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**TOWN OF SPRUCE PINE
NORTH CAROLINA**

Financial Statements
with Independent Auditor's Report thereon

June 30, 2016

Town Council Members

Darla Harding, Mayor
James Acuff
Rocky Buchanan
Larry McKinney
Jackie Rensink

Administrative and Financial Staff

Richard Canipe, Town Manger
David Lindsey, Finance Officer

Laura W. Verla, CPA
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LAURA W. VERLA

CERTIFIED PUBLIC ACCOUNTANT

PO Box 545 ▪ 167 Locust Street ▪ Spruce Pine, NC 28777 ▪ 828-765-1040 ▪ LauraVerla@cpa.com

October 24, 2016

Town of Spruce Pine
PO Box 189
Spruce Pine, NC 28777

To the Town Council and Management:

I have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Spruce Pine for the year ended June 30, 2016. 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 July 27, 2016. 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 fiscal year 2016. 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 estimates affecting the Town of Spruce Pine's financial statements was:

Management's estimation of the depreciation of capital assets is based on useful life. I evaluated the key factors and assumptions used to develop the depreciation schedule 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 our 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. There were no misstatements identified during the audit requiring communication or correction.

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 24, 2016.

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 each year 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, Budgetary Comparison Schedule, 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 my inquiries, the basic financial statements, and other knowledge I 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 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 information and 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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October 24, 2016

Town of Spruce Pine
PO Box 189
Spruce Pine, NC 28777

To the Town Council and Management:

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, 2016, 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.

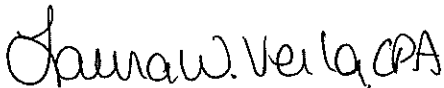
My consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may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

The Town lacks adequate segregation of duties. Inadequate segregation of duties could make fraud detection difficult and misappropriation of assets could result. Although the segregation of duties is limited due to small staff size, the duties should be separated as much as possible and alternative procedures should be used to compensate for the lack of separation. The governing board should continue to be actively involved in monitoring the Town's activities and could provide some of the alternative procedures.

This communication is intended solely for the information and use of management, the Town Council, and others within the Town of Spruce Pine, 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 24, 2016

TOWN OF SPRUCEPINE, NORTH CAROLINA
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FINANCIAL SECTION

LAURA W. VERLA

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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, each major fund, and the aggregate remaining fund information of the Town of Spruce Pine as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Town of Spruce Pine'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 did not audit the financial statements of the Town of Spruce Pine ABC Board, which represents 100 percent of the assets, net position, and revenues of the discretely presented component units. Those financial statements were audited by another auditor whose report was been furnished to me, and my opinion, insofar as it relates to the amounts included for the Town of Spruce Pine ABC Board, is based solely on the report of another auditor. 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 Town of 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 discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Spruce Pine as of June 30, 2016, and the respective changes in financial position and cash flows 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, the Law Enforcement Officers' Special Separation Allowance, the Other Postemployment Benefits'

Schedules' of Funding Progress and the Schedules of Employer Contributions, the Local Government Employees' Retirement System's Schedules of the Proportionate Share of The Net Pension Asset and Contributions 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 and other auditors 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 me with sufficient evidence to express an opinion or provide any assurance.

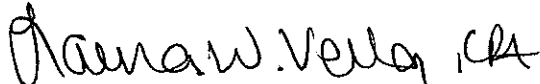
Supplementary and Other Information

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 combining and individual fund statements, budgetary schedules, and other schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated October 24, 2016, on my consideration of the Town of Spruce Pine's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Spruce Pine's internal control over financial reporting and compliance.


Laura W. Verla, CPA

Spruce Pine, North Carolina
October 24, 2016

**MANAGEMENT DISCUSSION
AND ANALYSIS**

TOWN OF SPRUCE PINE, NORTH CAROLINA
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2016

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, 2016. 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 exceeded its liabilities at the close of the fiscal year by \$20,536,890
- The government's total net position increased by \$128,075.
- As of the close of current fiscal year, the Town of Spruce Pine's governmental funds reported combined ending fund balances of \$2,770,918, a decrease of \$540,903 in comparison to the prior year. Approximately 96.95 percent of this total amount, or \$2,686,516, is available for spending at the government's discretion.
- The Town of Spruce Pine's total debt decreased by \$200,091 during the current fiscal year.

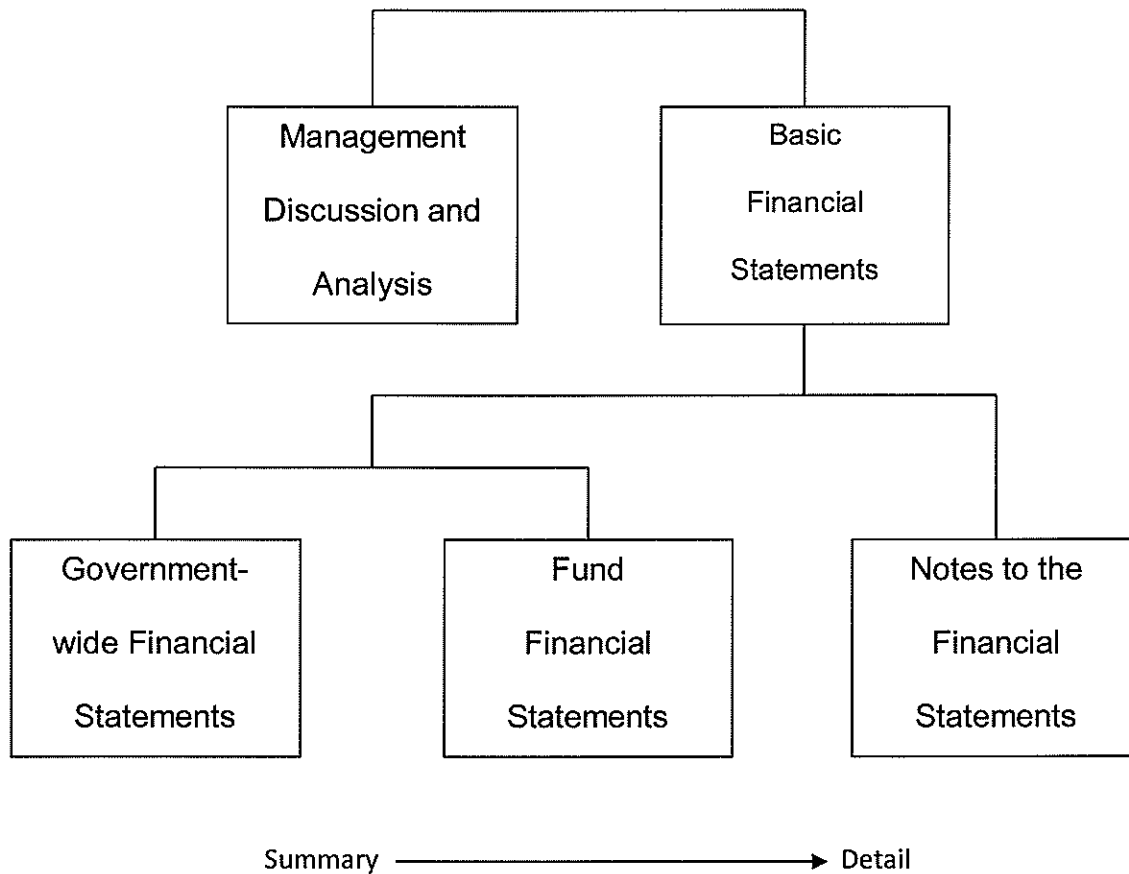
Overview of the Financial Statements

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.

Required Components of Annual Financial Report

TOWN OF SPRUCE PINE, NORTH CAROLINA
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2016

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, 2016

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 is 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 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

TOWN OF SPRUCE PINE, NORTH CAROLINA
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2016

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 Fund – 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 25-42 of this report.

Government-Wide Financial Analysis

Town of Spruce Pine's Net Position
 Figure 2

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 3,472,753	\$ 4,075,980	\$ 801,154	\$ 670,430	\$ 4,273,907	\$ 4,746,410
Capital Assets	2,756,819	2,116,125	14,760,261	15,134,939	17,517,084	17,251,064
Total assets	6,229,572	6,192,105	15,561,415	15,805,369	21,790,991	21,997,474
Current liabilities	122,355	127,242	472,555	302,361	594,910	429,603
Long-term liabilities	88,379	80,046	568,895	800,239	657,274	880,285
Total liabilities	210,734	207,288	1,041,450	1,102,600	1,252,184	1,309,888
Deferred inflows of resources	81,832	241,876	-	-	81,832	241,876
Net position:						
Net investment in capital assets, net of related debt	2,756,820	2,114,937	13,984,282	14,158,869	16,741,102	16,273,806
Restricted	83,936	53,178	-	-	83,936	53,178
Unrestricted	3,176,165	3,596,951	535,683	543,900	3,711,848	4,140,851
Total net position	\$ 6,016,921	\$ 5,765,066	\$ 14,519,965	\$ 14,702,769	\$ 20,536,890	\$ 20,467,835

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 \$20,536,890 as of June 30, 2016. The Town's net position increased by \$128,075 for the fiscal year ended June 30, 2016. However the largest portion reflects the Town's net investment in capital assets (e.g. machinery, and equipment and construction in progress), less any related debt still outstanding

TOWN OF SPRUCE PINE, NORTH CAROLINA
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2016

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 95.03%, which is comparable to the statewide average of 98.87%.
- 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	
	2016	2015	2016	2015	2016	2015
Revenues:						
Program revenues:						
Charges for services	\$ 87,093	\$ 79,861	\$ 2,199,854	\$ 2,166,801	\$ 2,286,947	\$ 2,246,662
Operating grants and contributions	147,626	157,168	-	-	147,626	157,168
Capital grants and contributions	-	-	61,525	290,809	61,525	290,809
General revenues:						
Property taxes	1,110,742	1,080,554	-	-	1,110,742	1,080,554
Other taxes	714,390	705,272	-	-	714,390	705,272
Grants and contributions not restricted to specific programs:						
	13,243	64,449	-	-	13,243	64,449
Other:	84,686	41,431	-	-	84,686	41,431
Total Revenues	2,157,780	2,128,735	2,261,379	2,457,610	4,419,159	4,586,345
Expenses:						
General government	251,384	363,538	-	-	251,384	363,538
Public safety	930,419	2,444,634	-	-	930,419	2,444,634
Transportation	308,315	351,177	-	-	308,315	351,177
Economic and physical development	40,864	86,005	-	-	40,864	86,005
Cultural and recreation	288,212	313,884	-	-	288,212	313,884
Environmental protection	71,306	71,246	-	-	71,306	71,246
Cemetery	15,425	18,456	-	-	15,425	18,456
Water and sewer	-	-	2,385,158	2,314,127	2,385,158	2,314,127
Total Expenses	1,905,925	3,648,940	2,385,158	2,314,127	4,291,084	5,963,067
Increase (decrease) in net position	251,855	(1,520,205)	(123,780)	143,483	128,075	(1,376,722)
Net position, July 1	5,765,066	7,425,506	14,702,769	14,559,286	20,467,835	21,984,792
Restatement	-	(140,235)	(59,020)	-	(59,020)	(140,235)
Net position, June 30	\$ 6,016,921	\$ 5,765,066	\$ 14,519,969	\$ 14,702,769	\$ 20,536,890	\$ 20,467,835

TOWN OF SPRUCE PINE, NORTH CAROLINA
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2016

Governmental activities: Governmental activities increased the Town's net position by \$251,855. Key elements of this increase are as follows:

- Decrease in primary government expenses.
- Increase in taxes collected.

Business-type activities. Business-type activities decreased the Town of Spruce Pine's net position by \$123,780. Key elements of this decrease are as follows:

- Decrease in grants.
- Slight increase in expenses.

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 \$2,686,516, while total fund balance reached \$2,770,918.

At June 30, 2016, the governmental funds of the Town of Spruce Pine reported a combined fund balance of \$2,770,918, a 16.34 percent decrease from last year.

General Fund Budgetary Highlights. During the fiscal year, the Town of Spruce Pine made four 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 \$29,045 and expenditures increased by \$746,047.

Proprietary Fund. The Town's proprietary fund 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 \$535,683.

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, 2016, totals \$16,741,101 (net accumulated depreciation). These assets include buildings, infrastructure, land, machinery and equipment, vehicles, and water and sewer systems.

TOWN OF SPRUCE PINE, NORTH CAROLINA
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2016

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

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land	\$ 548,641	\$ 606,533	\$ 48,849	\$ 48,845	\$ 597,490	\$ 655,378
Buildings/Improvements	1,609,306	926,642	-	-	1,609,306	926,642
Recreation park	399,471	402,512	-	-	399,471	402,512
Equipment	49,079	50,092	93,554	88,182	142,633	138,274
Vehicles	142,115	70,317	-	-	142,115	70,317
Infrastructure	8,207	60,029	-	-	8,207	60,029
Water and sewer systems	-	-	11,877,904	12,301,389	11,877,904	12,301,389
Construction in progress	-	-	2,739,958	2,696,523	2,739,958	2,696,523
Total	\$ 2,756,819	\$ 2,116,125	\$ 14,760,265	\$ 15,134,939	\$ 17,517,084	\$ 17,251,064

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, 2016, the Town of Spruce Pine had total debt outstanding of \$775,979. Of this, \$363,559 was for water and sewer bonds.

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

	Governmental Activities		Business-type activities		Total	
	2016	2015	2016	2015	2016	2015
Installment contracts	\$ -	\$ 1,188	\$ 436,680	\$ 619,429	\$ 436,680	\$ 620,617
General obligation bonds	-	-	339,299	356,640	339,299	356,640
Total	\$ -	\$ 1,188	\$ 775,979	\$ 976,069	\$ 775,979	\$ 977,257

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 \$15,742,441.

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

TOWN OF SPRUCE PINE, NORTH CAROLINA
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2016

Economic Factors and Next Year's Budget and Rates

The Town's economy has remained steady for the past year and should remain that way for the next budget year. Revenue estimates for next year's budget are projected slightly higher primarily due to projected increase in sales taxes and franchise taxes.

Real estate and personal property rates remained at 51 cents per hundred dollars with little or no increase in valuation. Water and sewer rates were increased across the board for inside and outside rates. Net increase should show an increase of 2%.

These increases should cover the economic increases in normal contract increases and ongoing increases in utilities, wages, benefits and supplies.

Budget Highlights for the Fiscal Year Ending June 30, 2017.

Government Activities: The property tax rate for the Town of Spruce Pine remains at \$.51 per \$100 valuation. Operating costs increased by \$53,570 primarily due to wage and benefit increases. This increase was offset with sales and franchise tax increase. Normal capital items were included for all departments. The main revenue sources for the General Fund are: 1) Property and vehicle taxes (56.6%), 2) Other taxes including franchise (35.5%), 3) Powell Bill (4.1%). These three sources reflect 96.2% of total General Revenue Sources. The town did not budget any fund balance amount this coming year.

Business-type Activities: The total Water and Sewer Fund budget for the Town of Spruce Pine is \$2,230,549. This is a 3.2% increase over the previous year due to normal economic increases and our contract with American Water. These increases will be offset with an increase in water and sewer rates of 2% and the remainder covered through volume related increases.

**GOVERNMENT-WIDE
FINANCIAL STATEMENTS**

TOWN OF SPRUCE PINE, NORTH CAROLINA
STATEMENT OF NET POSITION
June 30, 2016

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	<u>Town of Spruce Pine ABC Board</u>
ASSETS				
Current assets:				
Cash and equivalents	\$ 2,807,912	\$ 567,782	\$ 3,375,694	104,246
Taxes receivable, net	108,117	-	108,117	-
Accounts receivable, net	77,357	228,010	305,367	-
Notes receivable, net	468,227	-	468,227	-
Inventories	640	-	640	148,707
Prepaid items	10,500	1,200	11,700	-
Total current assets	<u>3,472,753</u>	<u>796,992</u>	<u>4,269,745</u>	<u>252,953</u>
Other assets:				
Bond issue costs, net	-	4,162	4,162	-
Non-current assets:				
Net pension asset	-	-	-	-
Capital asset (Note 1):				
Land, improvements, and construction in progress	548,641	2,788,803	3,337,444	-
Other capital assets, net of depreciation	2,208,178	11,971,462	14,179,640	364,313
Total capital assets	<u>2,756,819</u>	<u>14,760,265</u>	<u>17,517,084</u>	<u>364,313</u>
Total non-current assets	<u>2,756,819</u>	<u>14,760,265</u>	<u>17,517,084</u>	<u>364,313</u>
Total assets	<u>\$ 6,229,572</u>	<u>\$ 15,561,419</u>	<u>\$ 21,790,991</u>	<u>\$ 617,266</u>
DEFERRED OUTFLOWS OF RESOURCES				
Pension deferrals	79,915	-	79,915	-
Total deferred outflows of resources	<u>79,915</u>	<u>-</u>	<u>79,915</u>	<u>-</u>
LIABILITIES				
Current liabilities:				
Accounts payable and accrued expenses	\$ 82,388	\$ 144,876	\$ 227,264	\$ 33,341
Customer deposits	-	42,275	42,275	-
Availability fees	-	78,320	78,320	-
Bonds, capital leases and contracts	-	207,084	207,084	14,113
Compensated absences	39,967	-	39,967	-
Total current liabilities	<u>122,355</u>	<u>472,555</u>	<u>594,910</u>	<u>47,454</u>
Long-term liabilities:				
Note payable	-	412,420	412,420	409,532
Bonds, capital leases and contracts	-	156,475	156,475	-
Net pension obligation	59,429	-	59,429	-
Compensated absences	28,950	-	28,950	-
Total long-term liabilities	<u>88,379</u>	<u>568,895</u>	<u>657,274</u>	<u>409,532</u>
Total liabilities	<u>210,734</u>	<u>1,041,450</u>	<u>1,252,184</u>	<u>456,986</u>
DEFERRED INFLOWS OF RESOURCES				
Prepaid taxes	1,394	-	1,394	-
Insurance proceeds	42,743	-	42,743	-
Pension deferrals	37,695	-	37,695	-
Total deferred inflows of resources	<u>81,832</u>	<u>-</u>	<u>81,832</u>	<u>-</u>
NET POSITION				
Net investment in capital assets	2,756,820	13,984,286	16,741,106	-
Restricted for:				
Stabilization by state statute	46,322	-	46,322	-
Other functions	37,614	-	37,614	-
Unrestricted	3,176,165	535,683	3,711,848	160,280
Total net position	<u>\$ 6,016,921</u>	<u>\$ 14,519,969</u>	<u>\$ 20,536,890</u>	<u>\$ 160,280</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, 2016

Functions/Programs	Program Revenue					Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government		
						Business-type Activities	Total	Town of Spruce Pine ABC Board
Primary Government								
Governmental Activities								
General Government	\$ 251,384	\$ -	\$ -	\$ -	\$ (251,384)	\$ -	\$ (251,384)	\$ -
Public Safety	930,419	1,096	49,900	-	(879,423)	-	(879,423)	-
Transportation	308,315	-	86,177	-	(222,138)	-	(222,138)	-
Economic and Physical Development	40,864	42,747	-	-	1,883	-	1,883	-
Culture and Recreation	288,212	43,250	-	-	(244,962)	-	(244,962)	-
Environmental Protection	71,306	-	-	-	(71,306)	-	(71,306)	-
Cemetery	15,425	-	11,549	-	(3,876)	-	(3,876)	-
Total Governmental Activities	1,905,925	87,093	147,626	-	(1,671,206)	-	(1,671,206)	-
Business-Type Activities:								
Water and Sewer	2,385,158	2,199,854	-	61,525	-	(123,780)	(123,780)	-
Total Business-Type Activities	2,385,158	2,199,854	-	61,525	-	(123,780)	(123,780)	-
Total Primary Government	\$ 4,291,083	\$ 2,286,947	\$ 147,626	\$ 61,525	\$ (1,671,206)	\$ -	\$ (1,794,986)	\$ -
Component Units								
Town of Spruce Pine ABC Board	1,185,678	1,240,046	-	-	-	-	-	54,368
Total Component Units	\$ 1,185,678	\$ 1,240,046	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 54,368
General revenues:								
Taxes								
Property taxes, levied for general purposes					\$ 1,110,742	\$ -	\$ 1,110,742	\$ -
Other taxes					714,390	-	714,390	-
Grants and contributions not restricted to specific programs					13,243	-	13,243	-
Unrestricted investment earnings					1,376	-	1,376	-
Miscellaneous					79,710	-	79,710	-
Special item - gain on sale of asset					3,600	-	3,600	-
Total general revenues, special items, and transfers					1,923,061	-	1,923,061	-
Change in net position					251,855	(123,780)	128,075	54,368
Profit distribution					-	-	-	(28,000)
Net position - beginning, previously reported					5,765,066	14,702,769	20,467,835	133,912
Restatement					-	(59,020)	(59,020)	-
Net position - beginning, restated					5,765,066	14,643,749	20,408,815	160,280
Net position - ending					\$ 6,016,921	\$ 14,519,969	\$ 20,536,890	\$ 160,280

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, 2016

	Major Funds		Total Governmental Funds
	General Fund	Police Station Project	
ASSETS			
Cash and cash equivalents	\$ 2,807,912	\$ -	\$ 2,807,912
Receivables, net			
Taxes	108,117	-	108,117
Due from (to) other funds	-	-	-
Accounts	78,392	-	78,392
Notes receivable	468,227	-	468,227
Inventories	640	-	640
Prepaid expenses	10,500	-	10,500
Total assets	<u>3,473,788</u>	<u>-</u>	<u>3,473,788</u>
LIABILITIES DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
Liabilities:			
Accounts payable	Total liabilities	82,388	- 82,388
Deferred inflow of resources:			
	Total deferred inflow	620,482	- 620,482
		<u>702,870</u>	<u>- 702,870</u>
Fund balances:			
Non Spendable			
Inventories	466	-	466
Restricted			
Stabilization by State Statute	46,322	-	46,322
Streets - Powell Bill	-	-	-
Police Equitable Sharing	37,614	-	37,614
Assigned			
Subsequent year's expenditures	-	-	-
Unassigned	2,686,516	-	2,686,516
Total fund balances	<u>2,770,918</u>	<u>-</u>	<u>2,770,918</u>
Total liabilities and fund balances	<u>\$ 3,473,788</u>	<u>\$ -</u>	<u>\$ 3,473,788</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, 2016

Total fund balance, governmental funds	\$	2,770,918
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 Position.		2,756,819
Net pension asset		-
Contributions to the pension plan in the current fiscal year are deferred outflows of resources on the Statement of Net Position		79,915
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.		236,230
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.		210,734
Pension related deferrals		(37,695)
Net Position of Governmental Activities in the Statement of Net Position	<u>\$</u>	<u>6,016,921</u>

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, 2016

	Major Funds		Total Governmental Funds
	General Fund	Police Station Project	
REVENUES			
Ad valorem taxes	\$ 1,110,742	\$ -	\$ 1,110,742
Other taxes and licenses	714,010	-	714,010
Unrestricted intergovernmental	13,243	-	13,243
Restricted intergovernmental	127,398	-	127,398
Permits and fees	380	-	380
Charges for services	43,250	-	43,250
Investment earnings	1,376	-	1,376
Miscellaneous	147,380	-	147,380
Total revenues	<u>2,157,779</u>	<u>-</u>	<u>2,157,779</u>
EXPENDITURES			
Current			
General government	322,008	-	322,008
Public safety	877,278	-	877,278
Transportation	276,859	-	276,859
Economic and physical development	81,400	-	81,400
Environmental protection	71,306	-	71,306
Culture and recreational	255,746	-	255,746
Cemetery	15,425	-	15,425
Debt Service:			
Principal	1,190	-	1,190
Interest and other charges	6	-	6
Capital Outlay	188,703	608,760	797,464
Total expenditures	<u>2,089,922</u>	<u>608,760</u>	<u>2,698,682</u>
Excess (deficiency) of revenues over expenditures	<u>67,857</u>	<u>(608,760)</u>	<u>(540,903)</u>
OTHER FINANCING SOURCES(USES)			
Contributions from General Fund	(608,760)	608,760	-
Total other financing sources and uses	<u>(608,760)</u>	<u>608,760</u>	<u>-</u>
Net change in fund balances	(540,903)	-	(540,903)
Fund balances-beginning	3,311,821	-	3,311,821
Fund balances - ending	<u>\$ 2,770,918</u>	<u>\$ -</u>	<u>\$ 2,770,918</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, 2016

Net change in fund balances - total governmental funds: \$ (540,903)

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 (\$797,464) was exceeded by depreciation (\$156,771) in the current period. 640,693

Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities 79,915

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 121

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. 1,190

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 52,100
 Pension expense 14,067
 Compensated absences 4,673

Total changes in net position of governmental activities \$ 251,856

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, 2016

	General Fund			Variance with Final Budget- Positive (Negative)
	Budgeted Amounts		Actual Amounts	
	Original	Final		
REVENUES				
Ad valorem taxes	\$ 1,072,819	\$ 1,112,421	\$ 1,110,742	\$ (1,679)
Other taxes and licenses	708,581	730,672	714,010	(16,662)
Unrestricted intergovernmental	12,361	12,361	13,243	882
Restricted intergovernmental	84,296	84,296	127,398	43,102
Permits and fees	325	325	380	55
Charges for services	26,769	25,769	43,250	17,481
Investment earnings	1,300	1,300	1,376	76
Miscellaneous	105,867	150,803	147,380	(3,423)
Total revenues	<u>2,012,318</u>	<u>2,117,947</u>	<u>2,157,779</u>	<u>39,832</u>
EXPENDITURES				
Current:				
General government	217,638	336,628	322,008	\$ 14,620
Public Safety	924,613	1,511,946	1,486,039	25,907
Transportation	431,239	289,828	276,859	12,969
Economic and physical development	88,500	84,500	81,400	3,100
Environmental protection	72,422	71,306	71,306	-
Culture and recreation	259,366	256,276	255,746	530
Cemetery	18,540	19,177	15,425	3,752
Debt Service:				
Principal	-	-	1,190	(1,190)
Interest and other charges	-	-	6	(6)
Capital Outlay	-	188,704	188,704	0
Total expenditures	<u>2,012,318</u>	<u>2,758,365</u>	<u>2,698,683</u>	<u>59,682</u>
Excess(deficiency) of revenues over expenditures)	<u>-</u>	<u>(640,418)</u>	<u>(540,904)</u>	<u>99,514</u>
OTHER FINANCING SOURCES(USES)				
Fund balance appropriation	-	640,418	-	(640,418)
Total other financing sources and uses	<u>-</u>	<u>640,418</u>	<u>-</u>	<u>(640,418)</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (540,904)</u>	<u>\$ (540,904)</u>
Fund balances-beginning			3,311,821	
Fund balances-ending			<u>\$ 2,770,917</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 FUND
June 30, 2016

	<u>Enterprise Funds</u> <u>Water and Sewer</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 567,782
Accounts receivable, net	228,010
Prepaid expenses	1,200
Total current assets	<u>796,992</u>
Non-current assets:	
Bond issue cost, net	<u>4,162</u>
Capital Assets:	
Land and other non-depreciable assets	48,845
Other capital assets, net of depreciation	11,971,462
Construction in progress	2,739,958
Total capital assets, net	<u>14,760,265</u>
Total non-current assets	<u>14,764,427</u>
Total assets	<u><u>15,561,419</u></u>
LIABILITIES	
Current Liabilities:	
Accounts payable	144,876
Customer deposits	42,275
Availability fees	78,320
Bonds, notes and loans payable	207,084
Total current liabilities	<u>472,555</u>
Non-current liabilities:	
Bonds, notes and loans payable	<u>568,895</u>
Total non-current liabilities	<u>568,895</u>
Total liabilities	<u><u>1,041,450</u></u>
NET POSITION	
Net Invested in capital assets	13,984,286
Unrestricted	535,683
Total net position	<u><u>\$ 14,519,969</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 FUND
For the Year Ended June 30, 2016

		<u>Water and Sewer</u>
OPERATING REVENUES		
Charges for services		\$ 2,181,938
Miscellaneous		17,819
	Total operating revenues	<u>2,199,757</u>
OPERATING EXPENSES		
Administration		1,079,267
Water treatment and distribution		431,694
Wastewater collection and treatment		406,890
Depreciation		446,282
	Total operating expenses	<u>2,364,133</u>
	Operating income (loss)	(164,376)
NON-OPERATING REVENUES (EXPENSES)		
Interest and investment revenue		99
Interest expense		(18,554)
Bond amortization costs		(2,474)
	Total non-operating revenue (expenses)	<u>(20,929)</u>
	Income (loss) before contributions and transfers	(185,305)
Capital contributions		<u>61,525</u>
	Restatement	(59,020)
	Change in net position	(182,800)
	Total net position - beginning	14,702,769
	Total net position - ending	<u>\$ 14,519,969</u>

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, 2016

	<u>Water and Sewer Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 2,149,059
Cash paid for goods and services	(1,827,426)
Customer deposits received	(443)
Net cash provided (used) by operating activities	<u>321,190</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Total cash flows from noncapital financing activities	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(70,604)
Principal paid on bond maturities and equipment contracts	(200,095)
Interest paid on bond maturities and equipment contracts	(18,554)
Capital contributions	61,525
Net cash provided (used) by capital and related financing activities	<u>(227,728)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and dividends	99
Net increase (decrease) in cash and cash equivalents	<u>93,561</u>
	Beginning of the year <u>474,221</u>
	End of the year <u>\$ 567,782</u>
Reconciliation of operating income to net cash provided by operating activities	
Operating income	(164,376)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	446,282
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	(50,698)
Increase (decrease) in accounts payable and accrued liabilities	83,433
Increase (decrease) in bonds payable current	6,992
Increase (decrease) in customer deposits	(443)
Total adjustments	<u>485,566</u>
Net cash provided by operating activities	<u>\$ 321,190</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, 2016

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:

A. 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

B. 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's funds. Separate statements for each fund category - *governmental and proprietary* - are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in

TOWN OF SPRUCE PINE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

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

separate columns. Any other funds would be reported as non-major 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. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

The Town reports the following major governmental funds:

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

Police Department Building Capital Projects Fund. This fund is used to account for construction of a new police department building.

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.

C. Measurement Focus and Basis of Accounting

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

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

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

TOWN OF SPRUCE PINE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

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

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

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

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

Sales taxes and certain intergovernmental revenues, such as the utilities franchise tax, collected and held by the State at year-end on behalf of the Town are recognized as revenue. Sales taxes are considered a shared revenue for the Town because the tax is levied by Mitchel County and then remitted to and distributed by the State. 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.

TOWN OF SPRUCE PINE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

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

D. Budgetary Data

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General 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.

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources, 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. The Town's and the ABC Board's investments are reported at fair value. Non-participating interest earning contracts are accounted for at cost. The NCCMT- Cash Portfolio, a SEC-registered (2a-7) external investment pool, is measured at amortized cost, which is the NCCMT's share price. The NCCMT- Term Portfolio's securities are valued at fair value.

2. *Cash and Cash Equivalents*

The Town pools money from several funds to facilitate disbursement and investment and to maximize investment income. Therefore, all cash and investments are essentially demand 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.

TOWN OF SPRUCE PINE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

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

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 received prior to June 15, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 15, 2015 are recorded at acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical cost. 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 is not capitalized.

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

TOWN OF SPRUCE PINE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

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

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.	\$ 79,479	\$ 59,750	\$ 19,728
Land	n/a	40,000	-	40,000
Buildings & Leasehold Improvements	10-39 yrs.	<u>333,431</u>	<u>28,847</u>	<u>304,585</u>
	Total	<u>\$ 452,910</u>	<u>\$ 88,597</u>	<u>\$ 364,313</u>

7. Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Town has one item that meets this criterion, contributions made to the pension plan in the 2015 fiscal year. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Town has two items that meet the criterion for this category - prepaid taxes and deferrals of pension expense that result from the implementation of GASB Statement 68.

TOWN OF SPRUCE PINE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

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

8. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. 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.

9. Compensated Absences

The vacation policy of the Town provides for the accumulation of up to thirty (30) days earned vacation leave with such leave being fully vested when earned. For the Town's government-wide and proprietary funds, 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.

10. Net Position/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 represents 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.

TOWN OF SPRUCE PINE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

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

The governmental fund types classify fund balances as follows:

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

- 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)].

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.

11. Pensions

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

TOWN OF SPRUCE PINE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

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 under-collateralization, 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, 2016, the Town's deposits had a carrying amount of \$3,375,694 and a bank balance of \$2,266,524. 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, 2016 the Town's petty cash funds totaled \$1,800.

At June 30, 2016 the ABC Board's deposits had a carrying amount of \$104,246 and a bank balance of \$145,867. All of the bank balance was covered by federal depository insurance.

2. *Investments*

At June 30, 2016, the Town of Spruce Pine had \$173,832 invested with the North Carolina Capital Management Trust's Cash Portfolio which carried a credit rating of AAAM by Standard and Poor's. The Town has no policy regarding credit risk.

3. *Receivables – Allowances for Doubtful Accounts*

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

General fund	
Taxes Receivable	\$ 108,117
Accounts Receivable	77,357
Notes Receivable	<u>468,227</u>
Total	\$ 653,701

Notes Receivable is economic development loans to community businesses. More details are found in Note 3.

TOWN OF SPRUCE PINE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

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

4. Capital Assets

Primary Government

Capital asset activity for the Primary Government for the year ended June 30, 2016 is detailed in the table below.

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets not being depreciated:				
Land	548,641	-	-	548,641
Construction in progress	57,892	608,760	666,652	-
Total capital assets not being depreciated	<u>606,533</u>	<u>608,760</u>	<u>666,652</u>	<u>548,641</u>
Capital assets being depreciated:				
Buildings	919,693	656,606	-	1,576,299
Building improvements	339,858	58,642	-	398,500
Equipment	553,558	-	-	553,558
Recreation park	766,513	-	-	766,513
Furniture and maintenance equipment	21,030	21,133	-	42,163
Vehicles	565,183	150,541	122,098	593,626
Infrastructure	599,942	-	-	599,942
Total capital assets being depreciated	<u>3,765,777</u>	<u>886,922</u>	<u>122,098</u>	<u>4,530,601</u>
Less accumulated depreciation for:				
Buildings	181,815	27,940	-	209,755
Building improvements	151,094	14,692	-	165,786
Equipment	503,466	9,883	-	513,348
Recreation park	364,002	3,038	-	367,041
Furniture and maintenance equipment	21,030	4,227	-	25,257
Vehicles	494,865	47,179	90,533	451,511
Infrastructure	539,913	49,812	-	589,725
Total accumulated depreciation	<u>2,256,185</u>	<u>156,771</u>		<u>2,322,423</u>
Total capital assets being depreciated, net	<u>1,509,592</u>			<u>2,208,178</u>
Governmental activity capital assets, net	<u><u>2,116,125</u></u>			<u><u>2,756,819</u></u>

TOWN OF SPRUCE PINE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

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

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

General government	\$ 45,857
Public safety	43,237
Transportation	29,849
Economic development	5,247
Culture and recreation	<u>32,581</u>
Total depreciation expense	<u>\$156,771</u>

	Beginning Balances	Increases	Decreases	Ending Balances
<i>Water and Sewer Fund</i>				
Capital assets not being depreciated:				
Land	48,845	-	-	48,845
Construction in progress	2,696,523	43,435	-	2,739,958
Total capital assets not being depreciated	<u>2,745,368</u>	<u>43,435</u>	-	<u>2,788,803</u>
Capital assets being depreciated:				
Water and sewer systems	19,859,553	-	-	19,859,553
Water meters	280,542	-	-	280,540
Equipment	399,712	28,170	-	427,889
Total capital assets being depreciated	<u>20,539,807</u>	<u>28,170</u>	-	<u>20,567,982</u>
Less accumulated depreciation for:				
Water and sewer systems	7,624,081	414,019	-	8,038,100
Water meters	214,625	9,458	-	224,085
Equipment	311,530	22,805	-	334,335
Total accumulated depreciation	<u>8,150,236</u>	<u>446,282</u>	-	<u>8,596,520</u>
Total capital assets being depreciated, net	<u>12,389,571</u>			<u>11,971,462</u>
Business-type capital assets, net	<u>15,134,939</u>			<u>14,760,265</u>

B. Liabilities

1. Pension Plan and Postemployment Obligations

a. Local Government Employees' Retirement System

Plan Description. The Town of Spruce Pine is a participating employer in the statewide Local Governmental Employees' Retirement System (LGERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS membership is

TOWN OF SPRUCE PINE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

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

comprised of general employees and local law enforcement officers (LEOs) of participating local governmental entities. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the State Senate, one appointed by the State House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. The Local 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, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454, or at www.osc.nc.gov.

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

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

Contributions. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. Town of Spruce Pine employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Town of Spruce Pine's

TOWN OF SPRUCE PINE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

contractually required contribution rate for the year ended June 30, 2016, was 7.41% of

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

law enforcement officers and 7.07% for general employees, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Town of Spruce Pine were \$12,592 for the year ended June 30, 2016.

Refunds of Contributions – Town employees who have terminated service as a contributing member of LGERS, may file an application for a refund of their contributions. By state law, refunds to members with at least five years of service include 4% interest. State law requires a 60-day waiting period after service termination before the refund may be paid. The acceptance of a refund payment cancels the individual’s right to employer contributions or any other benefit provided by LGERS.

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

At June 30, 2016, the Town reported pension deferral of \$79,915 for its proportionate share of the net pension asset. The net pension derral was measured as of June 30, 2016. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2014. The total pension liability was then rolled forward to the measurement date of June 30, 2015 utilizing update procedures incorporating the actuarial assumptions. The Town’s proportion of the net pension asset was based on a projection of the Town’s long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2015, the Town’s proportion was 0.0167%.

For the year ended June 30, 2016, the Town recognized pension expense of \$32,969. At June 30, 2016, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 17,048
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	20,648
Changes in proportion and differences between Town contributions and proportionate share of contributions	19,326	-
Town contributions subsequent to the measurement date	60,589	-
Total	\$ 79,915	\$ 37,696

TOWN OF SPRUCE PINE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

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

\$37,696 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as an increase of the net pension asset in the year ended June 30, 2017. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

2017	\$ (17,794)
2018	(17,794)
2019	(17,824)
2020	35,043
2021	-
Thereafter	-
	<u>\$ (18,369)</u>

Actuarial Assumptions. The total pension liability in the December 31, 2014 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, 2014 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.

TOWN OF SPRUCE PINE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

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

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, 2015 are summarized in the following table.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	29.0%	2.2%
Global Equity	42.0%	5.8%
Real Estate	8.0%	5.2%
Alternatives	8.0%	9.8%
Credit	7.0%	6.8%
Inflation Protection	6.0%	3.4%
Total	<u>100%</u>	

The information above is based on 30 year expectations developed with the consulting actuary for the 2014 asset liability and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.00%. All rates of return and inflation are annualized.

Discount rate. The discount rate used to measure the total pension liability was 7.25%. 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

TOWN OF SPRUCE PINE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

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

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:

	1% Decrease (6.25%)	Discount Rate (7.25%)	1% Increase (8.25%)
Town's proportionate share of the net pension liability (asset)	\$ 505,727	\$ 72,525	\$ (292,438)

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, 2016, the Separation Allowance's membership consisted of:

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

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

TOWN OF SPRUCE PINE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

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

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:

- 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, 2016

Employer annual required contribution	\$ 20,713
Interest on net pension obligation	2,666
Adjustment to annual required contribution	<u>(4,686)</u>
Annual pension cost	18,683
Employer contributions made for fiscal year ending 06/30/15	<u>12,592</u>
Increase (decrease) in net pension obligation	6,101
Net pension obligation beginning of fiscal year	<u>53,328</u>
Net pension obligation end of fiscal year	<u>\$ 59,429</u>

TOWN OF SPRUCE PINE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

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

<u>Fiscal Year End</u>	Three Year Trend Information		
	<u>Annual Pension Cost</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
06/30/14	14,298	54.60%	47,982
06/30/15	18,945	51.78%	53,328
06/30/16	18,693	67.36%	59,429

4. Funded Status and Funding Progress

As of December 31, 2015, 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 \$268,265. The covered payroll (annual payroll of active employees covered by the plan) was \$406,412, and the ratio of the UAAL to the covered payroll was 66.07%

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 is increasing or decreasing over time relative to the actuarial accrue 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, 2016 were \$12,592 that consisted of \$12,592 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.

TOWN OF SPRUCE PINE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

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

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. 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:

Pension deferrals	79,915
Total	\$79,915

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

Prepaid taxes	\$ 1,394
Insurance proceeds	42,743
Pension deferrals	37,695
Total	\$ 81,832

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,

TOWN OF SPRUCE PINE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

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

worker's compensation coverage of up to statutory limits, and employee health coverage up to a \$1 million lifetime limit.

The pools are reinsured through commercial companies for single occurrence claims against general liability and auto liability in excess of \$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.

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, 2016, including \$3,893 of interest are as follows:

Year Ending June 30	Governmental Activities	
	Principal	Interest
2017	64,003	3,236
2018	32,962	657
Total	<u>\$ 96,965</u>	<u>\$ 3,893</u>

TOWN OF SPRUCE PINE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

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, 2016 are as follows:

Year Ending June 30	Governmental Activities Principal
2017	\$ 24,260
2018	24,260
2019	24,260
2020	24,260
2021	24,260
2022-2025	97,040
2026-2030	121,300
2031-2034	97,040
Total	\$436,680

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, 2016 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, 2016, including interest \$381,438.

At June 30, 2016, the Town of Spruce Pine had a legal debt margin of \$15,742,441.

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

Year Ending June 30, 2016	Principal	Interest	Total
2017	118,821	8,325	127,146
2018	123,512	3,634	127,146
Total	\$ 242,342	\$ 11,959	\$ 254,292

TOWN OF SPRUCE PINE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

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

c. Changes in Long-Term Liabilities

	Balance June 30, 2015	Increases	Decreases	Balance June 30, 2016	Current Portion of Balance
Governmental activities:					
Note payable	\$ 1,188	\$ -	\$ (1,188)	\$ -	\$ -
Compensated absences	64,245	-	(35,295)	28,950	39,967
Net pension obligation	53,328	6,101	-	59,429	-
Governmental long-term liabilities	<u>118,761</u>	<u>6,101</u>	<u>(36,483)</u>	<u>88,379</u>	<u>39,967</u>
Business-type activities:					
Note payable	460,940	-	(24,260)	436,680	-
General obligation bonds	356,640	-	(114,307)	242,333	64,002
Installment note	158,489	-	(61,524)	96,965	118,820
Business-type long-term liabilities	<u>\$ 976,069</u>	<u>\$ -</u>	<u>\$ (200,091)</u>	<u>\$ 775,978</u>	<u>\$ 182,824</u>

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	\$2,770,918
Less:	
Inventories	466
Stabilization by State statute	46,322
Streets - Powell Bill	-
Police Equitable Sharing	37,614
Subsequent year's expenditures	-
Remaining Fund Balance	<u>\$2,686,516</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

TOWN OF SPRUCE PINE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

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, 2016, repayments of \$42,918 were received on a total of seven outstanding loans, bringing the principle balance to \$468,227.

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 \$77,957 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, 2016

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.

NOTE 9: PRIOR PERIOD ADJUSTMENT

The North Carolina Supreme Court recently invalidated certain water and sewer impact fees. Accordingly, the Town recognized during the fiscal year ended June 30, 2016 a contingent liability of \$59,020 for three years' worth of fees the Town collected. The refund could potentially extend to ten years pending subsequent court rulings on the matter.

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, 2016

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)
12/31/2010	-	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%
12/31/2015	-	268,265	268,265	0%	406,412	66.01%

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, 2016

Local Government Employees' Retirement System

	2016
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	\$ 977,155
Spruce Pine's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	(10.08%)
Plan fiduciary net position as a percentage of the total pension liability	98.09%

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

TOWN OF SPRUCE PINE, NORTH CAROLINA
TOWN OF SPRUCE PINE'S PENSION CONTRIBUTIONS
REQUIRED SUPPLEMENTARY INFORMATION
For the year ended June 30, 2016

	2016
Contractually required contributions	\$ 60,589
Contributions in relation to the contractually required contribution	\$ 60,589
Contribution deficiency (excess)	\$ -
Spruce Pine's covered-employee payroll	\$ 977,155
Contributions as a percentage of covered-employee payroll	6.20%

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, 2016

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Revenues			
Ad valorem taxes			
Taxes	\$ -	\$ 1,104,366	\$ -
Penalties and interest	-	6,376	-
Total	<u>1,112,421</u>	<u>1,110,742</u>	<u>(1,679)</u>
Other taxes			
Franchise tax	-	270,525	-
Other taxes	-	443,485	-
Total	<u>730,672</u>	<u>714,010</u>	<u>(16,662)</u>
Unrestricted intergovernmental revenues			
Payments in lieu of taxes	-	13,243	-
Total	<u>12,361</u>	<u>13,243</u>	<u>882</u>
Restricted intergovernmental revenues			
"State Street-Aid" allocation	-	86,177	-
Crime prevention grants	-	41,221	-
Total	<u>125,517</u>	<u>127,398</u>	<u>1,881</u>
Licenses and permits	325	380	55
Sales and services			
Recreation fees and sales	-	43,250	-
Total	<u>25,769</u>	<u>43,250</u>	<u>17,481</u>
Investment earnings	1,300	1,376	76
Other revenues			
Parking violations	-	850	-
Revolving loan repayments	-	42,747	-
Miscellaneous	-	103,783	-
Total	<u>109,582</u>	<u>147,380</u>	<u>37,798</u>
Total revenues	<u>2,117,947</u>	<u>2,157,779</u>	<u>39,832</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, 2016

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Expenditures			
General government			
Governing body			
Salaries and employee benefits	-	16,860	-
Operating expenses	-	843	-
	<u>-</u>	<u>17,703</u>	<u>-</u>
Administration			
Salaries and employee benefits	-	288,544	-
Operating expenses	-	226,714	-
Allocated administrative costs	-	(210,953)	-
	<u>-</u>	<u>304,305</u>	<u>-</u>
Total general government	<u>336,628</u>	<u>322,008</u>	<u>14,620</u>
Public safety			
Police			
Salaries and employee benefits	-	602,574	-
Operating expenses	-	138,149	-
Capital outlay	-	674,407	-
	<u>-</u>	<u>1,415,130</u>	<u>-</u>
Fire			
Operating expenses	-	114,481	-
	<u>-</u>	<u>114,481</u>	<u>-</u>
Inspection			
Operating expenses	-	22,074	-
	<u>-</u>	<u>22,074</u>	<u>-</u>
Total public safety	<u>1,577,593</u>	<u>1,551,685</u>	<u>25,908</u>
Transportation			
Street repair and construction			
Salaries and employee benefits	-	341,233	-
Allocated administrative costs	-	(371,396)	-
Operating expenses	-	307,022	-
Capital outlay - equipment and infrastructure	-	96,309	-
	<u>-</u>	<u>373,168</u>	<u>-</u>
Total transportation	<u>386,137</u>	<u>373,168</u>	<u>12,969</u>
Environmental protection			
Operating Expenses	-	71,306	-
	<u>-</u>	<u>71,306</u>	<u>-</u>
Total environmental protection	<u>71,306</u>	<u>71,306</u>	<u>-</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, 2016

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Cultural and recreational			
Parks and recreation			
Salaries and employee benefits	-	106,780	-
Operating Expenses	-	67,509	-
Capital outlay - equipment and renovations	-	15,661	-
Total	<u>-</u>	<u>189,950</u>	<u>-</u>
Libraries			
Operating Expenses	-	77,957	-
Capital outlay - equipment and renovations	-	11,087	-
Total	<u>-</u>	<u>89,044</u>	<u>-</u>
Contribution to Toe River Arts Council	-	3,500	-
Total cultural and recreational	<u>283,024</u>	<u>282,494</u>	<u>530</u>
Cemetery			
Operating Expenses	-	15,425	-
Total cemetery	<u>19,177</u>	<u>15,425</u>	<u>3,752</u>
Economic development			
Operating Expenses	-	81,400	-
Revolving loans made	-	-	-
Total economic development	<u>84,500</u>	<u>81,400</u>	<u>3,100</u>
Debt Service			
General long-term debt-principal	-	1,190	-
General long-term debt-interest	-	6	-
Total debt service	<u>-</u>	<u>1,196</u>	<u>(1,196)</u>
Total expenditures	<u>2,758,365</u>	<u>2,698,683</u>	<u>59,682</u>
Revenues over (under) expenditures	(640,418)	(540,904)	99,514
Other financing sources (uses)			
Fund balance appropriations	640,418	-	(640,418)
Total other financing sources (uses)	<u>640,418</u>	<u>-</u>	<u>(640,418)</u>
Revenues, appropriations and other sources over expenditures and other financing uses	<u>\$ -</u>	<u>\$ (540,904)</u>	<u>\$ (540,904)</u>
Fund balances			
Beginning of year		3,311,821	
End of year		<u>\$ 2,770,917</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, 2016

	Budget	Actual	Variance Favorable (Unfavorable)
Operating revenue			
Water sales	\$ -	\$ 1,272,672	\$ -
Sewer charges	-	902,719	-
Water taps	-	4,667	-
Sewer taps	-	1,880	-
Other operating revenues	-	17,819	-
Total operating revenues	<u>2,187,199</u>	<u>2,199,757</u>	<u>12,558</u>
Non operating revenues			
Interest on investments	-	99	-
Total nonoperating revenues	<u>4</u>	<u>99</u>	<u>95</u>
Total revenues	<u>2,187,203</u>	<u>2,199,856</u>	<u>12,653</u>
Expenditures			
Administration			
Supplies and materials	-	8,164	-
Contracted services	-	820,656	-
Other departmental expenses	-	250,447	-
Total administration	<u>1,108,353</u>	<u>1,079,267</u>	<u>29,086</u>
Water department			
Utilities	-	70,279	-
Maintenance and repairs	-	317,385	-
Other departmental expenses	-	44,030	-
Total water department	<u>433,363</u>	<u>431,694</u>	<u>1,669</u>
Sewer department			
Utilities	-	95,685	-
Maintenance and repairs	-	246,336	-
Contracted services	-	41,043	-
Other departmental expenses	-	23,826	-
Total sewer department	<u>423,841</u>	<u>406,890</u>	<u>16,951</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, 2016

	Budget	Actual	Variance Favorable (Unfavorable)
Budgetary appropriations			
Interest	-	18,554	-
Bond service charge/amortization	-	2,474	-
Bond & notes principal payments	-	200,091	-
Total budgetary appropriations	<u>221,646</u>	<u>221,119</u>	<u>527</u>
Total expenditures	<u>2,187,203</u>	<u>2,138,970</u>	<u>48,233</u>
Revenue and other sources over expenditures and other uses	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ -</u>	<u>\$ 60,886</u>	<u>\$ 60,886</u>
Reconciliation of modified accrual to full accrual basis:			
Excess of revenues over expenditures		60,886	
Reconciling items:			
Payment of debt principal		200,091	
Depreciation		(446,282)	
Capital contributions		<u>61,525</u>	
Restatement		(59,020)	
Change in net position (Exhibit 7)		<u>\$ (182,800)</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, 2016

	Project Authorization	Actual			Variance Favorable (Unfavorable)
		Prior Years	Current Year	Total To Date	
Revenues - Plant Filter Rehab					
Restricted intergovernmental revenues					
DWSRF Principal Forgiveness Loan	\$ 1,940,800	\$ 1,940,800	\$ -	\$ 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>2,190,800</u>	<u>-</u>	<u>2,190,800</u>	<u>(300,000)</u>
Total Revenues	<u>2,490,800</u>	<u>2,190,800</u>	<u>-</u>	<u>2,190,800</u>	<u>(300,000)</u>
Expenditures - Plant Filter Rehab					
Assisted Living Facility	29,918	29,918	-	29,918	-
Engineering and Environmental Report	10,300	10,300	-	10,300	-
Engineering/Administration	276,000	281,780	2304 17,364	299,144	(23,144)
Construction	2,542,000	2,374,524	-	2,374,524	167,476
Legal/Contingency	117,782	-	26,071	26,071	91,711
Total Plant Filter Rehab	<u>2,976,000</u>	<u>2,696,522</u>	<u>2304 43,435</u>	<u>2,739,957</u>	<u>236,043</u>
Total Expenditures	<u>2,976,000</u>	<u>2,696,522</u>	<u>43,435</u>	<u>2,739,957</u>	<u>236,043</u>
Revenues under expenditures	<u>(485,200)</u>	<u>(505,722)</u>	<u>(43,435)</u>	<u>(549,157)</u>	<u>63,957</u>
Other financing sources					
PRC Industries	-	-	50,000	50,000	50,000
DWSRF Zero Percent Interest Loan	485,200	485,200	-	485,200	-
Total other financing sources	<u>485,200</u>	<u>485,200</u>	<u>50,000</u>	<u>535,200</u>	<u>50,000</u>
Revenues and other sources over (under) expenditures	<u>\$ -</u>	<u>\$ (20,522)</u>	<u>\$ 6,565</u>	<u>\$ (13,957)</u>	<u>\$ 113,957</u>

PRC

15,000
26,071

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, 2016

	Project Authorization	Actual			Variance Favorable (Unfavorable)
		Prior Years	Current Year	Total To Date	
Expenditures - Police Department Building					
Engineering Design and Administration	32,970	24,379	9,810	34,189	(1,219)
Construction	485,010	33,514	451,496	485,010	-
Land Prep and Paving	85,028	-	85,028	85,028	-
Internet and Phone	15,919	-	15,919	15,919	-
Security	22,305	-	22,305	22,305	-
Furniture	10,046	-	10,046	10,046	-
Signage and Flag Pole	5,255	-	5,255	5,255	-
Legal	1,220	-	1,220	1,220	-
Contingency	8,899	-	7,680	7,680	1,219
Total Police Department Building	666,652	57,893	608,759	666,652	-
Total Expenditures	666,652	57,893	608,759	666,652	-
Other financing sources					
Contributions from General Fund	666,652	57,893	608,759	666,652	-
Total other financing sources	666,652	57,893	608,759	666,652	-
Revenues and other sources over (under) expenditures	\$ -	\$ -	\$ -	\$ -	\$ -

OTHER SCHEDULES

TOWN OF SPRUCE PINE, NORTH CAROLINA
SCHEDULE OF AD VALOREM TAXES
June 30, 2016

Fiscal Year	Uncollected Balance June 30, 2015	Additions	Collections and Credits	Releases	Uncollected Balance June 30, 2016
2015 - 2016	\$ -	\$ 1,053,863	\$ 999,802	\$ 1,733	\$ 52,328
2014 - 2015	56,675	-	20,177	-	36,498
2013 - 2014	13,635	-	3,369	-	10,266
2012 - 2013	9,541	-	2,284	-	7,256
2011 - 2012	5,155	-	1,237	-	3,918
2010 - 2011	2,166	-	321	-	1,845
2009 - 2010	253	-	-	-	253
2008 - 2009	307	-	12	-	295
2007 - 2008	294	-	-	-	294
2006 - 2007	163	-	-	-	163
	<u>\$ 88,189</u>	<u>\$ 1,053,863</u>	<u>\$ 1,027,202</u>	<u>\$ 1,733</u>	<u>\$ 113,116</u>

Less: Allowance for uncollectible ad valorem taxes receivable:

Property taxes	5,000
Ad valorem taxes receivable - net	<u>\$ 108,116</u>

Reconciliation with revenues:

Taxes - Ad Valorem - General Fund (Exhibit 5)	\$ 1,110,742
Less: Penalties and interest	(6,376)
Taxes written off	(121)
Total adjustments	(6,497)
Total collections and credits	<u>\$ 1,104,245</u>

TOWN OF SPRUCE PINE, NORTH CAROLINA
ANALYSIS OF CURRENT TAX LEVY
TOWN-WIDE LEVY
For the Year Ended June 30, 2016

	City-wide		Total Levy		
	Property Valuation	Rate	Amount of Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
	Original Levy				
Real property	\$ 153,575,624	\$ 0.51	\$ 783,236	\$ 783,236	
Personal property	36,390,529		185,592	110,234	75,358
Public service companies	14,852,392		75,747	75,747	
	<u>204,818,545</u>		<u>1,044,575</u>	<u>969,217</u>	<u>75,358</u>
Discoveries					
Current year taxes	2,001,596	\$ 0.51	11,021	11,021	-
	<u>2,001,596</u>		<u>11,021</u>	<u>11,021</u>	<u>-</u>
Abatements	(339,900)		(1,733)	(1,733)	-
Total property valuation	<u>\$ 206,480,241</u>				
			Net levy	978,505	75,358
			1,053,863		
Uncollected taxes at June 30, 2016			<u>(52,328)</u>	<u>(52,328)</u>	<u>-</u>
Current year's taxes collected			<u>\$ 1,001,535</u>	<u>\$ 926,177</u>	<u>\$ 75,358</u>
Current levy collection percentage			<u>95.03%</u>	<u>94.65%</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 governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Spruce Pine as of and for the year ended June 30, 2016, 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 24, 2016.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. I did identify a deficiency in internal control, described in the accompanying schedule of findings that I consider to be a significant deficiency. See finding 2016-1.

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 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*.

Town of Spruce Pine's Response to Findings

The Town of Spruce Pine's response to the findings identified in my audit is 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 our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on

compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Laura W. Verla CPA

Laura W. Verla, CPA

Spruce Pine, North Carolina

October 24, 2016

TOWN OF SPRUCE PINE, NORTH CAROLINA
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2016

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, 2016, 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, 2016, 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 2016-1

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

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.