

Town of Spring Lake
Spring Lake, North Carolina
Audited Financial Statements
Year Ended June 30, 2018

Town of Spring Lake, North Carolina
Audited Financial Statements
For the Year Ended June 30, 2018

Board of Aldermen

Larry D. Dobbins, Mayor

Taimoor Aziz, Mayor Pro-Tem

Sona Cooper

Jackie Jackson

James O'Garra

Fredricka Sutherland

Administrative and Financial Staff

Daniel B. Gerald, Town Manager

Claiburn B. Watson, Finance Director

Town of Spring Lake, North Carolina
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Financial Section

S. Preston Douglas & Associates, LLP

CERTIFIED PUBLIC ACCOUNTANTS

MEMBERS

American Institute of CPAs

N. C. Association of CPAs

Independent Auditor's Report

To the Honorable Mayor and
Members of the Board
Spring Lake, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Spring Lake, North Carolina, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information of the Town of Spring Lake, North Carolina as of June 30, 2018, and the respective changes in financial position and cash flows, where appropriate, thereof and the respective budgetary comparison for the General Fund for the year 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 Management's Discussion and Analysis on pages 3 through 10, the Other Postemployment Benefits' Schedules of Changes in the Total OPEB Liability and Related Ratios, on page 61, the Local Government Employee's Retirement System's Schedules of the Proportionate Share of the Net Pension Liability and Contributions, on pages 57 and 58, respectively, the Law Enforcement Officers' Special Separation Allowance schedules of the changes in total Pension Liability and Total Pension Liability as a Percentage of covered Payroll on pages 59 and 60 be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the Town of Spring Lake, North Carolina. 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 financial statements, budgetary schedules, and other schedules are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit, the procedures performed as described above, the combining and individual fund financial statements, budgetary schedules, and other schedules are fairly stated in, all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2020 on our consideration of the Town of Spring Lake's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements, and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town of Spring Lake's internal control over financial reporting and compliance.



Lumberton, North Carolina
February 28, 2020

Management Discussion and Analysis

Town of Spring Lake, North Carolina
Management's Discussion and Analysis
June 30, 2018

As management of the Town of Spring Lake, we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town of Spring Lake for the fiscal year ending June 30, 2018. 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

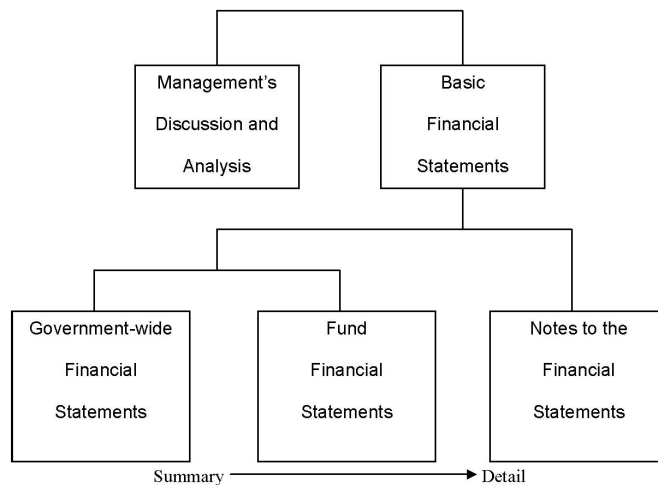
- The Town implemented Governmental Accounting Standards Board (GASB) No. Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)*, in the fiscal year ending June 30, 2018. As a result, net position for the governmental activities decreased \$2,633,498 and \$729,659 for the business-type activities.
- The assets and deferred outflows of resources of the Town of Spring Lake exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$9,729,315 (net position).
- The government's total net position decreased in the amount of \$523,135, primarily due to net position decrease of \$514,285 in governmental activities, which included OPEB pension expense of \$392,840.
- As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$2,802,006, with a net decrease of \$430,954. Approximately 67.83% of this total amount, or \$1,900,667, is available for spending at the government's discretion.
- The Town spent \$259,569 for design, construction costs, and land for a splash pad from the General Fund during fiscal year ended June 30, 2018.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$2,015,179 or 27.47% of total General Fund expenditures.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Town of Spring Lake's basic financial statements. The Town's basic financial statements comprise 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 also contains other supplementary information that will enhance the reader's understanding of the financial condition of the Town of Spring Lake.

Required Components of Annual Financial Report

Figure 1



Town of Spring Lake, North Carolina
Management's Discussion and Analysis (continued)
June 30, 2018

Financial Statements

The first two statements 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 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 to the Financial Statements**. The notes explain in detail some of the data contained in those statements. After the notes, additional information is provided to show details about the Town's individual funds. Budgetary information required by the N.C. General Statutes can also be found in this part of the statements.

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

The two government-wide statements report the Town's net position and how they have changed. Net position is the difference between the Town's total assets and 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, 2) business-type activities. The governmental activities include most of the Town's basic services such as general government, public safety, highways/streets, sanitation, economic development, culture and recreation, and debt service. 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 Spring Lake.

The government-wide financial statements can be found on pages 11 and 12 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 Spring Lake, like other state and local governments, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the Town's budget ordinance. All of the funds of the Town can be divided into two categories, governmental funds and proprietary funds.

Governmental Funds. Governmental funds are used to account for essentially the same 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 monies that are unexpended at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting*, which provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps determine if there are more or less financial resources available to finance the Town's programs. The relationship between government activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The Town of Spring Lake 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.

Town of Spring Lake, North Carolina
Management's Discussion and Analysis (continued)
June 30, 2018

The budgetary statement provided for the General Fund demonstrates how well the Town complied with the budget ordinance and whether or not the Town succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document.

Governmental Funds (continued). The statement shows four columns: 1) the original budget as adopted by the board; 2) the final budget as amended by the board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges.

Proprietary Funds. The Town of Spring Lake maintains one type of proprietary fund called an Enterprise Fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town uses the enterprise fund to account for its water and sewer activity.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer Fund, which is considered a major fund of the Town.

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 can be found on pages 21-56 of this report.

Supplementary Information. The combining statements, referred to earlier about non-major governmental funds and details of the enterprise funds, can be found on pages 62-81 of this report.

Government-Wide Financial Analysis

The Town of Spring Lake's Net Position
Figure 2

	Governmental Activities 2018	Governmental Activities 2017	Business-type Activities 2018	Business-type Activities 2017	Totals 2018	Totals 2017
Current and other assets	\$ 3,119,654	\$ 3,545,298	\$ 2,745,561	\$ 2,528,905	\$ 5,865,215	\$ 6,074,203
Capital assets	6,775,618	6,723,599	10,204,568	11,134,882	16,980,186	17,858,481
Total assets	<u>9,895,272</u>	<u>10,268,897</u>	<u>12,950,129</u>	<u>13,663,787</u>	<u>22,845,401</u>	<u>23,932,684</u>
Deferred Outflows of Resources	1,249,562	1,429,457	279,711	393,960	1,529,273	1,823,417
Current liabilities	700,535	669,503	784,013	790,072	1,484,548	1,459,575
Non-current liabilities	8,244,385	6,052,697	4,373,594	4,436,433	12,617,979	10,489,130
Total liabilities	<u>8,944,920</u>	<u>6,722,200</u>	<u>5,157,607</u>	<u>5,226,505</u>	<u>14,102,527</u>	<u>11,948,705</u>
Deferred Inflows of Resources	443,203	71,660	99,629	18,311	542,832	89,971
Net position						
Net investment in capital assets	3,681,702	3,438,222	6,722,519	6,530,487	10,404,221	9,968,709
Restricted	901,329	719,852	-	-	901,329	719,852
Unrestricted	(2,826,320)	746,420	1,250,085	2,282,444	(1,576,235)	3,028,864
Total net position	<u>\$ 1,756,711</u>	<u>\$ 4,904,494</u>	<u>\$ 7,972,604</u>	<u>\$ 8,812,931</u>	<u>\$ 9,729,315</u>	<u>\$ 13,717,425</u>

Town of Spring Lake, North Carolina
Management's Discussion and Analysis (continued)
June 30, 2018

Government-Wide Financial Analysis (continued)

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The assets of the Town exceeded liabilities by \$9,729,315 at the close of the current fiscal year.

By far the largest portion of the Town's net position, 106.93%, reflects its investment in capital assets (e.g., land, buildings, machinery and equipment, and infrastructure); less any related debt used to acquire those assets that are still outstanding. 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 related debt, it should note that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The restricted portion of net position, 9.26%, represents the Town's resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position is \$(1,576,235) or (16.20)% of the total.

Ad valorem taxes were the largest revenue contributor for the governmental funds with 47.69% of total revenues. Unrestricted intergovernmental revenues were the next largest at 40.70%.

The Town of Spring Lake's Changes in Net Position
Figure 3

	Governmental Activities 2018	Governmental Activities 2017	Business-type Activities 2018	Business-type Activities 2017	Totals 2018	Totals 2017
Revenues:						
Program revenues						
Charges for services	\$ 122,732	\$ 129,838	\$ 4,420,281	\$ 4,320,065	\$ 4,543,013	\$ 4,449,903
Operating grants and contributions	403,405	396,616	-	-	403,405	396,616
Capital grants and contributions	78,204	301,256	-	-	78,204	301,256
General revenues						
Property taxes	3,172,329	3,346,150	-	-	3,172,329	3,346,150
Other taxes	105,104	114,875	-	-	105,104	114,875
Unrestricted revenues	2,707,940	2,669,887	-	-	2,707,940	2,669,887
Other	63,602	216,121	161,236	82,549	224,838	298,670
Total revenues	6,653,316	7,174,743	4,581,517	4,402,614	11,234,833	11,577,357
Expenses:						
General government	1,926,989	1,835,373	-	-	1,926,989	1,835,373
Public safety	4,429,746	4,460,785	-	-	4,429,746	4,460,785
Transportation	553,334	548,002	-	-	553,334	548,002
Culture and recreation	820,135	756,277	-	-	820,135	756,277
Non-departmental	14,684	15,205	-	-	14,684	15,205
Interest on long-term debt	117,451	148,795	-	-	117,451	148,795
Water and sewer	-	-	3,157,874	2,850,461	3,157,874	2,850,461
Stormwater	-	-	170,972	596,943	170,972	596,943
Sanitation	-	-	566,783	195,444	566,783	195,444
Total expenses	7,862,339	7,764,437	3,895,629	3,642,848	11,757,968	11,407,285
Increase (decrease) in net position before transfers	(1,209,023)	(589,694)	685,888	759,766	(523,135)	170,072
Transfers	694,738	654,947	(694,738)	(654,947)	-	-
Change in net position	(514,285)	65,253	(8,850)	104,818	(523,135)	170,072
Net position, beginning, restated	2,270,996	4,839,241	7,981,454	8,708,113	10,252,450	13,547,354
Net position - June 30	\$ 1,756,711	\$ 4,904,494	\$ 7,972,604	\$ 8,812,932	\$ 9,729,315	\$ 13,717,425

Town of Spring Lake, North Carolina
Management's Discussion and Analysis (continued)
June 30, 2018

Government-Wide Financial Analysis (continued)

Capital and operating grants for governmental activities furnished resources to support the five functions of the Town: general government, public safety, transportation, cultural and recreation, and non-departmental.

Business-type activities. Business-type activities decreased the Town's net position by \$8,850. In the prior fiscal year, business-type activities net position increased by \$104,818. Key elements of the change in net position compared to prior year are as follows:

- Transfers to other funds increased by \$39,791 compared to the prior year.
- Total revenues increased by \$178,903 compared to the prior year.
- Total expenses increased by \$252,781 compared to the prior year.

Financial Analysis of the Government's Funds

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

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

At the end of the current fiscal year, the Town's governmental funds reported a combined fund balance of \$2,802,006. Of this total amount, \$1,900,677 constitutes unassigned fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that funds are not available for spending because these funds have already been committed 1) to liquidate contracts and purchase orders of the prior year, or 2) for a variety of other restricted purposes.

The General Fund is the principal operating fund of the Town of Spring Lake. At the end of the fiscal year, unassigned fund balance for the General Fund was \$2,015,179 with a total fund balance of \$2,617,583. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 27.47% of total General Fund expenditures.

Proprietary Funds. The Town of Spring Lake's proprietary fund provides the same type of information found in the governmental-wide financial statements, but in more detail.

Unrestricted net position of the Water and Sewer Fund at the end of the fiscal year amounted to \$441,661. Unrestricted net position of the Sanitation Fund at the end of the fiscal year amounted to \$342,328. Unrestricted net position of the Stormwater Fund at the end of the fiscal year amounted to \$466,096. Other factors concerning this fund have been discussed in the Town's business-type activities.

General Fund Budgetary Highlights

During the fiscal year, the Town revised the budget on several occasions. Generally, budget amendments fall into one of three categories:

- Amendments that adjust for the estimates that are prepared for the original budget ordinance, which reflect actual cost.
- Amendments that recognize new funding from external sources, such as federal and State grants.
- Amendments that appropriate increases that becomes necessary to maintain services and obligations from prior years not completed.

Town of Spring Lake, North Carolina
Management's Discussion and Analysis (continued)
June 30, 2018

Capital Assets and Debt Administration

The Town of Spring Lake's investments in capital assets for its governmental and business-type activities as of June 30, 2018, totals \$16,980,186 (net of accumulated depreciation). The investments in capital assets includes buildings, land, infrastructure, machinery and equipment, park facilities, and vehicles.

The Town of Spring Lake's Capital Assets
(net of depreciation)
Figure 4

	Governmental Activities 2018	Governmental Activities 2017	Business-type Activities 2018	Business-type Activities 2017	Totals 2018	Totals 2017
Land	\$ 1,032,273	\$ 919,273	\$ 82,889	\$ 82,889	\$ 1,115,162	\$ 1,002,162
Buildings and system	2,338,033	2,336,195	-	-	2,338,033	2,336,195
Machinery and equipment	286,272	300,459	228,843	263,061	515,115	563,520
Infrastructure	340,237	367,302	9,892,836	5,927,209	10,233,073	6,294,511
Vehicles and motorized equipment	221,355	242,922	-	2,003	221,355	244,925
Construction and progress	2,557,448	2,557,448	-	4,859,720	2,557,448	7,417,168
Total capital assets, net	<u>\$ 6,775,618</u>	<u>\$ 6,723,599</u>	<u>\$ 10,204,568</u>	<u>\$ 11,134,882</u>	<u>\$ 16,980,186</u>	<u>\$ 17,858,481</u>

Additional information on the Town's capital assets can be found in the notes on page 31 of this report.

Long-term debt. At the end of the current fiscal year, the Town of Spring Lake had total bonded debt outstanding of \$6,575,965.

The Town of Spring Lake's Outstanding Debt
Figure 5

	Governmental Activities 2018	Governmental Activities 2017	Business-type Activities 2018	Business-type Activities 2017	Totals 2018	Totals 2017
General obligation bonds	\$ -	\$ -	\$ 1,160,000	\$ 1,180,000	\$ 1,160,000	\$ 1,180,000
Revolving bonds	-	-	2,133,217	2,296,669	2,133,217	2,296,669
Notes payable	3,093,916	3,282,948	188,832	748,306	3,282,748	4,031,254
Total outstanding debt	<u>\$ 3,093,916</u>	<u>\$ 3,282,948</u>	<u>\$ 3,482,049</u>	<u>\$ 4,224,975</u>	<u>\$ 6,575,965</u>	<u>\$ 7,507,923</u>

North Carolina's General Statutes limit the amount of general obligation debt that a governmental unit 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 Spring Lake is presently at \$37,035,249 (the amount of additional debt the town could obligate itself to under NC General Statute).

Additional information pertaining to the Town of Spring Lake's long-term debt can be found in the notes on page 49 of this report.

Town of Spring Lake, North Carolina
Management's Discussion and Analysis (continued)
June 30, 2018

Economic Factors and Next Year's Budgets and Rates

The following economic indicators reflect the growth of the Town:

- Courtyard by Marriott, a 61,885 square foot full service, four (4) story, one hundred (100) room hotel on North Fifth Street, opened in late December 2016. The total cost of construction was approximately \$8,050,000, with an approximate land value of \$157,000. Out of town visitors to the area and to Fort Bragg are the most frequent users.
- Major Roadway improvements related to the U-4444B DOT Project are just about completed with only small landscaping and signage issues remaining. The NCDOT is in the planning phase with officials of the Fort Bragg Military Reservation to provide a new access gate in the vicinity of Odell Road within the corporate limits for the Town of Spring Lake. This new access will allow a more direct access from Fort Bragg into the Spring Lake commercial corridor when completed.
- Freedom Plaza, a 7,306 square foot commercial strip center was recently completed on North Bragg Boulevard for use by restaurants, retail shops and other business purposes. The total cost of construction is approximately \$287,500 (shell only), with an approximate land value of \$205,481.
- Trojan Plaza, a 4,400 square foot commercial strip center has been completed on North Bragg Boulevard for use by restaurants, retail shops and other business purposes. The total cost of construction was \$300,000, with an approximate land value of \$165,000.
- Construction continues in the Balsawood Development, the Town's first "green community." Currently, fourteen (14) of the twenty (20) single family dwellings have been completed and certificates of occupancies issued. The cost of construction for each single-family dwelling is approximately \$115,000, not including land value. There are six (6) remaining single-family dwellings to be built. In addition, future plans also call for eight (8) condominium units to be constructed.
- A regional grocery store chain, Compare Foods, has been completed renovation efforts at the Southwind Plaza Shopping Center on North Bragg Boulevard with an approximate location size of 25,000 square feet.
- A regional fast food restaurant, Cookout, has been completed on Highway 210. The total cost of construction is approximately \$820,862, with an approximate land value of \$175,247.

Town of Spring Lake, North Carolina
Management's Discussion and Analysis (continued)
June 30, 2018

Budget Highlights for the Fiscal Year Ended June 30, 2019

Governmental Activities. In order to continue the Town's current level of service to its citizens, the Town's ad valorem tax rate remained the same at \$0.70. In addition, the budget included continued funding for an additional part time Senior Center Assistant position. A Cost of Living Adjustment (COLA) of 1.5% for all Governmental Town employees will be instituted beginning with the January 7th, 2019 pay period.

As a result of Session Law 2014-3, commonly known as House Bill 1050 "Omnibus Tax Law Changes," the Town experienced a loss in Privilege License tax revenues in FY 2016-2017. The negative impact continued in the FY 2018-2019 budget year as the law eliminated a local government's authority to levy the privilege license tax. The remaining budgeted revenues were projected to be flat for the coming fiscal year.

Technology improvements will continue to be at the forefront of future Town budgets. The Town is currently continuing to review upgrading its existing financial software. All software purchased will be a fully integrated software system with improved reporting and document imaging and archiving capabilities.

Capital Improvements for the governmental activities for FY 2018-2019 includes funding for one (1) police vehicle and two (2) bus stop shelters.

Business-Type Activities. The Water and Sewer Fund will include a project to support the annual replacement of 1 (one) of 6 (six) aerators at the waste water treatment plant on an annual basis. In addition, the FY 2018-2019 Budget included funding for a Water Rate Feasibility Study to develop recommendations for future Board consideration.

The Stormwater Fund does not have any new projects planned at the present time.

The Sanitation Fund does not have any new projects planned at the present time.

A Cost of Living Adjustment (COLA) of 5% for all Business-Type Town employees will be instituted beginning with the January 7th, 2019 pay period.

For both Governmental and Business-Type Activities, the FY 2018-2019 overall Town Budget included a decrease of \$53,217 of debt service expenditures over the FY 2017-2018 Budget

Request for Information

This financial report is designed to provide a general overview of the Town of Spring Lake's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Director of Finance, Town of Spring Lake, P.O. Box 617, Spring Lake, NC 28390.

Basic Financial Statements

Town of Spring Lake, North Carolina
Statement of Net Position
June 30, 2018

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 2,303,084	\$ 1,732,225	\$ 4,035,309
Restricted cash and cash equivalents	-	380,138	380,138
Taxes receivables (net)	126,039	-	126,039
Inventories	-	58,821	58,821
Accounts receivables (net)	690,531	574,377	1,264,908
Total current assets	3,119,654	2,745,561	5,865,215
Non-current assets:			
Capital assets (Note 4):			
Land, non-depreciable improvements, and construction in progress	3,589,721	4,367,609	7,957,330
Other capital assets, net of depreciation	3,185,897	5,836,959	9,022,856
Total capital assets	6,775,618	10,204,568	16,980,186
Total assets	9,895,272	12,950,129	22,845,401
DEFERRED OUTFLOWS OF RESOURCES			
Pension deferrals	1,249,562	279,711	1,529,273
Total deferred outflows of resources	1,249,562	279,711	1,529,273
LIABILITIES			
Current liabilities:			
Accounts payable and accrued expenses	260,535	133,304	393,839
Customer deposits	-	380,138	380,138
Current portion of long-term liabilities	440,000	270,571	710,571
Total current liabilities	700,535	784,013	1,484,548
Long-term liabilities:			
Due in more than one year	3,112,498	3,292,733	6,405,231
Net pension liability	866,220	203,189	1,069,409
Total pension liability	524,014	-	524,014
Total OPEB liability	3,741,653	877,672	4,619,325
Total liabilities	8,944,920	5,157,607	14,102,527
DEFERRED INFLOWS OF RESOURCES			
Pension deferrals	443,203	99,629	542,832
Total deferred inflows of resources	443,203	99,629	542,832
NET POSITION			
Net investment in capital assets	3,681,702	6,722,519	10,404,221
Restricted for:			
Stabilization by State Statute	659,338	-	659,338
Public Safety	135,926	-	135,926
Capital Projects	106,065	-	106,065
Unrestricted (deficit)	(2,826,320)	1,250,085	(1,576,235)
Total net position	\$ 1,756,711	\$ 7,972,604	\$ 9,729,315

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

Town of Spring Lake, North Carolina
Statement of Activities
For the Year Ended June 30, 2018

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-type Activities	Total
Primary government:							
Governmental Activities:							
General government	\$ 1,926,989	\$ 17,127	\$ -	\$ -	\$ (1,909,862)	\$ -	\$ (1,909,862)
Public safety	4,429,746	62,929	88,918	78,204	(4,199,695)	-	(4,199,695)
Transportation	553,334	-	286,548	-	(266,786)	-	(266,786)
Cultural and recreation	820,135	42,676	27,939	-	(749,520)	-	(749,520)
Non-departmental	14,684	-	-	-	(14,684)	-	(14,684)
Interest on long-term debt	117,451	-	-	-	(117,451)	-	(117,451)
Total governmental activities	<u>7,862,339</u>	<u>122,732</u>	<u>403,405</u>	<u>78,204</u>	<u>(7,257,998)</u>	<u>-</u>	<u>(7,257,998)</u>
Business-type activities:							
Water and sewer	3,157,874	3,475,512	-	-	-	317,638	317,638
Sanitation	566,783	655,681	-	-	-	88,898	88,898
Stormwater	170,972	289,088	-	-	-	118,116	118,116
Total business-type activities	<u>3,895,629</u>	<u>4,420,281</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>524,652</u>	<u>524,652</u>
Total primary government	<u>\$ 11,757,968</u>	<u>\$ 4,543,013</u>	<u>\$ 403,405</u>	<u>\$ 78,204</u>	<u>(7,257,998)</u>	<u>524,652</u>	<u>(6,733,346)</u>
General revenues:							
Taxes:							
Property taxes, levied for general purpose					3,172,329	-	3,172,329
Unrestricted intergovernmental					2,707,940	-	2,707,940
Other taxes and licenses					105,104	-	105,104
Investment earnings, unrestricted					31,604	26,639	58,243
Miscellaneous, unrestricted					31,998	134,597	166,595
Total general revenues not including transfers					<u>6,048,975</u>	<u>161,236</u>	<u>6,210,211</u>
Transfers					<u>694,738</u>	<u>(694,738)</u>	<u>-</u>
Total general revenues and transfers					<u>6,743,713</u>	<u>(533,502)</u>	<u>6,210,211</u>
Change in net position					<u>(514,285)</u>	<u>(8,850)</u>	<u>(523,135)</u>
Net position, beginning					<u>4,904,494</u>	<u>8,708,113</u>	<u>13,612,607</u>
Restatement					<u>(2,633,498)</u>	<u>(726,659)</u>	<u>(3,360,157)</u>
Net position, beginning, restated					<u>2,270,996</u>	<u>7,981,454</u>	<u>10,252,450</u>
Net position, ending					<u>\$ 1,756,711</u>	<u>\$ 7,972,604</u>	<u>\$ 9,729,315</u>

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

Town of Spring Lake, North Carolina
Balance Sheet
Governmental Funds
June 30, 2018

	<u>Major Fund</u>	<u>Total</u>	<u>Total</u>
	<u>General Fund</u>	<u>Non-Major</u>	<u>Governmental</u>
		<u>Funds</u>	<u>Funds</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 2,058,863	\$ 244,221	\$ 2,303,084
Taxes receivable, net	126,039	-	126,039
Accounts receivable, net	602,404	62,227	664,631
Total assets	<u>\$ 2,787,306</u>	<u>\$ 306,448</u>	<u>\$ 3,093,754</u>
<u>LIABILITIES</u>			
Accounts payable and accrued liabilities	\$ 43,684	\$ 122,025	\$ 165,709
Total liabilities	<u>43,684</u>	<u>122,025</u>	<u>165,709</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Property taxes receivable	126,039	-	126,039
Total deferred inflows of resources	<u>126,039</u>	<u>-</u>	<u>126,039</u>
<u>FUND BALANCES</u>			
Restricted:			
Stabilization by State Statute	602,404	56,934	659,338
Public Safety	-	135,926	135,926
Capital Projects	-	106,065	106,065
Unassigned	2,015,179	(114,502)	1,900,677
Total fund balances	<u>2,617,583</u>	<u>184,423</u>	<u>2,802,006</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 2,787,306</u>	<u>\$ 306,448</u>	

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

Town of Spring Lake, North Carolina
Balance Sheet
Governmental Funds (continued)
June 30, 2018

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

Total fund balances, governmental funds	\$	2,802,006
Capital assets used in governmental activities are not financial resources and therefore not reported in the funds.		
Gross capital assets at historical cost		13,533,242
Accumulated depreciation		<u>(6,757,624)</u>
		6,775,618
Internal service funds are used by management to charge the costs of fleet maintenance, to individual funds. The assets and liabilities of the internal service fund are included in the governmental activities in the statement of net position.		
		1,514
Deferred outflows of resources related to pensions and are not reported in the funds		
		1,249,562
Deferred inflows of resources related to pensions and are not reported in the funds		
		(443,203)
Earned revenues considered deferred inflows of resources in fund statements		
		126,039
Other long-term liabilities (accrued interest) are not due and payable in the current period and therefore not reported in the funds		
		(70,439)
Long-term liabilities used in governmental activities are not financial uses and therefore are not reported in the funds:		
Gross long-term debt		(3,093,916)
Compensated absences		(458,582)
Net pension liability		(866,220)
OPEB liability		(3,741,653)
Total pension liability		<u>(524,014)</u>
Net position of governmental activities	\$	<u><u>1,756,711</u></u>

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

Town of Spring Lake, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2018

	<u>Major Fund</u>	<u>Total</u>	<u>Total</u>
	<u>General Fund</u>	<u>Non-Major</u>	<u>Governmental</u>
		<u>Funds</u>	<u>Funds</u>
Revenues:			
Ad valorem taxes	\$ 3,173,014	\$ -	\$ 3,173,014
Other taxes and licenses	67,671	-	67,671
Unrestricted intergovernmental	2,707,941	-	2,707,941
Restricted intergovernmental	440,839	-	440,839
Permits and fees	80,056	-	80,056
Sales and services	42,676	-	42,676
Contributions/grant proceeds	-	78,202	78,202
Investment earnings	31,604	-	31,604
Miscellaneous	30,598	1,400	31,998
Total revenues	<u>6,574,399</u>	<u>79,602</u>	<u>6,654,001</u>
Expenditures:			
Current:			
General government	1,750,489	127,164	1,877,653
Public safety	4,024,934	93,168	4,118,102
Transportation	509,287	-	509,287
Cultural and recreational	730,459	-	730,459
Non-departmental	14,684	-	14,684
Debt service:			
Principal	189,032	-	189,032
Interest and other charges	117,525	-	117,525
Total expenditures	<u>7,336,410</u>	<u>220,332</u>	<u>7,556,742</u>
Excess (deficiency) of revenues over expenditures	<u>(762,011)</u>	<u>(140,730)</u>	<u>(902,741)</u>
Other financing sources (uses)			
Transfers from/to other funds	471,787	-	471,787
Total other financing sources (uses)	<u>471,787</u>	<u>-</u>	<u>471,787</u>
Net change in fund balances	(290,224)	(140,730)	(430,954)
Fund balances, beginning	<u>2,907,807</u>	<u>325,153</u>	<u>3,232,960</u>
Fund balances, ending	<u>\$ 2,617,583</u>	<u>\$ 184,423</u>	<u>\$ 2,802,006</u>

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

Town of Spring Lake, North Carolina
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance
of Governmental Funds to the Statement of Activities
June 30, 2018

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

Net change in fund balances - total governmental funds	\$	(430,954)
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.</p>		
Capital outlay expenditures which were capitalized	\$ 392,659	
Depreciation expense for governmental assets	<u>(340,640)</u>	52,019
Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities		446,579
Benefit payments paid and administrative expense for the LEOSSA are not included on the Statement of Activities		33,044
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
Change in unavailable revenue for tax revenues		(685)
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has an effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.</p>		
Principal payments on long-term debt	189,032	
(Increase) decrease in accrued interest payable	<u>73</u>	189,105
Consolidation adjustment for the Internal Service Fund		
Net revenue (expense) of the internal service fund		856
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>		
Compensated absences	(78,726)	
LEO revenue (expense)	(38,482)	
OPEB plan expense	(294,201)	
Pension revenue (expense)	<u>(392,840)</u>	<u>(804,249)</u>
Total changes in net position of governmental activities	\$	<u><u>(514,285)</u></u>

Town of Spring Lake, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
General Fund
For the Year Ended June 30, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues:				
Ad valorem taxes	\$ 3,214,318	\$ 3,214,318	\$ 3,173,014	\$ (41,304)
Other taxes and licenses	82,100	82,100	67,671	(14,429)
Unrestricted intergovernmental	2,835,612	2,835,612	2,707,941	(127,671)
Restricted intergovernmental	426,178	436,178	440,839	4,661
Permits and fees	94,825	94,825	80,056	(14,769)
Sales and services	31,825	33,379	42,676	9,297
Investment earnings	11,000	11,000	31,604	20,604
Other revenue	31,000	31,000	30,598	(402)
Total revenues	<u>6,726,858</u>	<u>6,738,412</u>	<u>6,574,399</u>	<u>(164,013)</u>
Expenditures:				
Current:				
General government	1,526,929	2,117,515	1,750,489	367,026
Public safety	4,144,652	4,129,293	4,024,934	104,359
Transportation	629,435	627,534	509,287	118,247
Cultural and recreational	774,872	772,912	730,459	42,453
Nondepartmental	16,200	16,200	14,684	1,516
Debt service:				
Principal retirement	189,032	189,032	189,032	-
Interest and other charges	117,525	117,525	117,525	-
Total expenditures	<u>7,398,645</u>	<u>7,970,011</u>	<u>7,336,410</u>	<u>633,601</u>
Revenues over (under) expenditures	<u>(671,787)</u>	<u>(1,231,599)</u>	<u>(762,011)</u>	<u>469,588</u>
Other financing sources (uses):				
Transfers (to) from	471,787	471,787	471,787	-
Total other financing sources (uses)	<u>471,787</u>	<u>471,787</u>	<u>471,787</u>	<u>-</u>
Fund balance appropriated	200,000	759,812	-	(559,812)
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	(290,224)	<u>\$ (290,224)</u>
Fund balance, beginning			<u>2,907,807</u>	
Fund balance, ending			<u>\$ 2,617,583</u>	

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

Town of Spring Lake, North Carolina
Statement of Fund Net Position
Proprietary Fund
June 30, 2018

	Major Enterprise Funds				Internal Service Fund
	Water and Sewer Fund	Sanitation Fund	Stormwater Fund	Total	
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 711,726	\$ 461,294	\$ 559,205	\$ 1,732,225	\$ -
Restricted cash and cash equivalents	380,138	-	-	380,138	-
Accounts receivable (net)	516,734	13,653	43,990	574,377	25,900
Inventories	58,821	-	-	58,821	-
Total current assets	1,667,419	474,947	603,195	2,745,561	25,900
Non-current assets:					
Capital assets:					
Land and other non-depreciable assets	4,367,609	-	-	4,367,609	-
Other capital assets, net of depreciation	5,533,789	154,032	149,138	5,836,959	-
Capital assets (net)	9,901,398	154,032	149,138	10,204,568	-
Total noncurrent assets	9,901,398	154,032	149,138	10,204,568	-
Total assets	11,568,817	628,979	752,333	12,950,129	25,900
DEFERRED OUTFLOWS OF RESOURCES					
Pension deferrals	235,546	29,443	14,722	279,711	-
Total deferred outflows of resources	235,546	29,443	14,722	279,711	-
LIABILITIES					
Current liabilities:					
Accounts payable and accrued liabilities	33,775	77,112	22,417	133,304	24,386
Compensated absences	26,400	6,400	7,200	40,000	-
Customer deposits	380,138	-	-	380,138	-
Current portion of long-term debt	181,999	48,572	-	230,571	-
Total current liabilities	622,312	132,084	29,617	784,013	24,386
Noncurrent liabilities:					
Compensated absences	26,893	5,254	9,108	41,255	-
Net pension liability	171,107	21,388	10,694	203,189	-
Total OPEB liability	739,092	46,193	92,387	877,672	-
Noncurrent portion of long-term debt	3,111,219	140,259	-	3,251,478	-
Total noncurrent liabilities	4,048,311	213,094	112,189	4,373,594	-
Total liabilities	4,670,623	345,178	141,806	5,157,607	24,386
DEFERRED INFLOWS OF RESOURCES					
Pension deferrals	83,899	5,715	10,015	99,629	-
Total deferred inflows of resources	83,899	5,715	10,015	99,629	-
NET POSITION					
Net investment in capital assets	6,608,180	(34,799)	149,138	6,722,519	-
Unrestricted	441,661	342,328	466,096	1,250,085	1,514
Total net position	\$ 7,049,841	\$ 307,529	\$ 615,234	\$ 7,972,604	\$ 1,514

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

Town of Spring Lake, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Net Position
Proprietary Fund
For the Year Ended June 30, 2018

	Major Enterprise Funds				Internal Service Fund
	Water and Sewer Fund	Sanitation Fund	Stormwater Fund	Total	
Operating revenues:					
Charges for services	\$ 3,444,632	\$ 655,681	\$ 289,088	\$ 4,389,401	\$ -
Other operating revenues	30,880	-	-	30,880	-
Total operating revenues	<u>3,475,512</u>	<u>655,681</u>	<u>289,088</u>	<u>4,420,281</u>	<u>-</u>
Operating expenses:					
Administration	-	-	159,161	159,161	-
Sanitation	-	537,614	-	537,614	-
Revenue collections	1,251,122	-	-	1,251,122	-
Revenue billing	319,005	-	-	319,005	-
Water and sewer operations	591,803	-	-	591,803	-
Waste water treatment plant	557,958	-	-	557,958	-
Fleet maintenance	-	-	-	-	222,095
Depreciation	365,779	29,169	11,811	406,759	-
Total operating expenses	<u>3,085,667</u>	<u>566,783</u>	<u>170,972</u>	<u>3,823,422</u>	<u>222,095</u>
Operating income (loss)	<u>389,845</u>	<u>88,898</u>	<u>118,116</u>	<u>596,859</u>	<u>(222,095)</u>
Nonoperating revenues (expenses):					
Investment earnings	18,798	3,097	4,744	26,639	-
Sale of materials	6,068	-	-	6,068	-
Miscellaneous	110,214	18,315	-	128,529	-
Interest and other charges	(72,207)	-	-	(72,207)	-
Total nonoperating revenue (expenses)	<u>62,873</u>	<u>21,412</u>	<u>4,744</u>	<u>89,029</u>	<u>-</u>
Income (loss) before contributions and transfers	<u>452,718</u>	<u>110,310</u>	<u>122,860</u>	<u>685,888</u>	<u>(222,095)</u>
Capital contributions	-	-	-	-	-
Transfers in (out)	(476,325)	(98,200)	(120,213)	(694,738)	222,951
Total contributions and transfers	<u>(476,325)</u>	<u>(98,200)</u>	<u>(120,213)</u>	<u>(694,738)</u>	<u>222,951</u>
Change in net position	<u>(23,607)</u>	<u>12,110</u>	<u>2,647</u>	<u>(8,850)</u>	<u>856</u>
Total net position, beginning, previously reported	7,737,407	360,492	610,214	8,708,113	658
Restatement	(663,959)	(65,073)	2,373	(726,659)	-
Net position, beginning, restated	<u>7,073,448</u>	<u>295,419</u>	<u>612,587</u>	<u>7,981,454</u>	<u>658</u>
Total net position, ending	<u>\$ 7,049,841</u>	<u>\$ 307,529</u>	<u>\$ 615,234</u>	<u>\$ 7,972,604</u>	<u>\$ 1,514</u>

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

Town of Spring Lake, North Carolina
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2018

	Major Enterprise Fund			Total	Internal Service Fund
	Water and Sewer Fund	Sanitation Fund	Stormwater Fund		
Cash flows from operating activities:					
Cash received from customers	\$ 3,479,554	\$ 677,092	\$ 293,832	\$ 4,450,478	\$ -
Cash paid for goods and services	(1,795,899)	(408,336)	(69,136)	(2,273,371)	(106,102)
Cash paid to employees for services	(599,218)	(141,078)	(77,560)	(817,856)	(116,849)
Other operating activities	(268,600)	-	-	(268,600)	-
Net cash provided (used) by operating activities	<u>815,837</u>	<u>127,678</u>	<u>147,136</u>	<u>1,090,651</u>	<u>(222,951)</u>
Cash flows from non-capital financing activities:					
Transfers	(476,325)	(98,200)	(120,213)	(694,738)	222,951
Net cash provided (used) by non-capital financing activities	<u>(476,325)</u>	<u>(98,200)</u>	<u>(120,213)</u>	<u>(694,738)</u>	<u>222,951</u>
Cash flows from capital and related financing activities:					
Acquisition and construction of capital assets	(51,445)	-	-	(51,445)	-
Principal paid on bonds & installment notes	(697,516)	(45,410)	-	(742,926)	-
Interest paid on bonds and installment notes	(72,207)	(3,653)	-	(75,860)	-
Sale of materials	6,068	-	-	6,068	-
Net cash provided (used) by capital and related financing activities	<u>(815,100)</u>	<u>(49,063)</u>	<u>-</u>	<u>(864,163)</u>	<u>-</u>
Cash flows from investing activities:					
Interest on investments	18,798	3,097	4,744	26,639	-
Net cash provided (used) by investing activities	<u>18,798</u>	<u>3,097</u>	<u>4,744</u>	<u>26,639</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	<u>(456,790)</u>	<u>(16,488)</u>	<u>31,667</u>	<u>(441,611)</u>	<u>-</u>
Cash and cash equivalents - beginning of year	<u>1,548,654</u>	<u>477,781</u>	<u>527,539</u>	<u>2,553,974</u>	<u>-</u>
Cash and cash equivalents - end of year	<u>\$ 1,091,864</u>	<u>\$ 461,293</u>	<u>\$ 559,205</u>	<u>\$ 2,112,363</u>	<u>\$ -</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:					
Operating income (loss)	<u>\$ 389,845</u>	<u>\$ 88,898</u>	<u>\$ 118,116</u>	<u>\$ 596,859</u>	<u>\$ (222,095)</u>
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities :					
Depreciation	365,779	29,169	11,811	406,759	-
Change in assets, deferred outflows of resources, and liabilities:					
(Increase) decrease in accounts receivable	(47,024)	4,690	(1,312)	(43,646)	(6,404)
Decrease in deferred outflows of resources - pensions	50,970	24,279	39,000	114,249	-
(Decrease) in pension liability	(54,032)	(20,825)	(31,519)	(106,376)	-
(Decrease) in deferred inflows of resources - pensions	(5,773)	(1,554)	(2,025)	(9,352)	-
Increase (decrease) in accounts payable	88,158	658	8,767	97,583	5,548
Increase in deferred inflows of resources - OPEB	76,355	4,772	9,544	90,671	-
Increase (decrease) in OPEB liability	(18,241)	(2,280)	(1,140)	(21,661)	-
Increase (decrease) in compensated absences	(6,892)	(129)	(4,106)	(11,127)	-
Increase (decrease) in deposits	(23,308)	-	-	(23,308)	-
Total adjustments	<u>425,992</u>	<u>38,780</u>	<u>29,020</u>	<u>493,792</u>	<u>(856)</u>
Net cash provided (used) by operating activities	<u>\$ 815,837</u>	<u>\$ 127,678</u>	<u>\$ 147,136</u>	<u>\$ 1,090,651</u>	<u>\$ (222,951)</u>

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

Notes to the Financial Statements

Town of Spring Lake, North Carolina
Notes to the Financial Statements
June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Town of Spring Lake, North Carolina (“the Town”) 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 Spring Lake is a municipal corporation that is governed by an elected mayor and a five-member Board of Aldermen. As required by generally accepted accounting principles, these financial statements include all funds, account groups, agencies, boards, commissions, and authorities that are controlled by or are financially independent upon the Town.

B - Basis of Presentation

Government-wide Statements: The statement of net position and 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 and services offered by the programs, and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

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

Proprietary fund operating revenues, such as charges for services, result from the 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. Primary expenditures are for public safety, general governmental services, and street maintenance.

Town of Spring Lake, North Carolina
Notes to the Financial Statements (continued)
June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B - Basis of Presentation - Fund Accounting (continued)

The Town reports the following non-major governmental funds:

Spring Fling Fund - This fund accounts for the receipt of donations and expenditures on the celebration of the opening of baseball season.

Public Safety Grants and Projects Fund - This fund accounts for the receipt of public safety operating and capital grants and the related expenditures.

Recreation Capital Projects Fund - This fund accounts for the receipt of capital grants and the related expenditures.

Street Capital Projects Fund - This fund accounts for the receipt of installment purchase proceeds and the related expenditures for street projects.

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.

Sanitation Fund - This fund is used to account for those operations involved in the collection and disposal of solid waste for the citizens of the Town.

Stormwater Fund - This fund is used to account for the design, construction, and operations of drainage and stormwater services for the Town.

The Town reports the following fund types:

Internal Service Fund - This fund is used to account for the accumulation and allocation of costs associated with the Town's vehicle maintenance needs.

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

Town of Spring Lake, North Carolina
Notes to the Financial Statements (continued)
June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C - Measurement Focus and Basis of Accounting (continued)

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 a 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, 2015, 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, 2015 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 shared revenue for the Town of Spring Lake because the tax is levied by Cumberland County and then remitted to and distributed by the State. Most intergovernmental revenue and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. Grant revenue that is unearned at year-end is recorded as deferred revenue.

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 the Enterprise Funds. All annual appropriations lapse at the fiscal-year end. Project ordinances are adopted for Special Revenue Funds and Capital Projects Funds. The Enterprise Fund projects are consolidated with their respective operating funds for reporting purposes. The Fleet Maintenance Fund, an internal service fund, operates under a financial plan that was adopted by the governing board at the time the Town's budget ordinance was approved, as is required by the General Statutes. 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 Town Manager is authorized to transfer up to 10 percent of any department's appropriation to any other department within the same fund. Any interfund transfer must be approved by the governing board. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

Town of Spring Lake, North Carolina
Notes to the Financial Statements (continued)
June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

1. Deposits and Investments

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

State law [G.S. 159-30(c)] authorizes the Town to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain nonguaranteed federal agencies; certain high quality issues of commercial paper and banker's acceptances and the North Carolina Capital Management Trust (NCCMT).

The Town of Spring Lake's investments with a maturity of more than one year at acquisition and non-money market investments are reported at fair value as determined by quoted market prices. The NCCMT Government Portfolio, a SEC-registered (2a7) money market mutual fund, are valued at fair value, which is the NCCMT's share price. The NCCMT Term Portfolio's securities are valued at fair value.

Money market investments that have a remaining maturity at the time of purchase of one year or less are reported at amortized cost. Non-participating interest earnings and investment contracts are reported at cost.

In accordance with State law, the Town of Spring Lake has invested in securities that are callable and which provide for periodic interest rate increases in specific increments until maturity. These investments are reported at fair value as determined by quoted market prices.

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.

3. Restricted Assets

Customer deposits held by the Town before any services are supplied are restricted to the service for which the deposit was collected.

Town of Spring Lake's Restricted Cash

Business-type activities:

Water and Sewer Fund

Customer deposits	\$ 380,138
Total business-type activities	380,138

Total restricted cash	\$ 380,138
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Town of Spring Lake, North Carolina
Notes to the Financial Statements (continued)
June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E - Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Fund Equity (continued)

4. Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad valorem taxes other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, interest does not accrue until the following January 6th. These taxes are based on the assessed values as of January 1, 2017. As allowed by State law, the Town has established a schedule of discounts that apply to taxes that are paid prior to the due date. In the Town's General Fund, ad valorem tax revenue is reported net of such discounts.

5. Allowance for Doubtful Accounts

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

6. Inventories

Inventories are maintained for all enterprise fund material and supplies held for subsequent use. The inventories are valued at the lower of cost or market (first-in, first-out method), and the cost is expensed when consumed rather than when purchased.

7. Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain threshold and an estimated life in excess of two years. Minimum capitalization costs are \$5,000 for all asset categories. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets' lives are not capitalized. Capital assets are depreciated using the straight-line method over the following estimated useful lives:

	<u>Estimated Useful Lives</u>
Buildings	40
Other improvements	5 - 40
Furniture and equipment	5 - 10
Vehicles	5 - 10

8. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Town has one item that meet this criterion – pension related deferrals for the 2018 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 criteria for this category – property taxes receivable and pension related deferrals.

Town of Spring Lake, North Carolina
Notes to the Financial Statements (continued)
June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E - Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Fund Equity (continued)

9. 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. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method that approximates the effective interest method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

10. Compensated Absences

The vacation policy of the Town provides for the accumulation of up to thirty (30) days of earned vacation leave with such leave being fully vested when earned. For the Town's government-wide and proprietary funds, an expense is recorded and a 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 designed 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 does not have any obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

11. Net Position / Fund Balances

Net Position

Net position in government-wide and proprietary fund financial statements are classified as 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.

The governmental fund types classify fund balances as follows:

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

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

Town of Spring Lake, North Carolina
Notes to the Financial Statements (continued)
June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E - Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Fund Equity (continued)

11. Net Position / Fund Balances (continued)

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

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

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

Restricted for Spring Fling Celebration – portion of fund balance available for the payment of the annual Spring Fling Celebration.

Restricted for Public Safety – portion of fund balance that is associated with public safety grants.

Restricted for Capital Projects – portion of fund balance that is restricted for capital projects (Street Capital Project and Recreation Capital Project).

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

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

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

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

12. Defined Benefit Cost-Sharing Plans

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 Spring Lake’s employer contributions are recognized when due and the Town of Spring Lake 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 Spring Lake, North Carolina
Notes to the Financial Statements (continued)
June 30, 2018

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A - Noncompliance with North Carolina General Statutes

None

B - Deficit in Fund Balance or Net Position of Individual Funds

None

C - Excess of Expenditures over Appropriations

For the year ended June 30, 2018, budget over-expenditures occurred in the Water and Sewer Fund, Public Safety Grants and Projects Fund, and Recreation Capital Projects Fund in the amounts of \$482,013, \$98,719, and \$6,251, respectively. The Water and Sewer over-expenditure was related to management's discovery that the Town had unused escrow funds related to installment financing of \$575,000 from November 12, 2014. In 2018, BB&T closed the loan and the cash was applied to the remaining loan balance of \$485,971 on February 8, 2018 and the remaining \$89,215 was refunded to the Town. By paying off the remaining loan balance of \$485,971, the Town went over budget in the Water and Sewer Fund in the debt service line item. The remaining over-expenditures occurred because of unplanned expenditures. Management and the Board will more closely review the budget reports to ensure compliance in future years.

Town of Spring Lake, North Carolina
Notes to the Financial Statements (continued)
June 30, 2018

NOTE 3 - DETAIL NOTES ON ALL FUNDS

A - Assets

1. Deposits

All the deposits of the Town are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the Federal Deposit Insurance Coverage level are collateralized with securities held by the Town's agents in this unit's names. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town, these deposits are considered to be held by the Town. 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 risk for deposits.

At June 30, 2018, the Town's deposits had a carrying amount of \$809,107 and a bank balance of \$1,038,056. Federal Deposit Insurance covered the bank balance of the Town. At June 30, 2018, the Town's petty cash amounted to \$1,013.

2. Investments

Investments by Type	Valuation Measurement Method	Book Value at 6/30/2018	Maturity	Rating
NC Capital Management Trust - Government Portfolio	Amortized Cost	\$ 2,576,042	N/A	AAAm
NC Capital Management Trust - Term Portfolio	Fair Value Level 1	1,029,317	June 30, 2019	Unrated
Total:		\$ 3,605,360		

Town of Spring Lake, North Carolina
Notes to the Financial Statements (continued)
June 30, 2018

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

A - Assets (continued)

2. Investments (continued)

All investments are measured using the market approach: using prices and other relevant information generated by market transactions involving identical or comparable assets or a group of assets.

Level of fair value hierarchy: Level 1: Debt securities valued using directly observable, quoted prices (unadjusted) in active markets for identical assets.

Investment Rate Risk. The Town has no policy regarding investment rate risk. As a means of limiting its exposure to fair value losses arising from rising interest rates, the Town's internal investment policy limits at least half of the Town's investment portfolio to maturities of less than 12 months. Also, the Town's internal management policy requires purchases of securities to be laddered with staggered maturity dates and limits all securities to a final maturity of no more than two years.

Credit Risk. The Town has no policy regarding credit risk. The Town's investment in the NC Capital Management Trust Government Portfolio carried a credit rating of AAAM by Standard & Poor's as of June 30, 2018. The Town's investment in the NC Capital Management Trust Term Portfolios is unrated. The Term Portfolio is authorized to invest in obligations of the U.S. government and agencies, and in high grade money market instruments as permitted under North Carolina General Statutes 159-30 as amended.

Custodial Credit Risk. The Town has no policy on custodial credit risk.

Concentration of Credit Risk. The Town places no limit on the amount that the Town may invest in any one issuer.

3. Receivables - Allowance for Doubtful Accounts

The amounts presented in the Balance Sheet and the Statement of Net Position for the year ended June 30, 2018 are net of the following allowance for doubtful accounts:

General Fund:	
Taxes receivable	\$ 214,295
Total General Fund	214,295
Enterprise Fund:	
Water and Sewer Fund - accounts receivable	986,263
Total Enterprise Fund	986,263
Total	\$ 1,200,558

Town of Spring Lake, North Carolina
Notes to the Financial Statements (continued)
June 30, 2018

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

A - Assets (continued)

4. Capital Assets

Capital asset activity for the Primary Government for the year ended June 30, 2018, was as follows:

Governmental activities:	Beginning			Ending
	Balances	Increases	Decreases	Balances
Capital assets not being depreciated:				
Land	\$ 919,273	\$ 113,000	\$ -	\$ 1,032,273
Construction in progress	2,557,448	-	-	2,557,448
Total capital assets not being depreciated	3,476,721	113,000	-	3,589,721
Capital assets being depreciated:				
Buildings	4,677,521	118,570	-	4,796,091
Other Improvements	585,330	-	-	585,330
Equipment	1,108,764	36,389	-	1,145,153
Vehicles	3,292,247	124,700	-	3,416,947
Total capital assets being depreciated	9,663,862	279,659	-	9,943,521
Less accumulated depreciation for:				
Buildings	2,341,326	116,732	-	2,458,058
Other Improvements	218,028	27,065	-	245,093
Equipment	808,305	50,576	-	858,881
Vehicles	3,049,325	146,267	-	3,195,592
Total accumulated depreciation	6,416,984	340,640	-	6,757,624
Total capital assets being depreciated, net	3,246,878			3,185,897
Governmental activities capital assets, net	\$ 6,723,599			\$ 6,775,618

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

General government	\$ 43,780
Public safety	178,057
Transportation	33,284
Cultural and recreational	85,519
Total depreciation expense	\$ 340,640

Town of Spring Lake, North Carolina
Notes to the Financial Statements (continued)
June 30, 2018

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

A - Assets (continued)

4. Capital Assets (continued)

Business-type activities:	Beginning			Ending
Water and sewer fund:	Balances	Increases	Decreases	Balances
Capital assets not being depreciated:				
Land	\$ 82,889	\$ -	\$ -	\$ 82,889
Construction in progress	4,284,720	-	(4,284,720)	-
Total capital assets not being depreciated	4,367,609	-	(4,284,720)	82,889
Capital assets being depreciated:				
Water and sewer system	10,439,695	4,284,720	-	14,724,415
Waste water treatment plant	3,925,442	-	-	3,925,442
Equipment	1,091,974	28,375	-	1,120,349
Vehicles	254,967	23,070	-	278,037
Total capital assets being depreciated	15,712,078	4,336,165	-	20,048,243
Less accumulated depreciation for:				
Water and sewer system	5,991,105	244,180	-	6,235,285
Waste water treatment plant	2,591,772	67,102	-	2,658,874
Equipment	1,012,114	54,112	-	1,066,226
Vehicles	268,964	385	-	269,349
Total accumulated depreciation	9,863,955	365,779	-	10,229,734
Total capital assets being depreciated, net	5,848,123			9,818,509
Water and sewer fund capital assets, net	<u>\$ 10,215,732</u>			<u>\$ 9,901,398</u>

Capital assets for the Water and Sewer Fund at June 30, 2017, as previously reported totaled \$10,790,732. As discussed in Note 3(f) on page 56, the Town determined that capital assets were overstated by \$575,000 at June 30, 2017. The prior period adjustment to correct the overstatement is reflected in the beginning balance at July 1, 2017 shown above.

Town of Spring Lake, North Carolina
Notes to the Financial Statements (continued)
June 30, 2018

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

A - Assets (continued)

4. Capital Assets (continued)

Stormwater fund:	Beginning			Ending
	Balances	Increases	Decreases	Balances
Capital assets being depreciated:				
Stormwater system	\$ 195,279	\$ -	\$ -	\$ 195,279
Equipment	7,100	-	-	7,100
Vehicles	171,171	-	-	171,171
Total capital assets being depreciated	373,550	-	-	373,550
Less accumulated depreciation for:				
Stormwater system	50,330	7,811	-	58,141
Equipment	7,100	-	-	7,100
Vehicles	155,171	4,000	-	159,171
Total accumulated depreciation	212,601	11,811	-	224,412
Total capital assets being depreciated, net	160,949			149,138
Stormwater fund capital assets, net	\$ 160,949			\$ 149,138

Sanitation fund:	Beginning			Ending
	Balances	Increases	Decreases	Balances
Capital assets being depreciated:				
Equipment	\$ 283,692	\$ -	\$ -	\$ 283,692
Vehicles	189,472	-	-	189,472
Total capital assets being depreciated	473,164	-	-	473,164
Less accumulated depreciation for:				
Equipment	100,491	29,169	-	129,660
Vehicles	189,472	-	-	189,472
Total accumulated depreciation	289,963	29,169	-	319,132
Total capital assets being depreciated, net	183,201			154,032
Sanitation fund capital assets, net	\$ 183,201			\$ 154,032

Town of Spring Lake, North Carolina
Notes to the Financial Statements (continued)
June 30, 2018

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities

1. Pension Plan and Postemployment Obligations

a. Local Governmental Employees' Retirement System

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

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

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

Contributions. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. Town of Spring Lake 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 Spring Lake's contractually required contribution rate for the year ended June 30, 2018, was 8.25% of compensation for law enforcement officers and 7.50% 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 Spring Lake were \$551,332 for the year ended June 30, 2018.

Town of Spring Lake, North Carolina
Notes to the Financial Statements (continued)
June 30, 2018

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

1. Pension Plan and Postemployment Obligations (continued)

a. Local Governmental Employees' Retirement System (continued)

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, 2018, the Town reported a liability of \$1,069,409 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016. The total pension liability was then rolled forward to the measurement date of June 30, 2017 utilizing update procedures incorporating the actuarial assumptions. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2017, the Town's proportion was 0.07000%, which was a decrease of 0.00370% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the Town recognized pension expense (revenue) of \$496,115. At June 30, 2018, 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	\$ 61,608	\$ 30,272
Changes of assumptions	152,726	-
Net difference between projected and actual earnings on pension plan investments	259,653	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	446,841	16,877
Town contributions subsequent to the measurement date	551,332	-
Total	\$ 1,472,160	\$ 47,149

\$551,332 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, 2018. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2019	\$ 187,350
2020	450,099
2021	255,761
2022	(19,531)
2023	-
Thereafter	-

Town of Spring Lake, North Carolina
Notes to the Financial Statements (continued)
June 30, 2018

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

1. Pension Plan and Postemployment Obligations (continued)

a. Local Governmental Employees' Retirement System (continued)

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

Actuarial Assumptions. The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	3.50 to 8.10 percent, including inflation and productivity factor
Investment rate of return	7.20 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, 2016 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

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

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2017 are summarized in the following table:

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

Town of Spring Lake, North Carolina
Notes to the Financial Statements (continued)
June 30, 2018

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

1. Pension Plan and Postemployment Obligations (continued)

a. Local Governmental Employees' Retirement System (continued)

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

The information above is based on 30 year expectations developed with the consulting actuary for the 2016 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 7.20%. 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 liability calculated using the discount rate of 7.20 percent, as well as what the Town's proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.20 percent) or one percentage point higher (8.20 percent) than the current rate:

	1% Decrease (6.20%)	Discount Rate (7.20%)	1% Increase (8.20%)
Town's proportionate share of the net pension liability (asset)	\$ 3,210,381	\$ 1,069,409	\$ (717,632)

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.

Town of Spring Lake, North Carolina
Notes to the Financial Statements (continued)
June 30, 2018

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

1. Pension Plan and Postemployment Obligations (continued)

b. Law Enforcement Officers' Special Separation Allowance

1. *Plan Description.*

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

All full-time County law enforcement officers are covered by the Separation Allowance. At December 31, 2016, the Separation Allowance's membership consisted of:

Retirees and dependents receiving benefits	3
Terminated plan members entitled to, but not yet receiving benefits	-
Active plan members	31
Total	34

2. *Summary of Significant Accounting Policies*

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

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

3. *Actuarial Assumptions*

The entry age actuarial cost method was used in the December 31, 2016 valuation. The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 percent
Salary increases	3.50 to 7.35 percent, including inflation and productivity factor
Discount rate	3.16 percent

The discount rate is based on the yield of the S&P Municipal Bond 20 Year High Grade Rate Index as of December 31, 2017. Mortality rates are based on the RP-2000 Mortality tables with adjustments for mortality improvements based on Scale AA.

Town of Spring Lake, North Carolina
Notes to the Financial Statements (continued)
June 30, 2018

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

1. Pension Plan and Postemployment Obligations (continued)

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

4. *Contributions*

The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the amounts necessary to cover the benefits earned on a pay as you go basis through appropriations made in the General Fund operating budget. There were no contributions made by employees. The Town's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. Administration costs of the Separation Allowance are financed through investment earnings. The Town paid \$42,965 as benefits came due for the reporting period.

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

At June 30, 2018, the Town reported a total pension liability of \$524,014. The total pension liability was measured as of December 31, 2017 based on a December 31, 2016 actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2017 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2018, the Town recognized pension expense of \$49,172.

	Deferred Outflow of	Deferred Inflows of
Defferences between expected and actual experience	\$ -	\$ 13,097
Changes of assumptions	24,068	5,368
County benefit payments and plan administrative expense made subsequent to the measurement date	33,045	-
Total	\$ 57,113	\$ 18,465

\$33,045 reported as deferred outflows of resources related to pensions resulting from benefit payments made and \$416 administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total pension liability in the year ended June 30, 2019. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:		
2019	\$	996
2020		996
2021		996
2022		1,120
2023		1,495
Thereafter		-

Town of Spring Lake, North Carolina
Notes to the Financial Statements (continued)
June 30, 2018

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

1. Pension Plan and Postemployment Obligations (continued)

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

4. *Contributions (continued)*

Sensitivity of the Town's total pension liability to changes in the discount rate. The following presents the Town's total pension liability calculated using the discount rate of 3.16 percent, as well as what the Town's total pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.16 percent) or 1-percentage-point higher (4.16 percent) than the current rate:

	1% Decrease (2.16%)	Discount rate (3.16%)	1% Increase (4.16%)
Total pension liability	\$ 556,361	\$ 524,014	\$ 494,443

Schedule of Changes in Total Pension Liability
Law Enforcement Officers' Special Separation Allowance
June 30, 2018

	2018	2017
Beginning balance	\$ 505,879	\$ 505,533
Service Cost	29,062	30,166
Interest on the total pension liability	18,698	17,350
Differences between expected and actual experience in the measurement of the total pension liability	(15,926)	-
Changes of assumptions or other inputs	29,266	(8,114)
Benefit payments	(42,965)	(39,056)
Ending balance of the total pension liability	\$ 524,014	\$ 505,879

The plan currently uses mortality tables that vary by age, and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements. The actuarial assumptions used in the December 31, 2016 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

Town of Spring Lake, North Carolina
Notes to the Financial Statements (continued)
June 30, 2018

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

1. Pension Plan and Postemployment Obligations (continued)

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

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

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

	LGERS	LEOSSA	Total
Pension Expense	\$ 496,115	\$ 49,172	\$ 545,287
Pension Liability	1,069,409	524,014	1,593,423
Proportionate share of the net pension liability	0.07000%	n/a	
Deferred of Outflows of Resources			
Differences between expected and actual experience	61,608	-	61,608
Changes of assumptions	152,726	24,068	176,794
Net difference between projected and actual earnings on plan investments	259,653	-	259,653
Changes in proportion and differences between contributions and proportionate share of contributions	446,841	-	446,841
Benefit payments and administrative costs paid subsequent to the measurement date	551,332	33,045	584,377
Deferred of Inflows of Resources			
Differences between expected and actual experience	30,272	13,097	43,369
Changes of assumptions	-	5,368	5,368
Changes in proportion and differences between contributions and proportionate share of contributions	16,877	-	16,877

Town of Spring Lake, North Carolina
Notes to the Financial Statements (continued)
June 30, 2018

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

1. Pension Plan and Postemployment Obligations (continued)

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 General Assembly. The Supplemental Retirement Income Plan for Law Enforcement Officers is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes the pension trust fund financial statements for the Internal Revenue Code Section 401(k) plan that includes the Supplemental Retirement Income Plan for Law Enforcement Officers. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Funding Policy. Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to five percent of each officer's salary, 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, 2018 were \$73,431, which consisted of \$56,871 from the Town and \$16,560 from the law enforcement officers. No amounts were forfeited.

d. Supplemental Retirement Income Plan for Non-Law Enforcement Employees

Plan Description. The Town contributes to the Supplemental Retirement Income Plan (Plan), a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Plan provides retirement benefits to non-law enforcement officers employed by the Town.

Funding Policy. The Town's plan requires the Town to contribute each month an amount equal to two percent of each eligible employee's salary, and all amounts contributed are vested immediately. Also, employees may make voluntary contributions to the plan. Contributions for the year ended June 30, 2018 were \$85,037, which consisted of \$54,687 from the Town and \$30,350 from the employees. No amounts were forfeited.

e. Firefighters' and Rescue Squad Workers' Pension Fund

Plan Description. The State of North Carolina contributes, on behalf of the Town of Spring Lake, to the Firefighters' and Rescue Squad Workers' Pension Fund (FRSWPF), a cost-sharing multiple-employer defined benefit pension plan with a special funding situation administered by the State of North Carolina. FRSWPF provides pension benefits for eligible fire and rescue squad workers who have elected to become members of the fund. Article 86 of G.S. Chapter 58 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 Firefighters' and Rescue Squad Workers' Pension Fund 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 the Firefighters' and Rescue Squad Workers' Pension Fund. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, by calling (919) 981-5454, or at www.osc.nc.gov.

Town of Spring Lake, North Carolina
Notes to the Financial Statements (continued)
June 30, 2018

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

1. Pension Plan and Postemployment Obligations (continued)

e. Firemen's and Rescue Squad Workers' Pension Fund (continued)

Benefits Provided. FRSWPF provides retirement and survivor benefits. The present retirement benefit is \$170 per month. Plan members are eligible to receive the monthly benefit at age 55 with 20 years of creditable service as a firefighter or rescue squad worker, and have terminated duties as a firefighter or rescue squad worker. Eligible beneficiaries of members who die before beginning to receive the benefit will receive the amount paid by the member and contributions paid on the member's behalf into the plan. Eligible beneficiaries of members who die after beginning to receive benefits will be paid the amount the member contributed minus the benefits collected.

Contributions. Plan members are required to contribute \$10 per month to the plan. The State, a non-employer contributor, funds the plan through appropriations. The Town does not contribute to the plan. Contribution provisions are established by General Statute 58-86 and may be amended only by the North Carolina General Assembly. For the fiscal year ending June 30, 2018, the State contributed \$17,602,000 to the plan.

Refunds of Contributions. Plan members who are no longer eligible or choose not to participate in the plan may file an application for a refund of their contributions. Refunds include the member's contributions and contributions paid by others on the member's behalf. No interest will be paid on the amount of the refund. The acceptance of a refund payment cancels the individual's right to employer contributions or any other benefit provided by FRSWPF.

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

At June 30, 2018, the Town reported no liability for its proportionate share of the net pension liability, as the State provides 100% pension support to the Town through its appropriations to the FRSWPF. The total portion of the net pension liability that was associated with the Town and supported by the State was \$9,144. The net pension liability was measured as of June 30, 2018. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016. The total pension liability was then rolled forward to the measurement date of June 30, 2018 utilizing update procedures incorporating the actuarial assumptions. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers. As the Town is not projected to make any future contributions to the plan, its proportionate share at June 30, 2018 and at June 30, 2016 was 0%.

For the year ended June 30, 2018, the Town recognized pension expense of \$2,001 and revenue of \$2,001 for support provided by the State. At June 30, 2018, the Town reported no deferred outflows of resources and no deferred inflows of resources related to pensions.

Actuarial Assumptions. The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	Not applicable
Investment rate of return	7.20 percent, net of pension plan investment expense, including inflation

Town of Spring Lake, North Carolina
Notes to the Financial Statements (continued)
June 30, 2018

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

1. Pension Plan and Postemployment Obligations (continued)

e. Firemen's and Rescue Squad Workers' Pension Fund (continued)

For more information regarding actuarial assumptions, including mortality tables, the actuarial experience study, the consideration of future ad hoc COLA amounts, the development of the projected long-term investment returns, and the asset allocation policy, refer to the discussion of actuarial assumptions for the LGERS plan in Section a. of this note.

Discount rate. The discount rate used to measure the total pension liability was 7.20%. 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.

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.

f. Other Postemployment Benefits

Healthcare Benefits

Plan Description. Under the terms of a Town resolution, the Town administers a single-employer defined benefit Healthcare Benefits Plan (the HCB Plan). The plan provides postemployment healthcare benefits to retirees of the Town, provided they have at least 15 years of creditable service with the Town and at least 60 years of age, or 20 years of service and at least 60 years of age. Those employees retiring under disability must have 15 years of service with the Town. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 75.

Membership of the HCB Plan consisted of the following at December 31, 2017, the date of the latest actuarial valuation:

	<u>General Employees</u>	<u>Law Enforcement Officers</u>	<u>Firefighters</u>
Retirees and dependents receiving benefits	13	-	-
Active plan members	54	28	17
Total	<u>67</u>	<u>28</u>	<u>17</u>

Town of Spring Lake, North Carolina
Notes to the Financial Statements (continued)
June 30, 2018

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

1. Pension Plan and Postemployment Obligations (continued)

f. Other Postemployment Benefits (continued)

Funding policy: The Town currently charges Pre-65 retirees \$25 per month for healthcare and prescription drug coverage. The Town pays the remainder of the retirees' coverage. The Town also pays 100% of dental, vision, and life insurance for pre-65 and post-65 retirees. The Town pays the full cost of the Medicare supplemental policy, which includes Medicare Part D prescription drug coverage. The Town has chosen to fund the healthcare benefits on a pay-as-you-go basis.

Total OPEB Liability

The Town's total OPEB liability of \$4,619,325 was measured as of December 31, 2017 and was determined by an actuarial valuation as of that date. *Actuarial assumptions and other inputs.* The total OPEB liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement unless otherwise specified:

Inflation	2.50 percent
Salary increases	3.50 percent average, including inflation
Discount rate	3.56 percent
Healthcare cost trend rates	Medical - 5.5%
	Prescription - 7.50%

The discount rate is based on the yield of the S&P Municipal Bond 20 Year High Grade Rate Index as of the measurement date.

Changes in the Total OPEB Liability

	<u>Total OPEB Liability</u>
Balance at July 1, 2017	\$ 4,733,332
Changes for the year	
Service cost	354,320
Interest	141,400
Differences between expected and actual experience	(27,128)
Changes in assumptions or other inputs	(510,727)
Benefit payments	(71,872)
Net changes	<u>(114,007)</u>
Balance at June 30, 2018	<u>\$ 4,619,325</u>

Town of Spring Lake, North Carolina
Notes to the Financial Statements (continued)
June 30, 2018

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

1. Pension Plan and Postemployment Obligations (continued)

f. Other Postemployment Benefits (continued)

Changes in assumptions and other inputs reflect a change in the discount rate from 3.01% to 3.56%.

Mortality rates were based on the RP-2014 Total Data Set for Healthy Annuitants Mortality Table.

The actuarial assumptions used in the December 31, 2017 valuation were based on the results of an actuarial experience study for the period January 2010 through December 2014.

Sensitivity of the total OPEB liability to changes in the discount rate. The following presents the total OPEB liability of the Town, as well as what the Town's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.18 percent) or 1-percentage-point higher (4.18 percent) than the current discount rate:

	1% Decrease	Discount Rate (3.56%)	1% Increase
Total OPEB liability	\$ 5,607,662	\$ 4,619,325	\$ 3,858,179

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates. The following presents the total OPEB liability of the Town, as well as what the Town's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	(Medical - 4.5%, Prescription - 6.50%, Admin Expenses - 2.00%)	Discount Rate (Medical - 5.5%, Prescription - 7.50%, Admin Expenses - 3.00%)	(Medical - 6.5%, Prescription - 8.50%, Admin Expenses - 4.00%)
Total OPEB liability	\$ 3,804,102	\$ 4,619,325	\$ 5,714,392

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the Town recognized OPEB expense of \$435,083. At June 30, 2018, the Town reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 24,070
Changes of assumptions	-	453,148
Benefit payments and administrative costs made subsequent to the measurement date	-	-
Total	\$ -	\$ 477,218

Town of Spring Lake, North Carolina
Notes to the Financial Statements (continued)
June 30, 2018

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

1. Pension Plan and Postemployment Obligations (continued)

f. Other Postemployment Benefits (continued)

\$0 reported as deferred outflows of resources related to pensions resulting from benefit payments made and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total pension liability in the year ended June 30, 2019. Other amounts reported as deferred inflows of resources related to Pensions will be recognized in pension expense as follows:

Year ended June 30:		
2018	\$	(60,637)
2019		(60,637)
2020		(60,637)
2021		(60,637)
2022		(60,637)
Thereafter		(174,033)

2. Other Employment Benefits

The Town has elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Government Employees' Retirement System (Death Benefit Plan), a multi-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 employees 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 the 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.

Town of Spring Lake, North Carolina
Notes to the Financial Statements (continued)
June 30, 2018

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

3. Deferred Outflows and Inflows of Resources

The Town has several deferred outflows of resources. Deferred outflows of resources is comprised of the following:

Source	Amount
Contributions to pension plan in current fiscal year	\$ 551,333
Benefit payments made and administrative expenses for LEOSSA	33,044
Differences between expected and actual experience	61,608
Changes of assumptions	176,794
Net difference between projected and actual	259,653
Changes in proportion and differences between employer contributions and proportionate share of contributions	446,841
Charge on refunding	-
Total	\$ 1,529,273

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

	Statement of Net Position	General Fund Balance sheet
Prepaid taxes (General Fund)	\$ -	\$ -
Taxes Receivable, less penalties (General Fund)	-	126,039
Changes in assumptions	458,516	-
Differences between expected and actual experience	67,439	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	16,877	-
Total	\$ 542,832	\$ 126,039

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 participates in three self-funded risk-financing pools administered by the North Carolina League of Municipalities. Through these pools, the Town obtains general liability and auto liability coverage of \$1 million per occurrence, property coverage up to the total insured values of the property policy, workers' compensation coverage up to statutory limits, and employee health coverage. The liability and property exposures are reinsured through commercial carriers for claims in excess of retentions as selected by the Board of Trustees each year. Stop loss insurance is purchased by the Board of Trustees to protect against large medical claims that exceed certain dollar cost levels. Specific information on the limits of the reinsurance, excess and stop loss policies purchased by the Board of Trustees can be obtained by contacting the Risk Management Services Department of the NC League of Municipalities. The pools are audited annually by certified public accountants, and the audited financial statements are available to the Town upon request.

Town of Spring Lake, North Carolina
Notes to the Financial Statements (continued)
June 30, 2018

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

4. Risk Management (continued)

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 Director is individually bonded for \$135,000 and the tax collector is bonded for \$25,000. The remaining employees that have access to cash are covered under a blanket insurance policy for \$50,000.

The Town carries commercial coverage 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 coverage in any of the past three fiscal years.

The Town does not carry flood insurance, as the Town does not feel that, based on the location of their assets, the added cost of flood insurance is justifiable.

5. Claims, Judgments and Contingent Liabilities

At June 30, 2018, the Town was a defendant to various lawsuits. In the opinion of the Town's management and the Town attorneys, the ultimate effect of these legal matters will not have a material adverse effect on the Town's financial position.

6. Long-Term Obligations

a. Installment Purchase

The Town has entered into various installment purchase contracts to finance the purchase of equipment, police cars, and fire protection equipment.

Notes payable included in the accompanying financial statements include the purchase of various equipment and construction of water lines. The Town's notes payable at June 30, 2018 are comprised of the following individual notes:

Governmental Activities:

Note payable to finance the Community Center due in annual installments of \$131,240 including interest at 4.125%.	\$ 2,193,916
Note payable to finance street paving project due in annual installments of \$150,000 including interest at 2.43%.	<u>900,000</u>
Total governmental activities	<u><u>\$ 3,093,916</u></u>

Town of Spring Lake, North Carolina
Notes to the Financial Statements (continued)
June 30, 2018

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

6. Long-Term Obligations (continued)

a. Installment Purchase (continued)

Business-type Activities:

Note payable to finance a Freightliner Clam Shell Truck for the Sanitation Department, in the amount of \$234,241, closed on 7-27-16. Annual installments due for \$49,063 including interest at 1.56%.

\$ 188,832

Total business-type activities

188,832

Total installment purchases

\$ 3,282,748

b. General Obligation Indebtedness

The general obligation bonds and non-general obligation bonds issued to finance the construction of water and sewer systems facilities are being retired by the resources of the enterprise fund. Accordingly, these bonds are recorded as long-term debt in the Enterprise Fund. All general obligation bonds are collateralized by the full faith, credit, and taxing power of the Town. Principal and interest requirements are appropriated when due.

Bonds payable at June 30, 2018 are comprised of the following individual issues:

Serviced by the Water and Sewer Fund:

Water, Series 2008 Bonds (general obligation), issued February 19, 2008;
principal installments ranging from \$9,000 to \$36,000, beginning June 1, 2008
through June 1, 2047; interest at 4.625%, payable annually.

\$ 706,000

Sanitary Sewer, Series 2008 Bonds (general obligation), issued February 19, 2008;
principal installments ranging from \$6,000 to \$24,000, beginning June 1, 2008
through June 1, 2047; interest at 4.625%, payable annually.

454,000

Total bonds payable

\$ 1,160,000

Town of Spring Lake, North Carolina
Notes to the Financial Statements (continued)
June 30, 2018

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

6. Long-Term Obligations (continued)

c. Federal Revolving Loans

DENR - WWTP Project - Phase I, issued October 17, 2013; principal installments ranging of \$89,678, through May 1, 2029; interest at 0.00%, payable annually.	\$ 986,462
DENR - Lower Little River Project - Phase I, issued May 16, 2013; principal installments ranging of \$33,634, through May 6, 2033; interest at 0.00%, payable annually.	504,514
DENR - Lillington Hwy Water Main, issued March 14, 2014; principal installments ranging of \$40,140, through May 1, 2034; interest at 0.00%, payable annually.	<u>642,241</u>
Total federal revolving loans	<u><u>\$ 2,133,217</u></u>

Town of Spring Lake, North Carolina
Notes to the Financial Statements (continued)
June 30, 2018

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

6. Long-Term Obligations (continued)

d. Changes in Long-Term Liabilities

The following is a summary of changes in the Town's long-term obligations as of June 30, 2018.

	Beginning			Ending	Current
Governmental activities:	Balances	Increases	Decreases	Balance	Portion
Installment purchase	\$ 3,282,948	-	\$ (189,032)	\$ 3,093,916	\$ 190,000
Compensated absences	379,856	250,413	(171,687)	458,581	250,000
Total OPEB liability	3,833,999	-	(92,346)	3,741,653	-
Net pension obligation (LGERS)	1,097,545	-	(231,325)	866,220	-
Total pension obligation (LEO)	505,879	18,135	-	524,014	-
Governmental activity long-term liabilities	<u>\$ 9,100,227</u>	<u>\$ 268,548</u>	<u>\$ (684,390)</u>	<u>\$ 8,684,385</u>	<u>\$ 440,000</u>

	Beginning			Ending	Current
Business-type activities:	Balances	Increases	Decreases	Balance	Portion
Installment purchase	\$ 748,306	\$ -	\$ (559,474)	\$ 188,832	\$ 46,118
General obligation bonds	1,180,000	-	(20,000)	1,160,000	21,000
Federal revolving loan	2,296,669	-	(163,452)	2,133,217	163,453
Compensated absences	70,128	49,913	(38,786)	81,255	40,000
Total OPEB liability	899,333	-	(21,661)	877,672	-
Net pension obligation (LGERS)	309,564	-	(106,375)	203,189	-
Business-type activity long-term liabilities	<u>\$ 5,504,000</u>	<u>\$ 49,913</u>	<u>\$ (909,748)</u>	<u>\$ 4,644,165</u>	<u>\$ 270,571</u>

Town of Spring Lake, North Carolina
Notes to the Financial Statements (continued)
June 30, 2018

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

d. Changes in Long-Term Liabilities

The following summarizes the annual debt service requirement to maturity for the Town (excluding compensated absences, Law Enforcement Officer's Special Separation Allowance, LGERS pension, and OPEB):

Years Ending <u>June 30:</u>	Installment Purchases		Obligation Bonds		Total Debt Due	
	Principal	Interest	Principal	Interest	Principal	Interest
<u>Governmental Activities</u>						
2019	\$ 190,000	\$ 112,297	\$ -	\$ -	190,642	\$ 112,297
2020	192,318	107,006	-	-	192,318	107,006
2021	194,064	101,645	-	-	194,064	101,645
2022	195,882	96,212	-	-	195,882	96,212
2023	197,774	90,705	-	-	197,774	90,705
2024-2028	420,109	389,751	-	-	420,109	389,751
2029-2033	330,609	325,636	-	-	330,609	325,636
2034-2038	404,659	251,586	-	-	404,659	251,586
2039-2043	495,296	160,949	-	-	495,296	160,949
2044-2048	473,205	50,004	-	-	473,205	50,004
	<u>\$ 3,093,916</u>	<u>\$ 1,685,791</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,094,558</u>	<u>\$ 1,685,791</u>

Years Ending <u>June 30:</u>	Revolving Loans & Installment Purchases		Obligation Bonds		Total Debt Due	
	Principal	Interest	Principal	Interest	Principal	Interest
<u>Business-type Activities</u>						
2019	\$ 209,570	\$ 2,946	\$ 21,000	\$ 53,650	\$ 230,570	\$ 56,596
2020	210,290	2,226	23,000	52,679	233,290	54,905
2021	211,020	1,496	23,000	51,615	234,020	53,111
2022	211,762	753	25,000	50,551	236,762	51,304
2023	163,453	-	26,000	49,395	189,453	49,395
2024-2028	817,263	-	146,000	228,151	963,263	228,151
2029-2033	458,550	-	182,000	191,151	640,550	191,151
2034-2038	40,141	-	231,000	144,763	271,140	144,763
2039-2043	-	-	287,000	85,979	287,000	85,979
2044-2048	-	-	196,000	19,610	196,000	19,610
	<u>\$ 2,322,049</u>	<u>\$ 7,421</u>	<u>\$ 1,160,000</u>	<u>\$ 927,544</u>	<u>\$ 3,482,048</u>	<u>\$ 934,965</u>
Total	<u>\$ 5,415,965</u>	<u>\$ 1,693,212</u>	<u>\$ 1,160,000</u>	<u>\$ 927,544</u>	<u>\$ 6,576,606</u>	<u>\$ 2,620,756</u>

As June 30, 2018, the Town had a legal debt limit margin of approximately \$30,487,913.

Town of Spring Lake, North Carolina
Notes to the Financial Statements (continued)
June 30, 2018

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

C - Interfund Balances and Activity

Transfers from/to other funds consist of the following:

	Amount
From the Water and Sewer Fund to the General Fund	\$ 400,000
From the General Fund to the Fleet Maintenance Fund	138,415
From the General Fund to the Post Retirement Insurance Fund	114,911
From the Stormwater Fund to the General Fund	75,000
From the Sanitation Fund to the General Fund	75,000
From the Water and Sewer Fund to the Fleet Maintenance Fund	52,639
From the Stormwater Fund to the Post Retirement Insurance Fund	41,912
From the Sanitation Fund to the Fleet Maintenance Fund	20,000
From the Water and Sewer Fund to the Post Retirement Insurance Fund	15,090
From the Stormwater Fund to the Fleet Maintenance Fund	11,897
From the Water and Sewer Fund to the Stormwater Fund	8,596
From the Sanitation Fund to the Post Retirement Insurance Fund	3,200
	\$ 956,660

Interfund Transfers are used to move unrestricted revenues to programs in other funds in accordance with budgetary authorizations.

During FY 2017-2018, the Town made a budgeted interfund transfer of \$400,000 from the Water and Sewer Fund to the General Fund for overall and shared operations/expenses.

During FY 2017-2018, the Town made a budgeted interfund transfer of \$138,415 from the General Fund to the Fleet Maintenance Fund for overall and shared operations/expenses.

During FY 2017-2018, the Town made a budgeted interfund transfer of \$114,911 from the General Fund to the Post Retirement Insurance Fund for overall and shared operations/expenses.

During FY 2017-2018, the Town made a budgeted interfund transfer of \$75,000 from the Stormwater Fund to the General Fund for overall and shared operations/expenses.

During FY 2017-2018, the Town made a budgeted interfund transfer of \$75,000 from the Sanitation Fund to the General Fund for overall and shared operations/expenses.

During FY 2017-2018, the Town made a budgeted interfund transfer of \$52,639 from the Water and Sewer Fund to the Fleet Maintenance Fund for operations/expenses provided for the Water and Sewer Fund.

During FY 2017-2018, the Town made a budgeted interfund transfer of \$41,912 from the Stormwater Fund to the Post Retirement Insurance Fund for overall and shared operations/expenses.

During FY 2017-2018, the Town made a budgeted interfund transfer of \$20,000 from the Sanitation Fund to the Fleet Maintenance Fund for operations/expenses provided for the General Fund.

During FY 2017-2018, the Town made a budgeted interfund transfer of \$15,090 from the Water and Sewer Fund to the Post Retirement Insurance Fund for overall and shared operations/expenses.

Town of Spring Lake, North Carolina
Notes to the Financial Statements (continued)
June 30, 2018

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

C - Interfund Balances and Activity (continued)

During FY 2017-2018, the Town made a budgeted interfund transfer of \$11,897 from the Stormwater Fund to the Fleet Maintenance Fund for operations/expenses provided for the Stormwater Fund.

During FY 2017-2018, the Town made a budgeted interfund transfer of \$8,596 from the Water and Sewer Fund to the Stormwater Fund for overall and shared operations/expenses.

During FY 2017-2018, the Town made a budgeted interfund transfer of \$3,200 from the Sanitation Fund to the Post Retirement Insurance Fund for overall and shared operations/expenses.

D - Net Investment in Capital Assets

	Governmental	Business-Type
Capital assets	\$ 6,775,618	\$ 10,204,568
less: long-term debt	(3,093,916)	(3,482,049)
Net investment in capital asset	\$ 3,681,702	\$ 6,722,519

E - Fund Balance

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

<i>Total fund balance - General Fund</i>	\$ 2,617,583
Less:	
Stabilization by State Statute	602,404
Remaining fund balance	\$ 2,015,179

The outstanding encumbrances are amounts needed to pay any commitments related to purchase orders and contracts that remain unperformed at year-end. There were no outstanding encumbrances at June 30, 2018.

F - Prior Period Adjustments and Restatements

During the fiscal year ended June 30, 2018, the Town determined that Water and Sewer Fund capital assets were overstated by \$575,000 and Water and Sewer Fund cash was understated by \$575,000. The net effect of the adjustments to beginning net position in the Water and Sewer Fund was \$0. The error originated on November 12, 2014 when installment purchase proceeds of \$575,000 to finance two screw pumps at the Wastewater Treatment Plant were issued to the Town but the funds were never used towards the purchase of capital assets. The cash was held in an escrow account awaiting approval for disbursement. In 2018, BB&T closed the loan and the cash was applied to the remaining loan balance of \$485,971 on February 8, 2018 and the remaining \$89,215 was refunded to the Town.

Town of Spring Lake, North Carolina
Notes to the Financial Statements (continued)
June 30, 2018

NOTE 4 - JOINT VENTURES

The Town and the members of the Town's fire department each appoint two members to the five-member local board of trustees for the Firemen's Relief Fund. The State Insurance Commissioner appoints one additional member to the local board of trustees. The Firemen's Relief Fund is funded by a portion of the fire and lightning insurance premiums that insurers remit to the State. The State passes these monies to the local board of the Firemen's Relief Fund. The funds are used to assist fire fighters in various ways. The Town obtains an ongoing financial benefit from the Fund for the on-behalf of payments for salaries and fringe benefits made to members of the Town's fire department by the board of trustees. The participating governments do not have an equity interest in the joint venture, so no equity has been reflected in the financial statements at June 30, 2018. The Firemen's Relief Fund does not issue separate audited financial statements. Instead, the local board of trustees files an annual financial report with the State Firemen's Association. This report can be obtained from the Association at 323 West Jones Street, Suite 401, Raleigh, North Carolina 27603.

NOTE 5 - 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 6 - SUBSEQUENT EVENTS

Subsequent events were evaluated through February 28, 2020, which is the date the financial statements were available to be issued.

NOTE 7 - CHANGE IN ACCOUNTING PRINCIPLES

The Town implemented Governmental Accounting Standards Board (GASB) No. Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in the fiscal year ending June 30, 2018. The implementation of the statement required the Town to record beginning total OPEB liability and the effects on net position of benefit payments and administrative expenses paid by the Town related to OPEB during the measurement period (fiscal year ending December 31, 2017). Beginning deferred outflows and inflows of resources associated with the implementation were excluded from the restatement. As a result, net position for the governmental activities decreased \$2,633,498 and \$729,659 for the business-type activities.

Required Supplementary Financial Data

This section contains additional information required by generally accepted accounting principles.

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

- Schedule of Contributions to Local Government Employees' Retirement System.

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

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

- Schedule of Proportions Share of Net Pension Liability for Firefighters' and Rescue Squad Workers' Pension Plan

- Schedule of Changes in the Total OPEB Liability

Town of Spring Lake, North Carolina
Town of Spring Lake's Proportionate Share of Net Pension Liability (Asset)
Required Supplementary Information
Last Five Fiscal Years*

Local Government Employees' Retirement System

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Spring Lake's proportionate share of the net pension liability (%)	0.0700%	0.0663%	0.6786%	0.6842%	0.0003%
Spring Lake's proportionate share of the net pension liability (\$)	\$ 1,069,409	\$ 1,407,108	\$ 304,553	\$ (403,504)	\$ 883,546
Spring Lake's covered payroll	\$ 3,765,007	\$ 4,208,064	\$ 3,776,744	\$ 3,496,257	\$ 3,416,816
Spring Lake's proportionate share of the net pension liability as a percentage of its covered-employee payroll	28.40%	33.44%	8.06%	-11.54%	25.86%
Plan fiduciary net position as a percentage of the total pension liability**	94.18%	91.47%	98.09%	102.64%	94.35%

* The amounts presented are for the prior fiscal year.

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

Town of Spring Lake, North Carolina
Town of Spring Lake's Contributions
Required Supplementary Information
Last Five Fiscal Years

Local Government Employees' Retirement System

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 551,332	\$ 505,438	\$ 510,313	\$ 486,138	\$ 472,604
Contributions in relation to the contractually required contribution	<u>551,332</u>	<u>505,438</u>	<u>510,313</u>	<u>486,138</u>	<u>472,604</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Spring Lake's covered-employee payroll	\$ 4,208,064	\$ 3,776,744	\$ 3,496,257	\$ 3,416,816	\$ 3,416,816
Contributions as a percentage of covered-employee payroll	13.10%	13.38%	14.60%	14.23%	13.83%

Town of Spring Lake, North Carolina
Schedule of Changes in Total Pension Liability
Law Enforcement Officer's Special Separation Allowance
June 30, 2018

	2018	2017
Beginning balance	\$ 505,879	\$ 505,533
Service Cost	29,062	30,166
Interest on the total pension liability	18,698	17,350
Differences between expected and actual experience in the measurement of the total pension liability	(15,926)	-
Changes of assumptions or other inputs	29,266	(8,114)
Benefit payments	(42,965)	(39,056)
Ending balance of the total pension liability	\$ 524,014	\$ 505,879

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

Town of Spring Lake, North Carolina
Schedule of Total Pension Liability as a Percentage of Covered Payroll
Law Enforcement Officer's Special Separation Allowance
June 30, 2018

	<u>2018</u>	<u>2017</u>
Total pension liability	\$ 524,014	\$ 505,879
Covered payroll	1,335,726	1,319,390
Total pension liability as a percentage of covered payroll	39.23%	38.34%

Notes to the schedules:

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

Town of Spring Lake, North Carolina
Schedule of Changes in the Total OPEB Liability and Related Ratios
June 30, 2018

	2018
Total OPEB Liability	
Service cost	\$ 354,320
Interest	141,400
Differences between expected and actual experience	(27,128)
Changes in assumptions or other inputs	(510,727)
Benefit payments	(71,872)
Net changes in total OPEB liability	(114,007)
Total OPEB liability - beginning	4,733,332
Total OPEB liability - ending	\$ 4,619,325
Covered payroll	3,966,436
Total OPEB liability as a percentage of covered payroll	116.46%

Notes to Schedule

Changes of assumptions: Changes of assumptions and other inputs reflect the effects of changes in the discount rate of each period. The following are the discount rates used in each period:

<u>Fiscal year</u>	<u>Rate</u>
2018	3.56%

Individual Fund Statements and Schedules

General Fund

Town of Spring Lake, North Carolina
General Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance -
Budget and Actual
For the Year Ended June 30, 2018

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Ad valorem taxes:			
Taxes	\$	3,163,917	\$
Penalties and interest		9,097	
Total	<u>3,214,318</u>	<u>3,173,014</u>	<u>(41,304)</u>
Other taxes and licenses:			
Rental vehicle tax		32,914	
Motor vehicle tax		34,502	
Privilege licenses		255	
Total	<u>82,100</u>	<u>67,671</u>	<u>(14,429)</u>
Unrestricted intergovernmental:			
Electricity franchise tax		392,013	
Video programming		147,899	
Local option sales tax		1,928,154	
Telecommunications tax		63,815	
Beer and wine tax		51,157	
Beer and wine reimbursement		20,508	
Sales tax agreement reimbursement		83,301	
Solid waste reimbursement		21,094	
Total	<u>2,835,612</u>	<u>2,707,941</u>	<u>(127,671)</u>
Restricted intergovernmental:			
Senior citizens grant (from Mid Carolina)		27,939	
Fire local grant		12,500	
County recreation tax		37,434	
Powell bill allocation		280,314	
Manchester fire tax		76,418	
NCDOT road maintenance		6,234	
Total	<u>\$ 436,178</u>	<u>\$ 440,839</u>	<u>\$ 4,661</u>

Town of Spring Lake, North Carolina
General Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance -
Budget and Actual (continued)
For the Year Ended June 30, 2018

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Permits and fees:			
Permits and inspection fees	\$	\$ 28,358	\$
Planning fees		17,127	
Fire department fees		32,391	
Police department fees		2,180	
Total	<u>94,825</u>	<u>80,056</u>	<u>(14,769)</u>
Sales and services:			
Recreation fees and concessions		42,676	
Total	<u>33,379</u>	<u>42,676</u>	<u>9,297</u>
Investment earnings	<u>11,000</u>	<u>31,604</u>	<u>20,604</u>
Other revenues:			
Employee insurance premium		22,275	
Other revenues		8,323	
Total	<u>31,000</u>	<u>30,598</u>	<u>(402)</u>
Total revenues	<u>6,738,412</u>	<u>6,574,399</u>	<u>(164,013)</u>
Expenditures:			
General government:			
Governing body:			
Elected officials		79,654	
Dues and subscriptions		17,493	
Other operating expenditures		11,250	
Total	<u>128,081</u>	<u>108,397</u>	<u>19,684</u>
Administration:			
Salaries and employee benefits		287,321	
Other operating expenditures		2,353	
Total	<u>316,096</u>	<u>289,674</u>	<u>26,422</u>
Elections:			
Operating expenses		3,719	
Total	<u>\$ 5,500</u>	<u>\$ 3,719</u>	<u>\$ 1,781</u>

Town of Spring Lake, North Carolina
General Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance -
Budget and Actual (continued)
For the Year Ended June 30, 2018

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Finance:			
Salaries and benefits	\$	\$ 217,894	\$
Professional services		27,591	
Other operating expenditures		84,228	
Capital outlay		259,569	
Total	<u>861,992</u>	<u>589,282</u>	<u>272,710</u>
Human resources:			
Salaries and employee benefits		73,878	
Other operating expenditures		17,171	
Total	<u>94,492</u>	<u>91,049</u>	<u>3,443</u>
Legal services:			
Professional services		48,634	
Total	<u>38,000</u>	<u>48,634</u>	<u>(10,634)</u>
Tax collection:			
Professional services		52,178	
Total	<u>60,000</u>	<u>52,178</u>	<u>7,822</u>
Planning:			
Other operating expenditures		63,561	
Total	<u>69,000</u>	<u>63,561</u>	<u>5,439</u>
Information technology:			
Other operating expenditures		215,411	
Total	<u>244,796</u>	<u>215,411</u>	<u>29,385</u>
Public buildings:			
Salaries and employee benefits		95,369	
Other operating expenditures		82,394	
Total	<u>189,185</u>	<u>177,763</u>	<u>11,422</u>
Public works:			
Salaries and employee benefits		108,416	
Other operating expenditures		2,405	
Total	<u>110,373</u>	<u>110,821</u>	<u>(448)</u>
Total general government	<u>\$ 2,117,515</u>	<u>\$ 1,750,489</u>	<u>\$ 367,026</u>

Town of Spring Lake, North Carolina
General Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance -
Budget and Actual (continued)
For the Year Ended June 30, 2018

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Public safety:			
Police department:			
Salaries and employee benefits	\$	\$ 2,008,637	\$
Other operating expenditures		408,048	
Capital outlay		72,155	
Total	<u>2,545,183</u>	<u>2,488,840</u>	<u>56,343</u>
Inspections:			
Salaries and employee benefits		128,547	
Other operating expenditures		25,760	
Capital outlay		8,345	
Total	<u>203,454</u>	<u>162,652</u>	<u>40,802</u>
Fire:			
Salaries and employee benefits		1,167,851	
Other operating expenditures		205,591	
Total	<u>1,380,656</u>	<u>1,373,442</u>	<u>7,214</u>
Total public safety	<u>4,129,293</u>	<u>4,024,934</u>	<u>104,359</u>
Transportation:			
Streets:			
Salaries and employee benefits		222,521	
Other operating expenditures		186,790	
Total	<u>519,554</u>	<u>409,311</u>	<u>110,243</u>
Public transportation:			
Other operating expenditures		99,976	
Total	<u>107,980</u>	<u>99,976</u>	<u>8,004</u>
Total transportation	<u>627,534</u>	<u>509,287</u>	<u>118,247</u>
Cultural and recreational:			
Recreation:			
Salaries and employee benefits		389,499	
Professional services		159,952	
Capital outlay		24,546	
Total	<u>\$ 613,171</u>	<u>\$ 573,997</u>	<u>\$ 39,174</u>

Town of Spring Lake, North Carolina
General Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance -
Budget and Actual (continued)
For the Year Ended June 30, 2018

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Cultural and recreational (continued):			
Senior enrichment center:			
Salaries and employee benefits	\$	\$ 127,084	\$
Other operating expenditures		29,378	
Total	<u>159,741</u>	<u>156,462</u>	<u>3,279</u>
Total cultural and recreational	<u>772,912</u>	<u>730,459</u>	<u>42,453</u>
Non-departmental:			
Special appropriations		14,684	
Total	<u>16,200</u>	<u>14,684</u>	<u>1,516</u>
Debt service:			
Principal		189,032	
Interest		117,525	
Total	<u>306,557</u>	<u>306,557</u>	<u>-</u>
Total expenditures	<u>7,970,011</u>	<u>7,336,410</u>	<u>633,601</u>
Revenues over (under) expenditures	<u>(1,231,599)</u>	<u>(762,011)</u>	<u>469,588</u>
Other financing sources (uses):			
Transfer from other funds:			
Enterprise Funds	610,202	610,202	-
Transfers to other funds:			
Fleet Maintenance Fund	(138,415)	(138,415)	-
Total other financing sources (uses)	<u>471,787</u>	<u>471,787</u>	<u>-</u>
Fund balance appropriated	759,812	-	759,812
Net change in fund balances	<u>\$ -</u>	<u>(290,224)</u>	<u>\$ (290,224)</u>
Fund balances, beginning		<u>2,907,807</u>	
Fund balances, ending		<u><u>\$ 2,617,583</u></u>	

Non-Major Governmental Funds

Town of Spring Lake, North Carolina
Non-Major Governmental Funds
Combining Balance Sheet
For the Year Ended June 30, 2018

	<u>Special Revenue Funds</u>		<u>Capital Project Fund</u>		<u>Combining Totals</u>
	<u>Spring Fling Fund</u>	<u>Public Safety Grants and Projects Fund</u>	<u>Street Capital Project Fund</u>	<u>Recreation Capital Project Fund</u>	
<u>Assets:</u>					
Cash and cash equivalents	\$ -	\$ 138,156	\$ 106,065	\$ -	\$ 244,221
Accounts receivable	7,165	24,549	27,673	2,840	62,227
Total assets	\$ 7,165	\$ 162,705	\$ 133,738	\$ 2,840	\$ 306,448
<u>Liabilities and fund balances:</u>					
<u>Liabilities:</u>					
Accounts payable	\$ 2,453	\$ 2,230	\$ -	\$ 117,342	\$ 122,025
Total liabilities	2,453	2,230	-	117,342	122,025
<u>Fund balances:</u>					
Restricted:					
Stabilization by State Statue	4,712	24,549	27,673	-	56,934
Public Safety	-	135,926	-	-	135,926
Capital Projects	-	-	106,065	-	106,065
Unassigned	-	-	-	(114,502)	(114,502)
Total fund balances	4,712	160,475	133,738	(114,502)	184,423
Total liabilities and fund balances	\$ 7,165	\$ 162,705	\$ 133,738	\$ 2,840	\$ 306,448

Town of Spring Lake, North Carolina
Non-Major Governmental Fund
Combining Statement of Revenues, Expenditures and
Changes in Fund Balances
For the Year Ended June 30, 2018

	Special Revenue Funds		Capital Project Funds		Combining Totals
	Spring Fling Fund	Public Safety Grants and Projects Fund	Street Capital Project Fund	Recreation Capital Project Fund	
Revenues:					
Contribution proceeds	\$ 14,050	\$ -	\$ -	\$ -	\$ 14,050
Grant proceeds	-	64,152	-	-	64,152
Miscellaneous income	1,400	-	-	-	1,400
Total revenues	15,450	64,152	-	-	79,602
Expenditures:					
Current:					
General government	12,125	-	-	115,039	127,164
Public safety	-	84,928	8,240	-	93,168
Total expenditures	12,125	84,928	8,240	115,039	220,332
Other financing sources (uses):					
Installment purchase proceeds	-	-	-	-	-
Transfers from/(to) other funds	-	-	-	-	-
Total other sources (uses)	-	-	-	-	-
Revenues over (under) expenditures	3,325	(20,776)	(8,240)	(115,039)	(140,730)
Fund balance, beginning	1,387	181,251	141,978	537	325,153
Fund balance, ending	\$ 4,712	\$ 160,475	\$ 133,738	\$ (114,502)	\$ 184,423

Town of Spring Lake, North Carolina
Spring Fling Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance -
Budget and Actual
For the Year Ended June 30, 2018

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Contribution proceeds	\$ 14,000	\$ 14,050	\$ 50
Miscellaneous income	1,000	1,400	400
Total revenues	<u>15,000</u>	<u>15,450</u>	<u>450</u>
Expenditures:			
Contracted services		12,125	
Total expenditures	<u>15,000</u>	<u>12,125</u>	<u>2,875</u>
Revenues over (under) expenditures	<u>\$ -</u>	3,325	<u>\$ 3,325</u>
Fund balance, beginning		1,387	
Fund balance, ending		<u>\$ 4,712</u>	

Town of Spring Lake, North Carolina
Public Safety Grants and Projects Fund
Schedules of Revenues, Expenditures, and Changes in Fund Balance -
Budget and Actual
For the Year Ended June 30, 2018

	<u>Project Authorization</u>	<u>Prior Year Actual</u>	<u>Current Year</u>	<u>Total to Date</u>	<u>Variance Positive (Negative)</u>
Revenues:					
Governor's highway safety program	\$ 227,133	\$ 272,565	\$ -	\$ 272,565	\$ 45,432
Safer Grant	308,960	301,256	64,152	365,408	56,448
Miscellaneous income	2,901	4,026	-	4,026	1,125
Total revenues	<u>538,994</u>	<u>577,847</u>	<u>64,152</u>	<u>641,999</u>	<u>103,005</u>
Expenditures:					
Salaries and employee benefits	478,212	270,648	24,470	295,118	183,094
Other operating expenditures	47,711	53,622	32,414	86,036	(38,325)
Capital outlay	244,250	459,694	28,044	487,738	(243,488)
Total expenditures	<u>770,173</u>	<u>783,964</u>	<u>84,928</u>	<u>868,892</u>	<u>(98,719)</u>
Other financing sources (uses):					
Installment purchase proceeds	100,750	98,039	-	98,039	(2,711)
Transfers (to) from General Fund	130,429	289,329	-	289,329	158,900
Total other sources (uses)	<u>231,179</u>	<u>387,368</u>	<u>-</u>	<u>387,368</u>	<u>156,189</u>
Revenues over (under) expenditures	<u>\$ -</u>	<u>\$ 181,251</u>	<u>\$ (20,776)</u>	<u>\$ 160,475</u>	<u>\$ 160,475</u>
Fund balance, beginning			181,251		
Fund balance, ending			<u>\$ 160,475</u>		

Town of Spring Lake, North Carolina
Street Capital Project Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances-
Budget and Actual (Non – GAAP)
For the Year Ended June 30, 2018

	Project Authorization	Prior Year Actual	Current Year	Total to Date	Variance Positive (Negative)
Revenues:					
Investment earnings	\$ 40,000	\$ 79	\$ -	\$ 79	\$ (39,921)
Total revenues	40,000	79	-	79	(39,921)
Expenditures:					
Professional services	94,100	102,598	8,240	110,838	(16,738)
Contracted services	-	6,052	-	6,052	(6,052)
Capital outlay	1,847,034	1,690,585	-	1,690,585	156,449
Total expenditures	1,941,134	1,799,235	8,240	1,807,475	133,659
Other financing sources (uses):					
Transfers from/(to) other funds	401,134	441,134	-	441,134	40,000
Installment purchase proceeds	1,500,000	1,500,000	-	1,500,000	-
Total other sources (uses)	1,901,134	1,941,134	-	1,941,134	40,000
Net change in fund balance	\$ -	\$ 141,978	(8,240)	\$ 133,738	\$ 133,738
Fund balance, beginning			141,978		
Fund balance, ending			\$ 133,738		

Town of Spring Lake, North Carolina
Recreation Capital Project Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances-
Budget and Actual
For the Fiscal Year Ended June 30, 2018

	Project Authorization	Prior Year Actual	Current Year	Total to Date	Variance Positive (Negative)
Revenues:					
PARTF grant	\$ 489,650	\$ 363,148	\$ -	\$ 363,148	\$ (126,502)
Miscellaneous income	-	66	-	66	66
Total revenues	489,650	363,214	-	363,214	(126,436)
Expenditures:					
Professional services	252,950	111,280	115,039	226,319	26,631
Contracted services	42,850	5,214	-	5,214	37,636
Capital outlay	596,750	667,268	-	667,268	(70,518)
Total expenditures	892,550	783,762	115,039	898,801	(6,251)
Other financing sources:					
Transfers from/(to) other funds	34,450	52,635	-	52,635	18,185
Installment purchase proceeds	368,450	368,450	-	368,450	-
Total other sources (uses)	402,900	421,085	-	421,085	18,185
Net change in fund balance	\$ -	\$ 537	(115,039)	\$ (114,502)	\$ (114,502)
Fund balance, beginning			<u>537</u>		
Fund balance, ending			<u>\$ (114,502)</u>		

Enterprise Funds

Town of Spring Lake, North Carolina
Water and Sewer Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non-GAAP)
For the Year Ending June 30, 2018

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Charges for services:			
Water and sewer charges	\$	\$ 3,247,047	\$
Service charges and late fees		197,585	
Total	<u>3,463,272</u>	<u>3,444,632</u>	<u>(18,640)</u>
Water and sewer taps:			
Other operating revenues		29,080	
Total	<u>27,000</u>	<u>29,080</u>	<u>2,080</u>
Total operating revenues	<u>3,490,272</u>	<u>3,473,712</u>	<u>(16,560)</u>
Non-operating revenues:			
Interest income		18,798	
Sale of materials		6,068	
Other		110,214	
Total	<u>27,500</u>	<u>135,080</u>	<u>107,580</u>
Total revenues	<u>3,517,772</u>	<u>3,608,792</u>	<u>91,020</u>
Expenditures:			
Revenue collections:			
Salaries and employee benefits		137,152	
Water purchases		1,020,754	
Other operating expenditures		67,378	
Total	<u>1,260,125</u>	<u>1,225,284</u>	<u>34,841</u>
Revenue billing:			
Salaries and employee benefits		261,825	
Other operating expenditures		50,592	
Total	<u>351,404</u>	<u>312,417</u>	<u>38,987</u>
Water and sewer operation:			
Salaries and employee benefits		298,697	
Repairs and maintenance		216,159	
Other operating expenditures		64,725	
Capital outlay		51,445	
Total	<u>\$ 715,770</u>	<u>\$ 631,026</u>	<u>\$ 84,744</u>

Town of Spring Lake, North Carolina
Water and Sewer Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non-GAAP) (Continued)
For the Year Ending June 30, 2018

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Waste water treatment plant:			
Salaries and employee benefits	\$	\$ 170,144	\$
Electricity		81,750	
Repairs and maintenance		87,778	
Contracted services		120,858	
Other operating expenditures		85,905	
Total	<u>546,438</u>	<u>546,435</u>	<u>3</u>
Debt service:			
Principal payments		697,516	
Interest		72,207	
Total	<u>287,710</u>	<u>769,723</u>	<u>(482,013)</u>
Total expenditures	<u>3,161,447</u>	<u>3,484,885</u>	<u>(323,438)</u>
Revenues over (under) expenditures	<u>356,325</u>	<u>123,907</u>	<u>(232,418)</u>
Other financing sources (uses):			
Transfer to General Fund	(400,000)	(400,000)	-
Transfer to Post Retirement Fund	(15,090)	(15,090)	-
Transfer to Stormwater Fund	(8,596)	(8,596)	-
Transfer to Fleet Maintenance Fund	(52,639)	(52,639)	-
Total	<u>(476,325)</u>	<u>(476,325)</u>	<u>-</u>
Appropriated fund balance	120,000	-	(120,000)
Revenues and other financing sources (uses) over (under) expenditures	<u>\$ -</u>	<u>\$ (352,418)</u>	<u>\$ (352,418)</u>

Town of Spring Lake, North Carolina
Water and Sewer Fund
Schedule of Revenues, Expenditures
Budget and Actual (Non - GAAP) (continued)
For the Year Ended June 30, 2018

	Budget	Actual	Variance Positive (Negative)
Reconciliation from budgetary basis (modified accrual) to full accrual:			
Revenues and other financing sources (uses) over (under) expenditures		\$ (352,418)	
Reconciling items:			
Impact fees		1,800	
Capital outlay		51,445	
Principal payments		697,516	
Decrease in deferred outflows of resources - pensions		(50,970)	
Decrease in net pension liability		54,032	
Decrease in deferred inflows of resources - pensions		5,773	
Increase in deferred inflows of resources - OPEB		(76,355)	
Decrease in OPEB liability		18,241	
Increase in accrued vacation		(6,892)	
Depreciation		(365,779)	
Total reconciling items		328,811	
Change in net position		\$ (23,607)	

Town of Spring Lake, North Carolina
Water and Sewer Improvements Project
Schedule of Revenues, Expenditures
Budget and Actual (Non - GAAP)
From Inception and for Year Ended June 30, 2018

	Project Authorization	Actual		Total to Date	Variance Positive (Negative)
		Prior Years	Current Year		
Revenues:					
Impact fees	\$ -	\$ 33,165	\$ 1,800	\$ 34,965	\$ 34,965
Expenditures:					
Professional fees	692,275	666,158	-	666,158	26,117
Capital outlay	4,114,976	3,618,563	-	3,618,563	496,413
Total expenditures	4,807,251	4,284,721	-	4,284,721	522,530
Revenue over (under) expenditures	(4,807,251)	(4,251,556)	1,800	(4,249,756)	557,495
Other financing sources:					
Installment proceeds	575,000	-	-	-	(575,000)
CDBG grant	87,389	89,084	-	89,084	1,695
Clean water management trust fund	37,000	37,000	-	37,000	-
DWSRF WWTP (CS370750-03)	1,402,770	1,345,175	-	1,345,175	(57,595)
DWSRF revolving loan (CS370750-04)	681,146	672,685	-	672,685	(8,461)
DWSRF grant (CS370750-04)	681,146	672,685	-	672,685	(8,461)
PWS Loan (H-LRX-F-12-1685)	1,186,478	802,801	-	802,801	(383,677)
Interfund transfers	156,322	82,052	-	82,052	(74,270)
Total other sources (uses)	4,807,251	3,701,482	-	3,701,482	(1,105,769)
Revenues and financing other sources (uses) over (under) expenditures	\$ -	\$ (550,074)	\$ 1,800	\$ (548,274)	\$ (548,274)

Town of Spring Lake, North Carolina
Stormwater Fund
Schedule of Revenues, Expenditures
Budget and Actual (Non - GAAP)
For the Year Ended June 30, 2018

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Charges for services:			
Stormwater fees	\$	\$ 289,088	\$
Total	<u>281,850</u>	<u>289,088</u>	<u>7,238</u>
Non-operating revenues:			
Interest earned on investments		4,744	
Total	<u>2,000</u>	<u>4,744</u>	<u>2,744</u>
Total revenues	<u>283,850</u>	<u>293,832</u>	<u>9,982</u>
Expenditures:			
Stormwater:			
Salaries and employee benefits		77,560	
Professional services		3,953	
Operating expenses		64,455	
Total	<u>163,637</u>	<u>145,968</u>	<u>17,669</u>
Revenues over (under) expenditures	<u>120,213</u>	<u>147,864</u>	<u>27,651</u>
Other financing sources (uses):			
Transfer to General Fund	(116,912)	(116,912)	-
Transfer to Fleet Maintenance Fund	(11,897)	(11,897)	-
Transfer from Water and Sewer Fund	8,596	8,596	-
Total	<u>(120,213)</u>	<u>(120,213)</u>	<u>-</u>
Revenues and other sources (uses) over (under) expenditures	<u>\$ -</u>	<u>\$ 27,651</u>	<u>\$ 27,651</u>

Town of Spring Lake, North Carolina
Stormwater Fund
Schedule of Revenues, Expenditures
Budget and Actual (Non - GAAP) (continued)
For the Year Ended June 30, 2018

	Budget	Actual	Variance Positive (Negative)
Reconciliation from budgetary basis (modified accrual) to full accrual:			
Revenues and other financing sources (uses) over (under) expenditures		\$ 27,651	
Reconciling items:			
Decrease in deferred outflows of resources - pensions		(39,000)	
Decrease in net pension liability		31,519	
Decrease in deferred inflows of resources - pensions		2,025	
Increase in deferred inflows of resources - OPEB		(4,772)	
Decrease in OPEB liability		1,140	
Increase in accrued vacation		(4,106)	
Depreciation		(11,811)	
Total reconciling items		(25,005)	
Change in net position		\$ 2,647	

Town of Spring Lake, North Carolina
Sanitation Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non – GAAP)
For the Year Ended June 30, 2018

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Charges for services:			
Solid waste fees	\$	\$ 655,681	\$
Total	<u>688,326</u>	<u>655,681</u>	<u>(32,645)</u>
Non-operating revenues:			
Interest earned on investments		3,097	
Miscellaneous		18,315	
Total	<u>1,100</u>	<u>21,412</u>	<u>20,312</u>
Total revenues	<u>689,426</u>	<u>677,093</u>	<u>(12,333)</u>
Expenditures:			
Sanitation:			
Salaries and employee benefits		141,078	
Collection expenses		321,822	
Operating expenses		61,769	
Debt service - principal		45,410	
Debt service - interest		3,653	
Total	<u>638,677</u>	<u>573,732</u>	<u>64,945</u>
Total expenditures	<u>638,677</u>	<u>573,732</u>	<u>64,945</u>
Revenues over (under) expenditures	<u>50,749</u>	<u>103,361</u>	<u>32,300</u>
Other financing sources (uses):			
Transfer to General Fund		(78,200)	
Transfer to Fleet Maintenance Fund		(20,000)	
Total	<u>(98,200)</u>	<u>(98,200)</u>	<u>-</u>
Fund balance appropriated	47,451	-	47,451
Revenues and other financing sources (uses) over (under) expenditures	<u>\$ -</u>	<u>\$ 5,161</u>	<u>\$ 5,161</u>

Town of Spring Lake, North Carolina
Sanitation Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non – GAAP) (continued)
For the Year Ended June 30, 2018

	Budget	Actual	Variance Positive (Negative)
Reconciliation from budgetary basis (modified accrual) to full accrual:			
Revenues and other financing sources (uses) over (under) expenditures		\$ 5,161	
Reconciling items:			
Principal retirement		45,410	
Decrease in deferred outflows of resources - pensions		(24,279)	
Decrease in net pension liability		20,825	
Decrease in deferred inflows of resources - pensions		1,554	
Increase in deferred inflows of resources - OPEB		(9,544)	
Decrease in OPEB liability		2,280	
Increase in accrued vacation		(129)	
Depreciation		(29,169)	
Total reconciling items		6,948	
Change in net position		\$ 12,110	

Town of Spring Lake, North Carolina
Fleet Maintenance Internal Service Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non – GAAP)
For the Year Ended June 30, 2018

	Budget	Actual	Variance Positive (Negative)
Expenditures:			
Salaries and employee benefits	\$	\$ 116,849	\$
Other operating expenditures		105,246	
Total expenditures	237,695	222,095	15,600
Other financing sources (uses):			
Transfers from/(to) other funds		222,951	
Total other financing sources (uses)	237,695	222,951	14,744
Revenues over (under) expenditures	\$ -	856	\$ 856
Fund balance, beginning		658	
Fund balance, ending		\$ 1,514	

Other Schedules

This section contains additional information on property taxes.

- Schedule of Ad Valorem Taxes Receivable
- Analysis of Current Tax Levy

Town of Spring Lake, North Carolina
Schedule of Ad Valorem Taxes Receivable
June 30, 2018

<u>Fiscal Year</u>	<u>Uncollected Balances June 30, 2017</u>	<u>Additions</u>	<u>Collections and Credits</u>	<u>Uncollected Balances June 30, 2018</u>
2017-2018	\$ -	\$ 3,225,099	\$ 3,201,876	\$ 23,222
2016-2017	30,535	(4,168)	16,535	9,832
2015-2016	10,459	(49)	3,611	6,799
2014-2015	22,517	3,073	692	24,898
2014-prior	183,213	-	1,925	181,288
	<u>\$ 246,724</u>	<u>\$ 3,223,955</u>	<u>\$ 3,224,640</u>	<u>\$ 246,039</u>

Less: allowance for uncollectible accounts - General Fund 120,000

Ad valorem taxes receivable - net \$ 126,039

Reconciliation with revenues:

Ad valorem taxes - General Fund \$ 3,173,014

Reconciling items:

Interest collected 12,287

Releases from prior years (26,564)

Other adjustments 65,903

Subtotal 51,626

Total collections and credits \$ 3,224,640

Town of Spring Lake, North Carolina
Analysis of Current Year Tax Levy
For the Year Ended June 30, 2018

	Town-Wide Levy			Total Levy	
	Property Valuation	Rate	Total Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Property Tax	\$ 467,672,439	0.70	\$ 3,273,707	\$ 2,970,799	\$ 302,908
Penalties	-		5,990	5,990	-
Total	<u>467,672,439</u>		<u>3,279,697</u>	<u>2,976,789</u>	<u>302,908</u>
Discoveries:					
Current Year	<u>(4,004,857)</u>		<u>(28,034)</u>	<u>4,570</u>	<u>(32,604)</u>
Total	<u>(4,004,857)</u>		<u>(28,034)</u>	<u>4,570</u>	<u>(32,604)</u>
Releases	<u>(726,963)</u>		<u>(26,564)</u>	<u>(26,564)</u>	<u>-</u>
Total property valuation	<u>\$ 462,940,618</u>				
Net levy			3,225,099	2,954,795	270,304
Uncollected taxes at June 30, 2018			<u>(23,223)</u>	<u>(23,223)</u>	<u>-</u>
Current year's taxes collected			<u>\$ 3,201,876</u>	<u>\$ 2,931,573</u>	<u>\$ 270,304</u>
Current levy collection percentage			<u>99.28%</u>	<u>99.21%</u>	<u>100.00%</u>

Compliance Section

S. Preston Douglas & Associates, LLP

CERTIFIED PUBLIC ACCOUNTANTS

MEMBERS

American Institute of CPAs

N. C. Association of CPAs

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*

Independent Auditor's Report

To the Honorable Mayor and
Members of the Board
Town of Spring Lake, North Carolina

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Spring Lake, North Carolina, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprises the Town of Spring Lake's basic financial statements and have issued our report thereon dated February 28, 2020.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses that we consider to be material weakness (item 2018-001 and 2018-002).

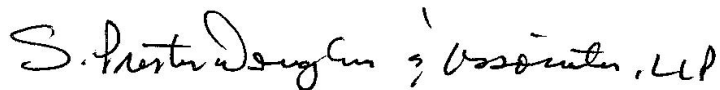
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Spring Lake's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 2018-002.

The Town's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs and corrective action plan. The Town of Spring Lake's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Purpose of this Report

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

A handwritten signature in black ink that reads "S. Preston Douglas, III, CPA". The signature is written in a cursive style.

Lumberton, North Carolina
February 28, 2020

**Town of Spring Lake, North Carolina
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018**

Section I. Summary of Auditor's Results
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Financial Statements

Type of auditor's report issued:	Unmodified.		
Internal control over financial reporting:			
• Material weakness(es) identified?	<u> X </u>	yes	<u> </u> no
• Significant deficiency(s) identified that are not considered to be material weaknesses	<u> </u>	yes	<u> </u> none reported
• Noncompliance material to financial statements	<u> X </u>	yes	<u> </u> no

Town of Spring Lake, North Carolina
Schedule of Findings and Questioned Costs (continued)
For the Year Ended June 30, 2018

Section II. Financial Statement Findings

MATERIAL WEAKNESS

Finding 2018-001 Prior Period Adjustment

Criteria: Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America.

Condition: Management determined that Water and Sewer Fund capital assets were overstated by \$575,000 and Water and Sewer Fund cash was understated by \$575,000. The net effect of the adjustments to beginning net position in the Water and Sewer Fund was \$0. Details of this error are included in Note 3 (f).

Effect: The Town made principal and interest payments during fiscal years 2016 and 2017 for installment debt that was not used to purchase two screw pumps at the Wastewater Treatment Plant. The money sat in escrow until the money was refunded to the Town on February 8, 2018.

Cause: Loan proceeds were issued on November 12, 2014 for two screw pumps at the Wastewater Treatment Plant. The Finance Director during that time was fired in 2015 during a p-card investigation conducted by the Office of the State Auditor. The current Finance Director was hired in the Spring 2015, first as the Interim Finance Director and then as the permanent Finance Director later that year. According to the Finance Officer, management was not aware of the escrow account until the year ended June 30, 2018. A representative with BB&T Government Finance told us that multiple Monitoring Letters were mailed to the Town, but the represented admitted that they (BB&T) did not actively follow up as they should have. The represented went on to state that their Monitoring Process has recently improved.

Repeat Finding: This is not a repeat finding.

Recommendation: We recommend that the Finance Director perform a careful review of the capital asset schedule on an annually basis.

Views of responsible officials and planned corrective actions:

The Town agrees with the finding and agrees to adhere to the correction action plan on page 89.

Town of Spring Lake, North Carolina
Schedule of Findings and Questioned Costs (continued)
For the Year Ended June 30, 2018

MATERIALWEAKNESS

Finding 2018-002 Material Noncompliance
Excess of Expenditures over Appropriations

Criteria: N.C. General Statute 159-8(a) states that all moneys received and expended by a local government should be included in the budget ordinance.

Condition: Budget over-expenditures occurred in the Water and Sewer Fund, Public Safety Grants and Projects Fund, and Recreation Capital Projects Fund in the amounts of \$482,013, \$98,719, and \$6,251, respectively.

Effect: Expenditures were incurred that had not been budgeted.

Cause: The Town did not monitor reports at frequent intervals to ensure budgetary compliance.

Repeat Finding: This is a repeat finding from the fiscal year ended June 30, 2015 audit (finding 2015-001).

Recommendation: Management should closely monitor the budget versus actual statements to ensure actual expenditures are within budgetary constraints.

Views of responsible officials and planned corrective actions:

The Town agrees with the finding and agrees to adhere to the correction action plan on page 89.

The Town of Spring Lake

BOARD OF ALDERMEN

Taimoor Aziz, Mayor Pro Tem
James P. O'Garra, Alderman
Soñia L. Cooper, Alderwoman
Jackie Jackson, Alderwoman
Fredricka Sutherland, Alderwoman



CHARTERED IN 1951

OFFICE OF THE MAYOR

Larry G. Dobbins, Mayor

ADMINISTRATION

Daniel B. Gerald, Town Manager
Rhonda D. Webb, Town Clerk
Robert A. "Tony" Buzzard, Town Attorney

Corrective Action Plan For the Year Ended June 30, 2018

MATERIAL WEAKNESS

Finding 2018 - 001 Prior Period Adjustments

Name of contact person: Claiburn Watson, Finance Director

Corrective Action: The Town will reconcile its capital asset subsidiary ledger to the general ledger during the fiscal year. A complete review of the capital asset subsidiary ledger and general ledger will occur during the financial statement close process. Any journal entries that are needed will be posted at that time. This will ensure that there are no missed entries at year end.

Proposed Completion Date: The Town has implemented the above procedures.

MATERIAL WEAKNESS

Finding 2018 - 002 Excess of Expenditures over Appropriations

Name of contact person: Claiburn Watson, Finance Director

Corrective Action: Management and the Board will more closely review the budget reports to ensure compliance in future years.

Proposed Completion Date: The Town has implemented the above procedures.

Town of Spring Lake, North Carolina
Summary Schedule of Prior Year Audit Findings
For the Year Ended June 30, 2018

Finding:	2017-001
Status:	Corrected.
Finding:	2016-001
Status:	Corrected.
Finding:	2015-001
Status:	No corrected.
Finding:	2015-002
Status:	Corrected.