expectations developed with the consulting actuary for the 2013 asset liability and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.19%. All rates of return and inflation are annualized.

A new asset allocation policy was finalized during the fiscal year ended June 30, 2014 to be effective July 1, 2014. The new asset allocation policy utilizes different asset classes, changes in the structure of certain asset classes, and adopts new benchmarks. Using the asset class categories in the preceding table, the new long-term expected arithmetic real rates of return are: Fixed Income 2.2%, Global Equity 5.8%, Real Estate 5.2%, Alternatives 9.8%, Credit 6.8% and Inflation Protection 3.4%.

*Discount rate.* The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the Town's proportionate share of the net pension asset to changes in the discount rate.* The following presents the Town's proportionate share of the net pension asset calculated using the discount rate of 7.25 percent, as well as what the Town's proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.25 percent) or one percentage point higher (8.25 percent) than the current rate:

**TOWN OF SPRUCE PINE, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Year Ended June 30, 2015

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

	1% Decrease (6.25%)	Discount Rate (7.25%)	1% Increase (8.25%)
Town's proportionate share of the net pension liability (asset)	\$ (97,503)	\$ (98,488)	\$ (99,473)

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

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

***1. Plan Description***

The Town 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 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, 2015, the Separation Allowance's membership consisted of:

Retirees receiving benefits	2
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	10
Total	12

A separate report was not issued for the plan.

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

*Basis of Accounting.* The Town has chosen to fund the Separation Allowance on a pay as you go basis. Pension expenditures are made from the General Fund, which is maintained on the modified accrual basis of accounting. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. The Separation Allowance has no assets accumulated in a trust that meets the following criteria which are outlined in GASB Statements 67 and 68:

**TOWN OF SPRUCE PINE, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2015**

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

- contributions to the pension plan and earnings on those contributions are irrevocable
- pension plan assets are dedicated to providing benefits to plan members
- pension plan assets are legally protected from the creditors or employers, non-employer contributing entities, the plan administrator, and plan members.

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

*3. 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 \$16,496. 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.

The annual required contribution for the current year was determined as part of the December 31, 2014 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 4.25% 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 remaining amortization period at December 31, 2013 was 17 years.

*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, 2015**

Employer annual required contribution	\$ 20,599
Interest on net pension obligation	2,399
Adjustment to annual required contribution	<u>(4,053)</u>
Annual pension cost	18,945
Employer contributions made for fiscal year ending 06/30/15	<u>13,599</u>
Increase (decrease) in net pension obligation	5,346
Net pension obligation beginning of fiscal year	<u>47,982</u>
Net pension obligation end of fiscal year	\$ 53,328

**TOWN OF SPRUCE PINE, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2015**

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

<u>Fiscal Year End</u>	<u>Annual Pension Cost</u>	<u>Three Year Trend Information</u>	
		<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
06/30/13	15,387	50.73%	41,490
06/30/14	14,298	54.60%	47,982
06/30/15	18,945	71.78%	53,328

**4. Funded Status and Funding Progress**

As of December 31, 2014, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and the unfunded actuarial accrued liability (UAAL) was \$154,155. The covered payroll (annual payroll of active employees covered by the plan) was \$357,449, and the ratio of the UAAL to the covered payroll was 43.13%

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**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.

*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, 2015 were \$13,599 that consisted of \$13,599 from the Town and none from the law enforcement officers.

**d. Other Postemployment Benefits (OPEB)**

**1. Healthcare Benefits**

*Plan Description.* 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.

**2. Other Employee Benefits**

The Town has elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, State-administered, cost-sharing plan funded on a one-year term cost basis.

**TOWN OF SPRUCE PINE, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Year Ended June 30, 2015

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

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.

*3. Deferred Outflows and Inflows of Resources*

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

Prepaid Taxes (General Fund)	
Contributions to pension plan in current fiscal year	22,125
Total	<u><u>\$22,125</u></u>

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

Prepaid taxes (General Fund)	\$ 1,838
Reserve - Note Receivable (Economic Development)	491,842
Reserve - Taxes Receivable (General Fund)	83,466
Total	<u>\$ 577,146</u>

*4. Risk Management*

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town 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, 2015**

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

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

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.

**5. 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%. Annual debt service payments of the installment purchases as of June 30, 2015, including \$9,609 of interest are as follows:

Year Ending June 30	Governmental Activities	
	Principal	Interest
2016	61,524	5,716
2017	64,003	3,236
2018	32,962	657
Total	<u>\$ 158,489</u>	<u>\$ 9,609</u>

In September 2010, the Town purchased a truck on installment note. The loan was for five years at 2.75% interest.

Year Ending June 30	Governmental Activities	
	Principal	Interest
2016	1,188	-
Total	<u>\$ 1,188</u>	<u>\$ -</u>

**TOWN OF SPRUCE PINE, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Year Ended June 30, 2015

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

In September 2014 Spruce Pine entered into a loan agreement with the State Revolving Fund for the construction of Water and Sewer project. The interest on the loan is 0% and will be paid in full in 2034.

Annual debt service payment to the Sate Revolving Fund loan as of June 30, 2015 are as follows:

Year Ending June 30	Governmental Activities Principal
2016	\$ 24,260
2017	24,260
2018	24,260
2019	24,260
2020	24,260
2021-2025	121,300
2026-2030	121,300
2031-2034	97,040
<b>Total</b>	<b>\$460,940</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

Bonds payable at June 30, 2015 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, 2015, including interest \$381,438.

At June 30, 2015 the Town of Spruce Pine had a legal debt margin of \$15,225,433.

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

Year Ending June 30, 2015	Principal	Interest	Total
2016	114,308	12,838	127,146
2017	118,821	8,325	127,146



**TOWN OF SPRUCE PINE, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Year Ended June 30, 2015

	2018	123,512	3,634	127,146
	Total	\$ 356,641	\$ 24,797	\$ 381,438

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

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

	Balance			Current	
	June 30, 2014	Increases	Decreases	Balance June 30, 2015	Portion of Balance
<b>Governmental activities:</b>					
Note payable	\$ 5,857	\$ -	\$ (4,669)	\$ 1,188	\$ -
Compensated absences	74,559	38,716	(49,030)	64,245	38,716
Net pension obligation	47,982	5,346	-	53,328	-
Governmental long-term liabilities	128,398	44,062	(53,699)	118,761	38,716
<b>Business-type activities:</b>					
Note payable	474,960	10,240	(24,260)	460,940	-
General obligation bonds	466,607	-	(109,966)	356,640	135,246
Installment note	217,630	-	(59,140)	158,489	40,586
Business-type long-term liabilities	\$ 1,159,197	\$ 10,240	\$ (193,366)	\$ 976,069	\$ 175,832

**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	\$3,311,821
Less:	
Inventories	466
Stabilization by State statute	23,961
Streets - Powell Bill	-
Police Equitable Sharing	29,217
Subsequent year's expenditures	-
Remaining Fund	
Balance	\$3,258,177

**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

**TOWN OF SPRUCE PINE, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2015**

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, 2015, repayments of \$39,446 were received on a total of eight outstanding loans, bringing the principle balance to \$491,841.

During 1990, the Town established a permanent loan fund, committing \$150,000, UDAG 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, 2015.

The Town appropriated \$70,856 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.

**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.

**TOWN OF SPRUCE PINE, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2015**

**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 ACCOUNTIBILITY**

The Town had no issues of non-compliance.

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, 2015

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial 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)
12/31/2009	-	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%
12/31/2013	-	144,124	144,124	0%	393,905	36.59%
12/31/2014	-	154,155	154,155	0%	357,449	43.13%

TOWN OF SPRUCE PINE, NORTH CAROLINA  
TOWN OF SPRUCE PINE'S PROPRORTIONATE SHARE OF NET PENSION LIABILITY (ASSET)  
REQUIRED SUPPLEMENTARY INFORMATION  
For the year ended June 30, 2015

	2015
Spruce Pine's proportion of net pension liability (asset) (%)	0.01670%
Spruce Pine's proportion of the net pension liability (asset) (\$)	\$ (98,488)
Spruce Pine's covered-employee payroll	\$ 955,659
Spruce Pine's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	(10.31%)
Plan fiduciary net position as a percentage of the total pension liability	102.64%

TOWN OF SPRUCE PINE, NORTH CAROLINA  
TOWN OF SPRUCE PINE'S PENSION CONTRIBUTIONS  
REQUIRED SUPPLEMENTARY INFORMATION  
For the year ended June 30, 2015

	2015
Contractually required contributions	\$ 62,209
Contributions in relation to the contractually required contribution	\$ 62,209
Contribution deficiency (excess)	\$ -
Spruce Pine's covered-employee payroll	\$ 955,659
Contributions as a percentage of covered-employee payroll	6.50%

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, 2015

	Budget	Actual	Variance Favorable (Unfavorable)	
<b>Revenues</b>				
Ad valorem taxes				
Taxes	\$ -	\$ 1,071,001	\$ -	
Penalties and interest	-	9,554	-	
Total	<u>1,070,501</u>	<u>1,080,555</u>	<u>10,054</u>	
<b>Other taxes</b>				
Franchise tax	-	294,155	-	
Other taxes	-	406,085	-	
Total	<u>685,948</u>	<u>700,240</u>	<u>14,292</u>	
<b>Unrestricted intergovernmental revenues</b>				
Payments in lieu of taxes	-	12,449	-	
Total	<u>12,361</u>	<u>12,449</u>	<u>88</u>	
<b>Restricted intergovernmental revenues</b>				
"State Street-Aid" allocation	-	85,147	-	
FEMA Storms Grant	-	51,000	-	
Crime prevention grants	-	10,470	-	
Total	<u>145,608</u>	<u>146,617</u>	<u>1,009</u>	
Licenses and permits	Total	<u>5,681</u>	<u>5,033</u>	<u>(648)</u>
<b>Sales and services</b>				
Recreation fees and sales	-	30,775	-	
Garbage and collection fees	-	-	-	
Total	<u>28,043</u>	<u>30,775</u>	<u>2,732</u>	
Investment earnings	Total	<u>1,500</u>	<u>1,451</u>	<u>(49)</u>
<b>Other revenues</b>				
Parking violations	-	1,050	-	
Revolving loan repayments	-	47,583	-	
Miscellaneous	-	50,984	-	
Total	<u>96,411</u>	<u>99,617</u>	<u>3,206</u>	
Total revenues	<u>2,046,053</u>	<u>2,076,737</u>	<u>30,684</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, 2015

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Expenditures			
General government			
Governing body			
Salaries and employee benefits	-	15,791	-
Operating expenses	-	1,578	-
	<u>-</u>	<u>17,369</u>	<u>-</u>
Administration			
Salaries and employee benefits	-	277,033	-
Operating expenses	-	252,968	-
Allocated administrative costs	-	(206,578)	-
Capital outlay	-	312,584	-
	<u>-</u>	<u>636,007</u>	<u>-</u>
	<u>692,714</u>	<u>653,376</u>	<u>39,338</u>
Public safety			
Police			
Salaries and employee benefits	-	602,164	-
Operating expenses	-	113,091	-
Capital outlay	-	57,892	-
	<u>-</u>	<u>773,147</u>	<u>-</u>
Fire			
Operating expenses	-	1,687,637	-
Capital outlay	-	-	-
	<u>-</u>	<u>1,687,637</u>	<u>-</u>
Inspection			
Operating expenses	-	20,642	-
	<u>-</u>	<u>20,642</u>	<u>-</u>
	<u>2,494,464</u>	<u>2,481,426</u>	<u>13,038</u>
Transportation			
Street repair and construction			
Salaries and employee benefits	-	329,392	-
Allocated administrative costs	-	(351,054)	-
Operating expenses	-	353,855	-
Capital outlay - equipment and infrastructure	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
	<u>342,156</u>	<u>332,193</u>	<u>9,963</u>
Environmental protection			
Sanitation	-	-	-
Operating Expenses	-	71,246	-
	<u>-</u>	<u>71,246</u>	<u>-</u>
	<u>71,705</u>	<u>71,246</u>	<u>459</u>

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, 2015

	Budget	Actual	Variance Favorable (Unfavorable)
Cultural and recreational			
Parks and recreation			
Salaries and employee benefits	-	91,616	-
Operating Expenses	-	114,350	-
Capital outlay - equipment and renovations	-	-	-
Total	-	205,966	-
Libraries			
Operating Expenses	-	70,856	-
Capital outlay - equipment and renovations	-	-	-
Total	-	70,856	-
Contribution to Toe River Arts Council	-	4,000	-
Total cultural and recreational	283,358	280,822	2,536
Cemetery			
Operating Expenses	-	18,456	-
Capital outlay	-	-	-
Total cemetery	18,500	18,456	44
Economic development			
Salaries and employee benefits	-	-	-
Operating Expenses	-	80,668	-
Capital outlay - equipment and renovations	-	-	-
Revolving loans made	-	-	-
Total economic development	85,650	80,668	4,982
Debt Service			
General long-term debt-principal	-	4,669	-
General long-term debt-interest	-	104	-
Total debt service	4,773	4,773	-
Contingency	-	-	-
Total expenditures	3,993,320	3,922,960	70,360
Revenues over (under) expenditures	(1,947,267)	(1,846,223)	101,044
Other financing sources (uses)			
Contributions from general fund	-	-	-
Proceeds from installment contracts	-	-	-
Operating transfers - in (out)	-	-	-
Fund balance appropriations	1,947,267	-	(1,947,267)
Total other financing sources (uses)	1,947,267	-	(1,947,267)
Revenues, appropriations and other sources over expenditures and other financing uses	\$ -	\$ (1,846,223)	\$ (1,846,223)
Fund balances			
Beginning of year		5,158,044	
End of year		\$ 3,311,821	

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, 2015

	Budget	Actual	Variance Favorable (Unfavorable)
<b>Operating revenue</b>			
Water sales	\$ -	\$ 1,241,792	\$ -
Sewer charges	-	875,889	-
Water taps	-	4,890	-
Sewer taps	-	990	-
Impact fees	-	27,000	-
Other operating revenues	-	16,233	-
Total operating revenues	<u>2,141,355</u>	<u>2,166,794</u>	<u>25,439</u>
<b>Non operating revenues</b>			
Grant income	-	-	-
Interest on investments	-	8	-
Total nonoperating revenues	<u>-</u>	<u>8</u>	<u>8</u>
Total revenues	<u>2,141,355</u>	<u>2,166,802</u>	<u>25,447</u>
<b>Expenditures</b>			
<b>Administration</b>			
Maintenance and repairs	-	-	-
Supplies and materials	-	2,289	-
Contracted services	-	787,812	-
Other departmental expenses	-	248,550	-
Total administration	<u>1,038,693</u>	<u>1,038,651</u>	<u>42</u>
<b>Water department</b>			
Utilities	-	68,094	-
Maintenance and repairs	-	303,681	-
Other departmental expenses	-	49,782	-
Total water department	<u>481,920</u>	<u>421,557</u>	<u>60,363</u>
<b>Sewer department</b>			
Utilities	-	90,086	-
Maintenance and repairs	-	214,842	-
Contracted services	-	59,489	-
Other departmental expenses	-	13,341	-
Total sewer department	<u>399,096</u>	<u>377,758</u>	<u>21,338</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, 2015

	Budget	Actual	Variance Favorable (Unfavorable)
Budgetary appropriations			
Interest	-	25,279	-
Bond service charge/amortization	-	2,474	-
Bond & notes principal payments	-	193,366	-
Capital outlay	-	-	-
Total budgetary appropriations	<u>221,646</u>	<u>221,119</u>	<u>527</u>
Total expenditures	<u>2,141,355</u>	<u>2,059,085</u>	<u>82,270</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>\$ 107,717</u>	<u>\$ 107,717</u>
Reconciliation of modified accrual to full accrual basis:			
Excess of revenues over expenditures		107,717	
Reconciling items:			
Payment of debt principal		193,366	
Capital outlay		-	
Depreciation		(448,409)	
Capital contributions		<u>290,809</u>	
Change in net position (Exhibit 7)		<u>\$ 143,483</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, 2015

	Project Authorization	Actual			Variance Favorable (Unfavorable)
		Prior Years	Current Year	Total To Date	
<b>Revenues - Plant Filter Rehab</b>					
Restricted intergovernmental revenues					
DWSRF Principal Forgiveness Loan	\$ 1,940,800	\$ 1,899,991	\$ 40,809	\$ 1,940,800	\$ -
Rural Center	250,000	-	250,000	250,000	-
ARC Grant	300,000	-	-	-	(300,000)
Total Plant Filter Rehab	<u>2,490,800</u>	<u>1,899,991</u>	<u>290,809</u>	<u>2,190,800</u>	<u>(300,000)</u>
Total Revenues	<u>2,490,800</u>	<u>1,899,991</u>	<u>290,809</u>	<u>2,190,800</u>	<u>(300,000)</u>
<b>Expenditures - Plant Filter Rehab</b>					
Assisted Living Facility	29,918	-	-	-	29,918
Engineering and Environmental Report	10,300	-	10,300	10,300	-
Engineering/Administration	276,000	271,533	10,247	281,780	(5,780)
Construction	2,542,000	2,229,511	174,931	2,404,442	137,558
Legal/Contingency	117,782	-	-	-	117,782
Total Plant Filter Rehab	<u>2,976,000</u>	<u>2,501,044</u>	<u>195,478</u>	<u>2,696,522</u>	<u>279,478</u>
Total Expenditures	<u>2,976,000</u>	<u>2,501,044</u>	<u>195,478</u>	<u>2,696,522</u>	<u>279,478</u>
Revenues under expenditures	<u>(485,200)</u>	<u>(601,053)</u>	<u>95,331</u>	<u>(505,722)</u>	<u>20,522</u>
<b>Other financing sources</b>					
DWSRF Zero Percent Interest Loan	485,200	474,960	10,240	485,200	-
Total other financing sources	<u>485,200</u>	<u>474,960</u>	<u>10,240</u>	<u>485,200</u>	<u>-</u>
Revenues and other sources over (under) expenditures	<u>\$ -</u>	<u>\$ (126,093)</u>	<u>\$ 105,571</u>	<u>\$ (20,522)</u>	<u>\$ 20,522</u>

TOWN OF SPRUCE PINE, NORTH CAROLINA  
 POLICE DEPARTMENT BUILDING CAPITAL PROJECTS FUND  
 SCHEDULE OF REVENUE AND EXPENDITURES  
 BUDGET AND ACTUAL (NON-GAAP)  
 For the year ended June 30, 2015

	Project Authorization	Actual			Variance Favorable (Unfavorable)
		Prior Years	Current Year	Total To Date	
<b>Expenditures - Police Department Building</b>					
Engineering Design and Administration	43,460	-	24,379	24,379	19,081
Construction	480,000	-	33,514	33,514	446,486
Land Prep and Paving	50,000	-	-	-	50,000
Internet Phone	15,000	-	-	-	15,000
Security	10,000	-	-	-	10,000
Furniture	10,000	-	-	-	10,000
Signage and Flag Pole	7,000	-	-	-	7,000
Legal	1,220	-	-	-	1,220
Contingency	8,320	-	-	-	8,320
Total Police Department Building	<u>625,000</u>	<u>-</u>	<u>57,893</u>	<u>57,893</u>	<u>567,107</u>
Total Expenditures	<u>625,000</u>	<u>-</u>	<u>57,893</u>	<u>57,893</u>	<u>567,107</u>
<b>Other financing sources</b>					
Contributions from General Fund	<u>625,000</u>	<u>-</u>	<u>57,893</u>	<u>57,893</u>	<u>567,107</u>
Total other financing sources	<u>625,000</u>	<u>-</u>	<u>57,893</u>	<u>57,893</u>	<u>567,107</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, 2015

<u>Fiscal Year</u>	<u>Uncollected Balance June 30, 2014</u>	<u>Additions</u>	<u>Collections and Credits</u>	<u>Releases</u>	<u>Uncollected Balance June 30, 2015</u>
2014 - 2015	\$ -	\$ 1,034,288	\$ 976,171	\$ 1,442	56,675
2013 - 2014	21,617	1,372	9,355	-	13,635
2012 - 2013	15,076	1,320	6,855	-	9,541
2011 - 2012	7,741	1,441	4,027	-	5,155
2010 - 2011	3,937	1,436	3,206	-	2,166
2009 - 2010	610	1,343	1,701	-	253
2008 - 2009	307	-	-	-	307
2007 - 2008	294	-	-	-	294
2006 - 2007	163	-	-	-	163
2005 - 2006	277	-	-	-	277
2004 - 2005	103	-	-	-	103
2003 - 2004	473	-	-	-	473
	<u>\$ 50,598</u>	<u>\$ 1,041,200</u>	<u>\$ 1,001,315</u>	<u>\$ 1,442</u>	<u>\$ 89,042</u>

Less: Allowance for uncollectible ad valorem taxes receivable:

Property taxes 5,000

Ad valorem taxes receivable - net \$ 84,042

Reconciliation with revenues:

Taxes - Ad Valorem - General Fund (Exhibit 5) \$ 1,080,555

Less: Penalties and interest (9,554)

Taxes written off (218)

Vehicle tax adjustments (5,055)

Total adjustments (14,827)

Total collections and credits \$ 1,065,728

TOWN OF SPRUCE PINE, NORTH CAROLINA  
ANALYSIS OF CURRENT TAX LEVY  
TOWN-WIDE LEVY  
For the Year Ended June 30, 2015

	City-wide			Total Levy	
	Property Valuation	Rate	Amount of Levy	Property excluding Registered Vehicles	Registered Vehicles
Original Levy					
Real property	\$ 154,219,896	\$ 0.51	\$ 786,521	\$ 646,127	\$ -
Personal property	34,646,291		176,696	106,289	70,407
Public service companies	13,488,558		68,792	68,792	-
	<u>202,354,745</u>		<u>1,032,009</u>	<u>821,208</u>	<u>70,407</u>
Discoveries					
Current year taxes	446,789	\$ 0.51	2,279	2,279	-
	<u>446,789</u>		<u>2,279</u>	<u>2,279</u>	<u>-</u>
Abatements	(282,756)		(1,442)	(1,442)	-
Total property valuation	<u>\$ 202,518,778</u>				
Net levy			1,032,846	822,045	70,407
Uncollected taxes at June 30, 2015			<u>(56,675)</u>	<u>(56,675)</u>	<u>-</u>
Current year's taxes collected			<u>\$ 976,171</u>	<u>\$ 765,370</u>	<u>\$ 70,407</u>
Current levy collection percentage			<u>94.51%</u>	<u>93.11%</u>	<u>100.00%</u>

INTERNAL CONTROL AND  
COMPLIANCE

# LAURA W. VERLA

CERTIFIED PUBLIC ACCOUNTANT

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

To the Honorable Mayor and  
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 business-type activities of the Town of Spruce Pine as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Town of Spruce Pine's basic financial statements and have issued my report thereon dated October 30, 2015.

### **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.

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 described in the accompanying schedule of findings, I identified a deficiency in internal control that I consider to be a significant deficiency.

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. I consider the deficiency described in the accompanying schedule of findings to be a significant deficiency: 2015-1.

### **Compliance and Other Matters**

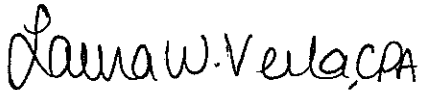
As part of obtaining reasonable assurance about whether the Town of Spruce Pine's financial statements are free from material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which would have a direct and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

**Town of Spruce Pine's Response to Findings**

The Town of Spruce Pine's response to the findings identified in my audit are described in the accompanying schedule of findings and responses. The Town of Spruce Pine's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

**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.



Laura W. Verla, CPA  
Spruce Pine, North Carolina  
October 30, 2015

TOWN OF SPRUCE PINE, NORTH CAROLINA  
SCHEDULE OF FINDINGS AND RESPONSES  
For the Year Ended June 30, 2015

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I. **Summary of Auditor's Results**

- A. An unmodified opinion was issued on the financial statements of the Town of Spruce Pine.
- B. My audit of the basic financial statements disclosed one significant control deficiency.
- C. My audit of the basic financial statements disclosed no instances of noncompliance with laws, regulations, and the provisions of contracts and grant agreements in the basic financial statements.
- D. For the year ended June 30, 2015, financial assistance received from the federal government did not meet the criteria required for an audit under OMB A-133.
- E. For the year ended June 30, 2015, financial assistance received from the State of North Carolina did not meet the criteria required for an audit under the State Single Audit Implementation Act.

II. **Findings Related to the Audit of the Basic Financial Statements of the Town of Spruce Pine**

**Finding 2015-1**

Internal Controls

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

Condition: There is a lack of adequate segregation of duties among the Town's personnel.

Cause: With a limited number of personnel for certain functions, there are inherent limitations of the effectiveness of certain controls

Effect: Transactions could be mishandled.

Recommendation: The duties should be separated as much as possible and alternative procedures should be used to compensate for lack of separation.  
Management and Town Council should provide some of these controls.

Views of Responsible Officials and Planned Corrective Actions: The Town agrees with this finding and will discuss ways to continue to separate duties as is reasonable considering the size of the Town.

Corrective Action Plan

Name of Contact Person: David Lindsey, Finance Officer

Corrective Action: This is an ongoing reportable condition for governmental units of comparable size to the Town. Management has made every attempt to segregate duties to the extent practical considering the availability of personnel within the financial function. Management and the Town Council will remain actively involved in monitoring the Town's activities.

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

# LAURA W. VERLA

CERTIFIED PUBLIC ACCOUNTANT

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October 30, 2015

To the Honorable Mayor and  
Members of the 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, 2015. Professional standards require that I provide you with information about my responsibilities under generally accepted auditing standards and *Government Auditing Standards*, 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 September 23, 2015. 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. GASB 68 was implemented for fiscal year ended 2015. I noted no transactions entered into by the Town of Spruce Pine 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. The most sensitive estimate affecting the Town of Spruce Pine's financial statements was:

Management's estimate of the capital assets is based on useful life and depreciation. I evaluated key factors and assumptions used to develop the capital assets in determining that it is reasonable in relation to the financial statements taken as a whole.

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 me 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 October 29, 2015.



### *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 Town of Spruce Pine'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 me 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 prior to retention as the Town of Spruce Pine's auditors. However, these discussions occurred in the normal course of our professional relationship and my responses were not a condition to my retention.

### Other Matters

I applied certain limited procedures to Management's Discussion and Analysis, the Law Enforcement Officers' Special Separation Allowance, and the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Asset and Contributions, which is required supplementary information (RSI) that supplements the basic financial statements. My procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during my audit of the basic financial statements. I did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

I was engaged to report on the Schedule of Ad Valorem Taxes and the Analysis of Current Tax Levy, which accompany the financial statements but are not RSI. With respect to this supplementary information, 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.

### Restriction on Use

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,



Laura W. Verla, CPA

# LAURA W. VERLA

CERTIFIED PUBLIC ACCOUNTANT

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

In planning and performing my audit of the financial statements of the Town of Spruce Pine as of and for the year ended June 30, 2015, in accordance with auditing standards generally accepted in the United States of America, I considered the Town's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, I do not express an opinion on the effectiveness of the Town's internal control.

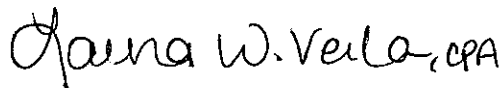
My consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, I identified a deficiency in internal control that I consider to be a significant deficiency.

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 deficiency in the Town of Spruce Pine's internal control to be a significant deficiency:

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.



Laura W. Verla, CPA  
Spruce Pine, North Carolina  
October 30, 2015

