

**TOWN OF SPENCER,
NORTH CAROLINA**

**Financial Statements and Supplementary
Information**

For the Year Ended June 30, 2025



Strickland Hardee PLLC
Certified Public Accountants

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TOWN OF SPENCER, NORTH CAROLINA
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FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Board of Alderman
Town of Spencer, North Carolina

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Spencer, North Carolina, as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the Town of Spencer, North Carolina's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Spencer, North Carolina, as of June 30, 2025, and the respective changes in financial position, and the respective budgetary comparison for the General Fund and the Capital Reserve and Replacement Fund, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Town of Spencer, North Carolina and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Town of Spencer, North Carolina's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Town of Spencer, North Carolina's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Town of Spencer, North Carolina's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 13, the Town's Local Government Employees' Retirement System and the Law Enforcement Officers' Special Separation Allowance Pension schedules on pages 45 through 48, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Spencer, North Carolina's basic financial statements. The accompanying combining and individual nonmajor fund financial statements, budgetary schedules, other schedules, and schedule of expenditures of federal and State awards as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements, the budgetary schedules, other schedules, and the schedule of expenditures of federal and State awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 8, 2026, on our consideration of the Town of Spencer, North Carolina's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town of Spencer, North Carolina's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town of Spencer, North Carolina's internal control over financial reporting and compliance.

Strickland Hardee PLLC

Lexington, North Carolina
January 8, 2026

MANAGEMENT'S DISCUSSION AND ANALYSIS

TOWN OF SPENCER, NORTH CAROLINA
Management's Discussion and Analysis
For the Year Ended June 30, 2025

As management of the Town of Spencer (Town), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the year ended June 30, 2025. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

Financial Highlights

- The assets and deferred outflows of resources of the Town exceeded its liabilities and deferred inflows of resources at the current fiscal year by \$9,918,641 (total net position).
- Town's total net position increased by \$1,349,847 in large part due to increased revenues related to property taxes as well as general and program revenues exceeding expenses.
- As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$2,696,230, a decrease of \$289,691 or 9.7% decrease from the prior year fund balance. The decrease is primarily due to amounts spent on the Downtown Park Project.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$992,212, or 19.32% of the total General Fund expenditures.
- The Town's capital assets increased \$2,474,371 or 26.7% during the current fiscal year. This increase is due to capital asset additions of \$3,103,828, primarily for construction in progress, exceeding depreciation expense of \$599,079.
- The Town's total debt increased \$924,577 or 19.7% during the current fiscal year. The key factor in this increase was the issuance of installment financing of \$690,000 for a fire truck. Increases were offset by debt service principal payments of \$105,594.

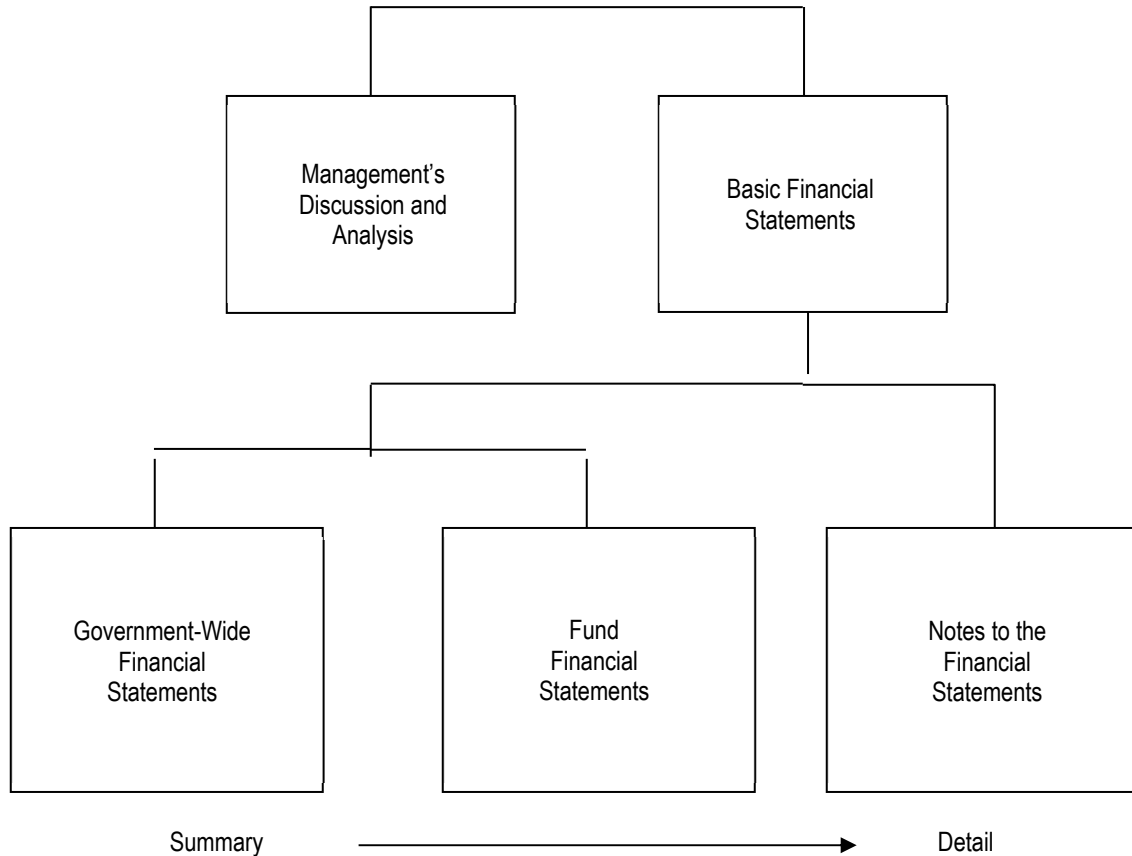
Overview of the Financial Statements

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

TOWN OF SPENCER, NORTH CAROLINA
Management's Discussion and Analysis
For the Year Ended June 30, 2025

Overview of the Financial Statements (Continued)

Required Components of Annual Financial Report
Figure 1



Basic Financial Statements

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

The next section of the basic financial statements is the **Notes**. The Notes to the Financial Statements explain in detail some of the data contained in those statements.

After the notes, **required supplementary information** and **supplementary information** are provided to show details about the Town's retirement plans and individual funds. Budgetary information required by the North Carolina General Statutes can also be found in this part of the statements.

Government-Wide Financial Analysis

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

TOWN OF SPENCER, NORTH CAROLINA
Management's Discussion and Analysis
For the Year Ended June 30, 2025

Government-Wide Financial Analysis (Continued)

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

The government-wide financial statements are Exhibits A and B of this report.

Fund Financial Statements

The fund financial statements (see figure 1) provide a more detailed look at the Town's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the Town's budget ordinance. All of the funds of the Town can be found in the governmental funds.

Governmental Funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. All of the Town's basic services are accounted for in governmental funds. These fund financial statements focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting* that provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if more or fewer 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 an integral part of the fund financial statements.

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

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. Note disclosure requirements apply only to material items and should focus on the primary government – specifically its governmental activities, major funds, and non-major funds in the aggregate. The Notes to the Financial Statements can be found as listed in the table of contents of this report.

Other Information – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the Town's progress in funding its obligation to provide pension benefits to its employees. Required Supplementary Information ("RSI") is mandated by the Governmental Accounting Standards Board ("GASB") and can be found as listed in the table of contents of this report.

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

TOWN OF SPENCER, NORTH CAROLINA
Management's Discussion and Analysis
For the Year Ended June 30, 2025

Government-Wide Financial Analysis

Town's Statement of Net Position
Figure 2

	Governmental Activities	
	2025	2024, Restated
Current and other assets	\$ 3,250,189	\$ 3,556,072
Noncurrent assets	11,769,841	9,305,369
Total assets	15,020,030	12,861,441
Deferred outflow of resources	986,236	934,338
Current liabilities	423,811	629,601
Long-term liabilities	5,611,971	4,544,494
Total liabilities	6,035,782	5,174,095
Deferred inflow of resources	51,843	52,890
Net investment in capital assets	8,100,254	6,206,096
Restricted	1,399,710	1,531,054
Unrestricted	418,677	831,644
Total net position	\$ 9,918,641	\$ 8,568,794

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets and deferred outflows of the Town of Spencer exceeded liabilities and deferred inflows by \$9,918,641 as of June 30, 2025. The Town's net position increased \$1,349,847 for the fiscal year ended June 30, 2025.

The Town's noncurrent assets increased \$2,464,472 in the current year due to capital asset additions of \$3,103,828, net of transfers, primarily for construction in progress, exceeding depreciation expense of \$599,079. Current and other assets decreased \$305,883, primarily due to a decrease in due from other governments.

The Town's current liabilities decreased \$205,790 primarily due to a decrease in accounts payable.

Long-term liabilities which include installment financing, IT subscriptions, compensated absences, and post-employment obligations of the primary governments increased by \$924,577. The main cause of the increase was the issuance of a \$690,000 installment financing obligation, and an increase of \$194,985 for the Town's net pension liability for the Local Governmental Employees' Retirement System. The overall increase in long-term liabilities were partially offset by the reduction of installment purchases, loans, and subscriptions based on the debt service principal payments made during the current year.

A major portion of net position reflects the Town's net investment in capital assets (e.g. land, buildings, machinery, and equipment). The Town of Spencer uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Spencer's net investment in capital assets is reported net of the outstanding related debt, the resources needed to repay the debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. The next largest portion of the Town of Spencer's net position, \$1,399,710, represents resources that are restricted on how they may be used. The remaining balance of \$418,677 is funds unrestricted in their use.

TOWN OF SPENCER, NORTH CAROLINA
Management's Discussion and Analysis
For the Year Ended June 30, 2025

Government-Wide Financial Analysis (Continued)

Town's Changes in Net Position
Figure 3

	Governmental Activities	
	2025	2024, Restated
Revenues:		
Program revenues:		
Charges for services	\$ 271,046	\$ 292,473
Operating grants and contributions	158,117	146,338
Capital grants and contributions	2,835,342	757,221
General revenues:		
Property taxes	2,394,232	2,085,518
Other taxes	1,784,486	1,656,064
Other	139,858	184,727
Total revenues	<u>7,583,081</u>	<u>5,122,341</u>
Expenses:		
General government	1,183,806	1,202,027
Land management	329,438	109,283
Public safety	3,235,635	2,606,504
Transportation	873,748	1,103,928
Environmental protection	441,923	470,718
Culture and recreation	101,010	84,784
Interest on long-term debt	67,674	-
Total expenses	<u>6,233,234</u>	<u>5,577,244</u>
Increase/(decrease) in net position	1,349,847	(454,903)
Net position, beginning	<u>8,568,794</u>	<u>9,023,697</u>
Net position, ending	<u>\$ 9,918,641</u>	<u>\$ 8,568,794</u>

Governmental Activities: Governmental activities increased the Town's net position by \$1,349,847 in the current year. The key element of this increase is the continued growth in the Town's property tax base and new federal and State grants related to capital projects.

Financial Analysis of the Town's Funds

As noted earlier, the Town 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. Specifically, unassigned fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

TOWN OF SPENCER, NORTH CAROLINA
Management's Discussion and Analysis
For the Year Ended June 30, 2025

Governmental Funds (Continued)

The General Fund is the chief operating fund of the Town. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$992,212 with a total fund balance of \$2,266,878, a decrease of \$228,782 over the prior year. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance for the General Fund as of June 30, 2025, represents 19.2% of total General Fund expenditures, while total fund balance represents 44.15% of the same amount.

The General Fund recorded revenues of \$4,998,003 during FY 2025, which was an increase of \$300,457, or 6.4% over the \$4,697,546 recorded in FY 2024, primarily due to the Ad Valorem Tax revenue increasing \$302,047 or 14.5% over FY 2024, due to increased assessed value of the tax base.

Expenditures in the General Fund were \$5,134,990 for FY 2025, which was a decrease of \$372,747, or 6.8% over the \$5,507,737 recorded in FY 2024.

At June 30, 2025, the governmental funds of the Town reported a combined total governmental fund balance of \$2,696,230, a 9.7% decrease over the prior year balance.

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

General Fund actual revenues were \$4,998,003, which was \$42,022 or 0.85% higher than budgeted revenues, primarily attributed to Restricted Intergovernmental.

Capital Asset and Debt Administration

Capital Assets

The Town's investment in capital assets for its governmental activities as of June 30, 2025, totaled \$11,730,246 (net of accumulated depreciation). This was an increase of \$2,474,371 from the prior year total. These capital assets include land, construction in progress, improvements, buildings, equipment, and vehicles.

Major capital asset transactions during the year include the following:

- Construction in progress for the Downtown Park and from capital projects on 17th Street totaling \$2,462,245, including additions in FY 2025 of \$2,049,856.
- Transfer of construction of progress into capitalized improvements for the Yadkin River Trail totaling \$789,113.
- The acquisitions of vehicles and motorized vehicles totaling \$1,036,687, including a fire truck for \$894,374.

TOWN OF SPENCER, NORTH CAROLINA
Management's Discussion and Analysis
For the Year Ended June 30, 2025

Capital Asset and Debt Administration (Continued)

Capital Assets (Continued)

The Town's capital assets (net of depreciation) as of June 30, 2025 and 2024 were as follows:

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

	Governmental Activities	
	2025	2024
Land	\$ 568,085	\$ 568,085
Construction in process	2,462,245	1,201,502
Improvements	5,409,933	4,789,666
Buildings	1,067,576	1,118,655
Equipment	426,094	507,378
Vehicles and motorized equipment	1,796,313	1,070,589
 Total capital assets, net of depreciation	 \$ 11,730,246	 \$ 9,255,875

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

Long-Term Debt

The Town's total debt obligations as of June 30, 2025 and 2024, were as follows:

Outstanding Debt
Figure 5

	Governmental Activities	
	2025	2024
USDA loan	\$ 2,616,961	\$ 2,688,232
Installment purchases	1,013,773	362,079
Subscription liability	38,853	48,962
Pension liability	1,486,090	1,291,105
Separation allowance	266,740	183,749
Compensated absences	189,554	113,267
 Total capital assets, net of depreciation	 \$ 5,611,971	 \$ 4,687,394

The Town of Spencer's total debt and long-term obligations increased by \$929,842 (16.6%) during the current fiscal year. The key factors in this increase include one new installment purchase of \$690,000 and increases in pension liability of \$194,985.

North Carolina General Statutes limit the amount of general obligation debt that a unit of government can issue to 8% of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for the Town of Spencer is \$31,706,909.

Additional information regarding the Town's long-term debt can be found in Note II.B.4 in the Notes to the Financial Statements.

TOWN OF SPENCER, NORTH CAROLINA
Management's Discussion and Analysis
For the Year Ended June 30, 2025

Economic Factors and Next Year's Budgets and Rates

Economic Factors

The Unemployment rate for Rowan County in June of 2024 was 3.8 percent, which is a slight decrease from 3.9 percent in June of 2024. The state's seasonally adjusted unemployment rate for June of 2025 was 3.7 percent. The North Carolina Department of Commerce does not report local area unemployment statistics specific to Spencer.

Spencer's certified population has increased from 3,305 in 2020 to an estimated 3,420 as of July 1, 2024 (According to State Demographer's municipal population estimates, NC Office of State Budget and Management), which represents a growth rate of 3.5 percent since the 2020 Census and 4.7 percent since the 2010 census. These population growth rates are enhanced by the tremendous level of planning for industrial and commercial development that has occurred in recent years.

Packaging Corporation of America (PCA) closed its operation in Spencer at the end of 2025, but the building's owner is actively marketing the building and may subdivide the property to create available property for new development.

Innospec Performance Chemicals continues a \$50-\$75 million multiyear expansion program by adding several small to medium size support buildings while refurbishing several existing buildings. They are working with the NC Railroad Company to either expand or add to their rail spur due to increased shipping volume.

The Town has seen a number of commercial renovation projects this year including Bojangles, Food Lion and a major addition to the North Rowan Medical Clinic. The clinic, operated by Cabarrus-Rowan Community Health Centers, Inc., was expanded to add additional services to their offerings, with some funding for the project flowing through the Town in the form of an NC Commerce Grant. A local contractor purchased and has renovated the old Gibbons Furniture building on S Salisbury Avenue. He has purchased and is working on renovations of what was the Steppin' Out Dance Company building in that same area.

Residential growth has continued a strong upward trend this year. Work continues on the 142-unit townhome project on Hawkinstown Road with most of the infrastructure in place and construction of the structures to begin in early 2026. There was a 35 percent increase in total zoning permits issued with 21 single family homes and duplexes being added. Small to medium sized subdivisions continue with many in the two to four lot size occurring throughout the town, a 10-lot subdivision for duplexes on Lincoln Avenue, and a 28-lot single family home subdivision being planned on Hawkinstown Road.

Commercial and industrial development continues on the north side of town with brownfield work being done on the NC Finishing Company site on US HWY 29 and infrastructure (water and sewer line extensions) being planned for the Fisher Lambe site on Hinkle Road. In both cases, some portion of this work is being paid for by grants from the NC Railroad Company. Almost \$100,000 was awarded to the Town for brownfield assessment work and \$750,000 was awarded for infrastructure.

A three-story, 30,000 square-foot medical office building is being built at the intersection of Long Ferry Road and Willow Creek Drive. This project was also awarded an NC Commerce grant. Site and infrastructure planning is completed and approved with construction to start in the spring of 2026. A local developer has purchased property at the NW quadrant of the Long Ferry/I-85 intersection with plans to develop a retail/service-related center at that location. Sedgewick Homes has completed a model home and office on Montclair Drive south of Long Ferry Road.

The developer of the slow-moving truck stop project has changed contractors and is moving ahead with utility extension plans with SRU. Structural steel has been delivered to the site and construction is promised to begin in earnest soon.

Other industrial and distribution projects in the Long Ferry Road corridor have completed planning and permitting and are now "shovel-ready." The overall economic slowdown and uncertainty have delayed these projects, but we have confidence they will soon come to fruition.

TOWN OF SPENCER, NORTH CAROLINA
Management's Discussion and Analysis
For the Year Ended June 30, 2025

Economic Factors and Next Year's Budgets and Rates (Continued)

Economic Factors (Continued)

Several new businesses have opened in the downtown area, including MexiCasa, a Latino supermarket in the Park Plaza shopping center. The former Little Choo Choo Shop at the corner of Salisbury Avenue and 5th Street has a new owner, with plans to develop the space into a restaurant complete with a rooftop bar. A Mexican dessert shop is planned for 316 S Salisbury Avenue, next to Queso Salsa Restaurant.

Plans for the addition of bike lanes on Whitehead Avenue and Jefferson Street have been approved by NCDOT and work is expected to be completed as a part of their repaving work in the spring or summer of 2026. Repaving of the northern part of Salisbury Avenue and US HWY 29 is scheduled for 2027, and we have begun planning work to add bike lanes along that section of highway. When complete, this will provide almost six miles of bike lanes from the Yadkin River, through Spencer and on into Salisbury.

The Town, through its newly created Parks and Recreation Advisory Board (PRAB) is dedicated to enhancing the quality of life for residents and visitors by providing accessible parks, engaging events, and forward-thinking recreational initiatives.

A highlight of calendar year 2025 was the successful completion and dedication of the Spencer Town Park. This new community space now serves as a vibrant gathering place for families, friends, and visitors. Several events took place each month from its soft opening in June through Winterfest in December, which brought thousands of visitors to the new facility. Each of these events exemplified the Town's commitment to collaboration by partnering with local organizations and volunteers. These partnerships strengthened community ties and ensured the success of seasonal programming, providing memorable experiences for all ages.

Looking ahead, the PRAB and town staff are preparing several projects for 2026. Plans include the adaptive reuse of the Carter House on 11th Street into what will become Stanback Forest Center. The facility will provide restroom facilities for Stanback Forest, office space for future staff, and educational and recreational opportunities for residents and visitors. Additionally, the Rocky Branch Loop Trail is set to be created within Stanback Forest, and the Grants Creek

Blueway Trailhead will be constructed to provide expanded access to outdoor recreation. These projects collectively exceed \$1.2 million, with \$480,000 in donations and local grants to leverage over \$800,000 in State grant funding.

The Town continues working through two NC Department of Environmental Quality grants to support stormwater improvements. These include a \$400,000 town-wide stormwater planning grant and a \$1.9 million design and construction grant to make drainage improvements along 17th Street. The Town is pursuing FEMA Hazard Mitigation funding through NC Department of Public Safety to completely fund the 17th Street construction project.

Budget Highlights for the Fiscal Year Ending June 30, 2026

The Budget for FY 2026 was developed around the challenging factors of implementing a pay study for staff, while facing flattening sales tax revenue, increased debt service, and the end of three years of supplemented funding from Federal ARPA SLFRF dollars. The Town's focus on bringing its compensation program to a competitive position for the second time in four years aligns with our organizational goals to provide quality public safety, public works, recreational, and other services to the community. Additional factors included inflationary cost pressures and sharp increases in property, liability, and worker's compensation insurance costs.

Governmental Activities: The Town of Spencer's Ad Valorem Tax Rate was increased from \$0.605 per One Hundred Dollars (\$100.00) valuation of taxable property in FY25 to \$0.6305 in FY 26. The Mayor and Board of Alderman were focused on the ability to implement results from a market salary study update that was conducted in FY 25, to improve recruitment and retention of all Town staff. The Town's debt service on the USDA loan for New Town Hall and Police Dept continues (\$128,397) and the second payment on the USDA loan for the garbage truck purchased in FY 24 is due (\$37,909), and the first USDA loan payment for the Fire Engine purchased in FY25 totals \$49,660.

As of the publishing of this report, the Town expects modest revenue growth for the upcoming year. Regarding sales tax revenue, NC League of Municipalities projections for FY26 estimated a 2.8 percent statewide increase over FY25, and the Town planned conservatively in the budget with a 1 percent growth factor in sales tax.

TOWN OF SPENCER, NORTH CAROLINA
Management's Discussion and Analysis
For the Year Ended June 30, 2025

Economic Factors and Next Year's Budgets and Rates (Continued)

Budget Highlights for the Fiscal Year Ending June 30, 2026 (Continued)

The Town's budget continues to maintain a Capital Reserve Fund. The adopted FY26 budget designates just over \$18,000 for this fund for upfit of a Police vehicle purchased in the prior fiscal year. The Town has a goal to designate General Fund contributions towards this fund, and staff aim to work with elected officials to build as much reserves as possible through future budget processes.

The Town froze two full-time and one part-time positions for FY26, to help achieve costs savings to implementation the updated Salary study findings, as previously discussed. At the same time, service levels were enhanced with reclassifications in the Police Department to allow more flexibility in School Resource Officer and Code Enforcement assignments. The Public Works Department reclassified a full-time Mechanic position to function as a part-time job share, also to gain efficiencies with the available budget. The Town is maintaining three dedicated School Resource Officers, funded primarily through grants.

The residential and commercial growth brought about because of previously discussed projects will also bring about increased demand on the Town's services and infrastructure. Over the past several years, the Town has added several new public safety positions (as described) and realigned public works positions for increased customer service and efficiency. The Town's first recreation position was included in the FY 25 budget but was frozen for FY26 prior to filling the position. Town staff hope to request this position for FY27, to focus on coordinating community events, programs, and other opportunities. Additional capacity in these areas will be needed going forward to keep up with the growth coming to the area.

FY 26 was a challenging budget cycle as we balanced key investment priorities with slower growth in some revenue sources than in recent years. We had the fortune of the significant infusion of federal ARPA dollars over the prior three years that enabled the Town to move ahead on several needed investments, and even leveraging the funds for several million dollars in additional grant funding. While anticipated, the rebalancing of the budget after this funding opportunity was significant.

Management recognizes the need to continue focusing on the creation of key financial policies to guide us forward, covering areas like the use of Fund Balance or reserves versus the issuance of debt for major capital projects. Best practices suggest a healthy mix of both of these funding sources, and creating policies around this will allow us to establish related goals and strategies to meet them.

Over the past years, significant planning work has been completed on several capital projects. New opportunities have been envisioned around the Creating Outdoor Recreation Economies Strategic Plan and the Yadkin River District Small Area Plan. Several residential and industrial developments have progressed through the early stages such as rezonings, annexations, and site plan reviews. Our ability to continue to turn these plans and studies into reality is directly related to growth in our tax base. Some of the planned developments would on their own represent five or ten percent increases in our assessed values.

Additional Information

This report is intended to provide a summary of the financial condition of the Town of Spencer. Questions or requests for additional information should be addressed to:

The Town Manager
Town of Spencer
Post Office Box 45
Spencer, NC 28159
(704) 633-2231

BASIC FINANCIAL STATEMENTS
(Government-wide)

TOWN OF SPENCER, NORTH CAROLINA
Statement of Net Position
June 30, 2025

Exhibit A

	Primary Government	
	Governmental Activities	Total
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,866,367	\$ 1,866,367
Restricted cash and cash equivalents	227,237	227,237
Accounts receivable	30,000	30,000
Taxes receivable	130,148	130,148
Due from other governments	996,437	996,437
Total current assets	3,250,189	3,250,189
Non-current assets:		
Right of use assets, net of amortization	39,595	39,595
Capital assets:		
Land	568,085	568,085
Construction in progress	2,462,245	2,462,245
Other capital assets, net of depreciation	8,699,916	8,699,916
Total capital assets	11,730,246	11,730,246
Total non-current assets	11,769,841	11,769,841
Total assets	15,020,030	15,020,030
DEFERRED OUTFLOWS OF RESOURCES	986,236	986,236
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	423,811	423,811
Total current liabilities	423,811	423,811
Long-term liabilities:		
Due within one year	236,047	236,047
Due in more than one year	3,623,094	3,623,094
Net pension liability	1,486,090	1,486,090
Separation allowance	266,740	266,740
Total long-term liabilities	5,611,971	5,611,971
Total liabilities	6,035,782	6,035,782
DEFERRED INFLOWS OF RESOURCES	51,843	51,843
NET POSITION		
Net investment in capital assets	8,100,254	8,100,254
Restricted for:		
Stabilization by State Statute	743,121	743,121
Streets - Powell Bill	227,237	227,237
Downtown Park Project	72,819	72,819
Capital Reserve and Replacement	6,533	6,533
Stanback Forest Center and Trails	350,000	350,000
Unrestricted	418,677	418,677
Total net position	\$ 9,918,641	\$ 9,918,641

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

TOWN OF SPENCER, NORTH CAROLINA
Statement of Activities
For the Year Ended June 30, 2025

Exhibit B

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Change in Net Position	
		Charges for Services	Grants and Contributions		Primary Government	
			Operating	Capital	Governmental Activities	Total
Primary government:						
Governmental activities:						
General government	\$ 1,183,806	\$ -	\$ -	\$ -	\$ (1,183,806)	\$ (1,183,806)
Public safety	3,235,635	271,046	14,574	-	(2,950,015)	(2,950,015)
Transportation	873,748	-	143,543	-	(730,205)	(730,205)
Environmental protection	441,923	-	-	-	(441,923)	(441,923)
Cultural and recreational	101,010	-	-	37,500	(63,510)	(63,510)
Land management	329,438	-	-	2,797,842	2,468,404	2,468,404
Interest on long-term debt	67,674	-	-	-	(67,674)	(67,674)
Total government activities	<u>6,233,234</u>	<u>271,046</u>	<u>158,117</u>	<u>2,835,342</u>	<u>(2,968,729)</u>	<u>(2,968,729)</u>
Total primary government	<u>\$ 6,233,234</u>	<u>\$ 271,046</u>	<u>\$ 158,117</u>	<u>\$ 2,835,342</u>	<u>(2,968,729)</u>	<u>(2,968,729)</u>
General revenues:						
Taxes:						
Property taxes					2,394,232	2,394,232
Other taxes and licenses					1,784,486	1,784,486
Unrestricted investment earnings					54,640	54,640
Miscellaneous					85,218	85,218
Total general revenues					<u>4,318,576</u>	<u>4,318,576</u>
Change in net position					<u>1,349,847</u>	<u>1,349,847</u>
Net position, beginning as previously reported					8,604,285	8,604,285
Restatement					(35,491)	(35,491)
Net position, beginning as restated					<u>8,568,794</u>	<u>8,568,794</u>
Net position, ending					<u>\$ 9,918,641</u>	<u>\$ 9,918,641</u>

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

FUND FINANCIAL STATEMENTS

TOWN OF SPENCER, NORTH CAROLINA
Balance Sheet
Governmental Funds
June 30, 2025

Exhibit C

	Major Funds			Total Nonmajor Funds	Total Governmental Funds
	General Fund	Capital Reserve and Replacement Fund	Capital Project Fund - Downtown Park Project		
ASSETS					
Cash and cash equivalents	\$ 1,499,915	\$ 6,533	\$ 9,919	\$ 350,000	\$ 1,866,367
Cash and cash equivalents, restricted	227,237	-	-	-	227,237
Accounts receivable	30,000	-	-	-	30,000
Taxes receivable	130,148	-	-	-	130,148
Due from other governments	438,425	-	529,952	28,060	996,437
Due from other funds	274,696	-	-	-	274,696
Total assets	<u>2,600,421</u>	<u>6,533</u>	<u>539,871</u>	<u>378,060</u>	<u>3,524,885</u>
LIABILITIES					
Liabilities:					
Accounts payable and accrued liabilities	203,395	-	220,416	-	423,811
Due to other funds	-	-	246,636	28,060	274,696
Total liabilities	<u>203,395</u>	<u>-</u>	<u>467,052</u>	<u>28,060</u>	<u>698,507</u>
DEFERRED INFLOWS OF RESOURCES					
Property taxes receivable	130,148	-	-	-	130,148
Total deferred inflows of resources	<u>130,148</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>130,148</u>
FUND BALANCES					
Restricted for:					
Stabilization by State statute	743,121	-	-	-	743,121
Streets - Powell Bill	227,237	-	-	-	227,237
Downtown Park Project	-	-	72,819	-	72,819
Capital Reserve and Replacement	-	6,533	-	-	6,533
Stanback Forest Center & Trails	-	-	-	350,000	350,000
Assigned for:					
Subsequent year's expenditures	304,308	-	-	-	304,308
Unassigned	992,212	-	-	-	992,212
Total fund balances	<u>2,266,878</u>	<u>6,533</u>	<u>72,819</u>	<u>350,000</u>	<u>2,696,230</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 2,600,421</u>	<u>\$ 6,533</u>	<u>\$ 539,871</u>	<u>\$ 378,060</u>	

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Gross capital assets at historical cost	17,077,297	
Accumulated depreciation	<u>(5,347,051)</u>	11,730,246

Right to use subscription assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Gross right to use subscription assets at historical cost	49,494	
Accumulated amortization	<u>(9,899)</u>	39,595

Deferred outflows of resources related to pensions are not reported in the funds.

986,236

Earned revenues considered deferred inflows of resources in fund statements.

130,148

Long-term liabilities used in governmental activities are not financial uses and therefore are not reported in the funds

Long-term debt	(3,669,587)
Compensated absences	(189,554)
Net pension liability	(1,486,090)
Separation allowance	(266,740)

Deferred inflows of resources related to pensions are not reported in the funds

(51,843)

Net position of governmental activities

\$ 9,918,641

TOWN OF SPENCER, NORTH CAROLINA
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2025

Exhibit D

	Major Fund			Total Nonmajor Funds	Total Governmental Funds
	General Fund	Capital Reserve and Replacement Fund	Capital Project Fund - Downtown Park Project		
REVENUES:					
Ad valorem taxes	\$ 2,383,025	\$ -	\$ -	\$ -	\$ 2,383,025
Other taxes and licenses	299,083	-	-	-	299,083
Unrestricted intergovernmental	1,485,403	-	-	-	1,485,403
Restricted intergovernmental	419,588	-	1,916,902	656,969	2,993,459
Sales and services	280,796	-	-	-	280,796
Investment earnings	54,640	-	-	-	54,640
Miscellaneous	75,468	-	-	-	75,468
Total revenues	<u>4,998,003</u>	<u>-</u>	<u>1,916,902</u>	<u>656,969</u>	<u>7,571,874</u>
EXPENDITURES:					
Current:					
General government	1,027,066	-	-	-	1,027,066
Public safety	2,728,950	1,052,890	-	-	3,781,840
Transportation	771,591	220	-	-	771,811
Environmental protection	360,758	13,199	-	-	373,957
Culture and recreation	73,357	-	-	-	73,357
Land management	-	-	2,045,897	304,369	2,350,266
Debt service:					
Principal retirement	105,594	-	-	-	105,594
Interest and other charges	67,674	-	-	-	67,674
Total expenditures	<u>5,134,990</u>	<u>1,066,309</u>	<u>2,045,897</u>	<u>304,369</u>	<u>8,551,565</u>
Revenues over (under) Expenditures	<u>(136,987)</u>	<u>(1,066,309)</u>	<u>(128,995)</u>	<u>352,600</u>	<u>(979,691)</u>
OTHER FINANCING SOURCES (USES):					
Transfers from other funds	261,012	352,807	-	-	613,819
Transfers to other funds	(352,807)	-	-	(261,012)	(613,819)
Installment purchase financing	-	690,000	-	-	690,000
Total other financing sources (uses)	<u>(91,795)</u>	<u>1,042,807</u>	<u>-</u>	<u>(261,012)</u>	<u>690,000</u>
Net change in fund balance	(228,782)	(23,502)	(128,995)	91,588	(289,691)
Fund balances, beginning	<u>2,495,660</u>	<u>30,035</u>	<u>201,814</u>	<u>258,412</u>	<u>2,985,921</u>
Fund balances, ending	<u>\$ 2,266,878</u>	<u>\$ 6,533</u>	<u>\$ 72,819</u>	<u>\$ 350,000</u>	<u>\$ 2,696,230</u>

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

TOWN OF SPENCER, NORTH CAROLINA
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of
Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2025

Exhibit E

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

Net changes in fund balances - total governmental funds	\$	(289,691)
<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		3,103,828
Depreciation expense for governmental assets		<u>(599,079)</u>
		2,504,749
Capitalized subscription assets net of amortization expense		(9,899)
<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 any of net position. This amount is the net effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items</p>		
Issuance of installment purchase financing		(690,000)
Principal payments on long-term debt		109,577
Principal payments on subscriptions		<u>10,109</u>
		(570,314)
Changes in the Town's proportionate share of the net pension liability, deferred outflows of resources, and deferred inflows of resources related to the LGERS for the current year are not reported in the governmental funds but are reported in the Statement of Activities.		(197,786)
Changes in the Town's proportionate share of the separation allowance, deferred outflows of resources, and deferred inflows of resources related to the LEOSSA for the current year are not reported in the governmental funds but are reported in the Statement of Activities.		(27,245)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		
Change in unavailable revenue for tax revenues		11,207
<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		(40,796)
Loss on disposal of fixed assets		<u>(30,378)</u>
Total changes in net position of Governmental Activities	\$	<u><u>1,349,847</u></u>

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

TOWN OF SPENCER, NORTH CAROLINA
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
Major Governmental Funds
For the Year Ended June 30, 2025

Exhibit F

	General Fund			Variance with Final Budget - Positive (Negative)
	Budget		Actual Amounts	
	Original	Final		
REVENUES				
Ad valorem taxes	\$ 2,322,714	\$ 2,335,714	\$ 2,383,025	\$ 47,311
Other taxes and licenses	288,845	288,845	299,083	10,238
Unrestricted intergovernmental	1,424,770	1,424,770	1,485,403	60,633
Restricted intergovernmental	285,971	375,471	419,588	44,117
Sales and services	325,060	330,060	280,796	(49,264)
Investment earnings	120,000	120,000	54,640	(65,360)
Miscellaneous	34,649	81,121	75,468	(5,653)
Total revenues	<u>4,802,009</u>	<u>4,955,981</u>	<u>4,998,003</u>	<u>42,022</u>
EXPENDITURES				
Current:				
General government	1,085,542	1,227,843	1,027,066	200,777
Public safety	2,756,117	2,785,671	2,728,950	56,721
Transportation	658,366	999,310	771,591	227,719
Environmental protection	423,924	412,924	360,758	52,166
Culture and recreation	121,525	221,525	73,357	148,168
Debt service:				
Principal retirement	118,838	108,289	105,594	2,695
Interest and other charges	57,125	67,674	67,674	-
Total expenditures	<u>5,221,437</u>	<u>5,823,236</u>	<u>5,134,990</u>	<u>688,246</u>
Revenues over (under) expenditures	<u>(419,428)</u>	<u>(867,255)</u>	<u>(136,987)</u>	<u>730,268</u>
OTHER FINANCING SOURCES (USES)				
Installment purchase financing	-	-	-	-
Transfers from other funds	225,000	225,000	261,012	(36,012)
Transfers to other funds	(272,811)	(416,731)	(352,807)	(63,924)
Total other financing sources (uses)	<u>(47,811)</u>	<u>(191,731)</u>	<u>(91,795)</u>	<u>(99,936)</u>
Fund balance appropriated	<u>467,239</u>	<u>1,058,986</u>	-	(1,058,986)
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	(228,782)	<u>\$ (428,654)</u>
Fund balance, beginning			<u>2,495,660</u>	
Fund balance, ending			<u>\$ 2,266,878</u>	

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

TOWN OF SPENCER, NORTH CAROLINA
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
Major Governmental Funds
For the Year Ended June 30, 2025

Exhibit F
(Continued)

	<u>Capital Reserve and Replacement Fund</u>			Variance with Final Budget - Positive (Negative)
	Budget		Actual Amounts	
	Original	Final		
REVENUES				
Ad valorem taxes	\$ -	\$ -	\$ -	\$ -
Other taxes and licenses	-	-	-	-
Unrestricted intergovernmental	-	-	-	-
Restricted intergovernmental	-	-	-	-
Sales and services	-	-	-	-
Investment earnings	-	-	-	-
Miscellaneous	-	-	-	-
Total revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXPENDITURES				
Current:				
General government	-	-	-	-
Public safety	313,312	1,062,386	1,052,890	9,496
Transportation	-	669	220	449
Environmental protection	13,199	73,199	13,199	60,000
Culture and recreation	-	-	-	-
Debt service:				
Principal retirement	-	-	-	-
Interest and other charges	-	-	-	-
Total expenditures	<u>326,511</u>	<u>1,136,254</u>	<u>1,066,309</u>	<u>69,945</u>
Revenues over (under) expenditures	<u>(326,511)</u>	<u>(1,136,254)</u>	<u>(1,066,309)</u>	<u>69,945</u>
OTHER FINANCING SOURCES (USES)				
Installment purchase financing	-	690,000	690,000	-
Transfers from other funds	276,511	416,731	352,807	63,924
Transfers to other funds	-	-	-	-
Total other financing sources (uses)	<u>276,511</u>	<u>1,106,731</u>	<u>1,042,807</u>	<u>63,924</u>
Fund balance appropriated	<u>50,000</u>	<u>29,523</u>	-	(29,523)
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	(23,502)	<u>\$ 104,346</u>
Fund balance, beginning			<u>30,035</u>	
Fund balance, ending			<u>\$ 6,533</u>	

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

NOTES TO THE FINANCIAL STATEMENTS

TOWN OF SPENCER, NORTH CAROLINA
Notes to the Financial Statements
For the Year Ended June 30, 2025

I) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A) The Reporting Entity

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

B) Basis of Presentation, Basis of Accounting

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

The statement of activities presents a comparison between direct expenses and program revenues for each function of the Town's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are identifiable to a particular function. Indirect expense allocations made in the funds have been reversed for the statement of activities. Program revenues include (1) fees and charges paid by the recipients of goods and services offered by the programs and (2) 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. The Town has no proprietary or fiduciary funds to report. The emphasis of fund financial statements is on major governmental funds. All remaining governmental funds are aggregated and reported as non-major funds.

The Town reports the following major governmental funds:

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

Capital Reserve and Replacement Fund: This special revenue fund is used as a reserve account for the replacement of capital assets.

Downtown Park Project Fund: This capital projects fund is used to account for the construction and maintenance of the Downtown Park Project.

The Town reports the following non-major governmental funds:

American Rescue Plan Fund: This fund accounts for the transactions related to the American Rescue Plan Fund.

Community Development Block Grant Fund: This fund accounts for the transactions related to the Community Development Block Grant Fund.

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

17 St. Stormwater Improvements Fund: This capital projects fund is used to account for the construction and maintenance of the 17 St stormwater improvements.

TOWN OF SPENCER, NORTH CAROLINA
Notes to the Financial Statements
For the Year Ended June 30, 2025

I) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B) Basis of Presentation, Basis of Accounting (Continued)

Stanback Forest Center and Trails Fund: This capital projects fund is used to account for the construction and maintenance of the Stanback Forest Center and trails.

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

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

Governmental fund financial statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, including lease and information technology subscriptions (SBITA) liabilities, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of general long-term debt and acquisitions under leases and subscription-based information technology arrangements (SBITAs) 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 is not accrued as revenue because the amount is not susceptible to accrual. On June 30, taxes receivable for property other than motor vehicles are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of September 1, 2013, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, the State of North Carolina is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts. Property taxes are due when vehicles are registered. The billed taxes are applicable to the fiscal year in which they are received. Uncollected taxes that were billed in periods before September 1, 2013, and for limited registration plates are shown as receivables in these financial statements and are offset by deferred inflows of resources.

Sales taxes and certain intergovernmental revenues, such as the beer and wine tax, collected and held by the State at year-end on behalf of the Town are recognized as revenue. Sales taxes are considered a shared revenue for the Town of Spencer because the tax is levied by Rowan County and then remitted to and distributed by the State. Most intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. All taxes, including those dedicated for specific purposes, are reported as general revenues rather than program revenues.

Under the terms of grant agreements, the Town funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there is both restricted and unrestricted net position available to finance the program. It is the Town's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then general revenues.

TOWN OF SPENCER, NORTH CAROLINA
Notes to the Financial Statements
For the Year Ended June 30, 2025

I) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D) Budgetary Data

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund, Powell Bill Fund, and the Capital Reserve and Replacement Fund. All annual appropriations lapse at the fiscal year-end. Project ordinances are adopted for the Stanback Forest Center and Trails, Yadkin River Trail, Downtown Park, 17th Street Stormwater Improvements, and Community Development Block Grant Capital Projects Funds. The appropriations for the Capital Projects Funds will lapse at the end of the respective projects. All budgets are prepared using the modified accrual basis of accounting. The appropriations for the Capital Projects funds will lapse at the end of the respective projects. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the project level for the multi-year funds. Amendments are required for any revisions that alter total expenditures of any fund or that change functional appropriations. All amendments must be approved by the governing board. The budget ordinance must be adopted by July 1 of the fiscal year, or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

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

1) Deposits and Investments

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

State law [G.S. 159-30(c)] authorizes the Town to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances and the North Carolina Capital Management Trust (NCCMT). The Town's investments are generally reported at fair value. The NCCMT Government Portfolio, a SEC-registered (2a-7) money market mutual fund, is measured at fair value. Since the NCCMT Government Portfolio has a weighted average maturity of less than 90 days, it is presented as an investment with a maturity of less than 6 months.

2) Cash and Cash Equivalents

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

3) Restricted Assets

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

Town of Spencer Restricted Cash	
Governmental Activities	
General Fund	
Streets	\$ 227,237
Total Restricted Cash	\$ 227,237

TOWN OF SPENCER, NORTH CAROLINA
Notes to the Financial Statements
For the Year Ended June 30, 2025

I) 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 on property other than motor vehicles on July 1st, the beginning of the fiscal year. The taxes are due September 1st (lien date); however, interest does not accrue until the following January 6th. These taxes are based on the assessed values as of January 1, 2024. As allowed by State law, the Town has established a schedule of discounts that apply to taxes that are paid prior to the due date. In the Town's General Fund, ad valorem tax revenues are reported net of such discounts.

5) Allowance for Doubtful Accounts

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

6) Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. Minimum capitalization cost is \$1,000 for all asset classes. Donated capital assets prior to June 30, 2015, are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 30, 2015, are recorded at acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical cost. The Town has elected not to capitalize general infrastructure assets acquired prior to July 1, 2003. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

The Town's capital assets are depreciated on the straight-line method using the following estimated useful lives:

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

7) Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Town has two items that meet this criterion, contributions to the pension plan in the current fiscal year and pension deferrals for the 2025 fiscal year. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Town has two items that meet the criterion for the category – property taxes receivable and pension deferrals.

TOWN OF SPENCER, NORTH CAROLINA
Notes to the Financial Statements
For the Year Ended June 30, 2025

I) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

8) Right to Use Subscription Assets

The Town's capital assets also include certain right to use assets. These right to use assets arise in association with agreements where the Town reports an Information Technology (IT) Subscription in accordance with the requirements of GASB 96.

The right to use IT subscription assets are initially measured at an amount equal to the initial measurement of the subscription liability plus any subscription payments made at the start of the subscription term, if applicable, plus capitalizable initial implementation costs at the start of the subscription term, less any incentives received from the IT subscription vendor at the start of the subscription term. Subscription payments, as well as payments for capitalizable implementation costs made before the start of the subscription term should be reported as a prepayment (asset). Such prepayments should be reduced by any incentives received from the same vendor before the start of the subscription term if a right of offset exists. The net amount of the prepayments and incentives should be reported as an asset or liability, as appropriate, before the start of the subscription term at which time the amount should be included in the initial measurement of the subscription asset. The right to use subscription asset should be amortized on a straight-line basis over the subscription term.

9) Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities of net position.

10) Compensated Absences

The Town recognizes a liability for compensated absences for leave time that (1) has been earned for services previously rendered by employees, (2) accumulates and is allowed to be carried over to subsequent years, and (3) is more likely than not to be used as time off or settled (for example, paid in cash to the employee or paid to an employee flex spending account) during or upon separation from employment. Based on the criteria above, two types of leave qualify for liability recognition for compensated absences – vacation and sick leave. The liability for compensated absences is recorded as incurred in the government-wide fund financial statements. A liability for compensated absences is recorded in the governmental funds only if the liability has matured because of employee resignations or retirements. The liability for compensated absences includes salary-related benefits where applicable.

The vacation policy of the Town provides for the accumulation of up to thirty days earned vacation leave, with such leave being fully vested when earned. Vacation leave over thirty days is transferred to an employee's sick leave balance at the end of each calendar year.

The Town's sick leave policies provide 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.

TOWN OF SPENCER, NORTH CAROLINA
Notes to the Financial Statements
For the Year Ended June 30, 2025

I) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

11) Net Position/Fund Balances

a) Net Position

Net position in government-wide financial statements are classified as net investment in capital assets, 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.

b) 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 – includes amounts that cannot be spent either because it is not in spendable form (i.e., prepaids, inventories, etc.) or because of legal or contractual requirements (i.e., principal on an endowment, etc.).

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

Restricted for Stabilization by State Statute – North Carolina G.S. 159-8 prohibits units of government from budgeting or spending a portion of their fund balance. This is one of several statutes enacted by the North Carolina State Legislature in the 1930's that were designed to improve and maintain the fiscal health of local government units. Restricted by State Statute ("RSS") is calculated at the end of each fiscal year for all annually budgeted funds. The calculation in G.S. 159-8 provides a formula for determining what portion of fund balance is available for appropriation. The amount of fund balance not available for appropriation is what is known as "restricted by State statute" defined as follows: "*Appropriated fund balance in any fund shall not exceed the sum of cash and investments minus the sum of liabilities, encumbrances, and deferred revenues arising from cash receipts, as those figures stand at the close of the fiscal year next preceding the budget*". Per GASB guidance, RSS is considered a resource upon which a restriction is imposed by law through constitutional provisions or enabling legislation. RSS is reduced by inventories and prepaids as they are classified as nonspendable. Outstanding encumbrances are included within RSS. RSS is included as a component of Restricted net position and Restricted fund balance on the face of the balance sheet.

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

Restricted for Downtown Park Project – portion of fund balance restricted for the construction of the Downtown Park.

Restricted for Capital Reserve and Replacement – portion of the fund balance restricted for the replacement of capital assets.

Restricted for Stanback Forest Center and Trails – portion of the fund balance restricted for construction of the Stanback Forest Center and Trails

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

TOWN OF SPENCER, NORTH CAROLINA
Notes to the Financial Statements
For the Year Ended June 30, 2025

- I) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**
- E) **Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Equity (Continued)**

- 11) **Net Position/Fund Balances (Continued)**

- b) **Fund Balances (Continued)**

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

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

- Unassigned** – portion of fund balance that has not been restricted, committed, or assigned to specific purposes or other funds and that has not been reported as non-spendable fund balance.

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

- 12) **Defined Benefit Cost-Sharing Plans**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Local Government 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's employer contributions are recognized when due and the Town 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.

- 13) **Accounting for Changes**

The Town implemented GASB Statement No. 101, Compensated Absences in the current fiscal year. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The implementation of this Statement required a restatement to reduce government-wide funds net position by \$35,491 to record the estimated liability for sick leave at June 30, 2024.

The Town implemented GASB Statement No. 102, Certain Risk Disclosures. The disclosures provide users with timely information regarding certain concentrations or constraints and related events that have occurred or have begun to occur that make a government vulnerable to a substantial impact. As a result, users will have better information with which to understand and anticipate certain risks to the government's financial condition. For the year ended June 30, 2025, the Town had no concentrations or constraints requiring disclosure.

TOWN OF SPENCER, NORTH CAROLINA
Notes to the Financial Statements
For the Year Ended June 30, 2025

- I) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**
- E) **Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Equity (Continued)**

14) Recent Accounting Pronouncements

GASB Statement No. 103, Financial Reporting Model Improvements

In April 2024, the GASB issued GASB Statement No. 103, Financial Reporting Model Improvements. The objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This Statement also addresses certain application issues.

This Statement continues the requirement that the basic financial statements be preceded by management's discussion and analysis (MD&A), which is presented as required supplementary information (RSI). MD&A provides an objective and easily readable analysis of the government's financial activities based on currently known facts, decisions, or conditions and presents comparisons between the current year and the prior year. This Statement requires that the information presented in MD&A be limited to the related topics discussed in five sections: (1) Overview of the Financial Statements, (2) Financial Summary, (3) Detailed Analyses, (4) Significant Capital Asset and Long-Term Financing Activity, and (5) Currently Known Facts, Decisions, or Conditions. Furthermore, this Statement stresses that the detailed analyses should explain why balances and results of operations changed rather than simply presenting the amounts or percentages by which they changed. This Statement emphasizes that the analysis provided in MD&A should avoid unnecessary duplication by not repeating explanations that may be relevant to multiple sections and that "boilerplate" discussions should be avoided by presenting only the most relevant information, focused on the primary government. In addition, this Statement continues the requirement that information included in MD&A distinguish between that of the primary government and its discretely presented component units.

This Statement describes unusual or infrequent items as transactions and other events that are either unusual in nature or infrequent in occurrence. Furthermore, governments are required to display the inflows and outflows related to each unusual or infrequent item separately as the last presented flow(s) of resources prior to the net change in resource flows in the government-wide, governmental fund, and proprietary fund statements of resource flows. This Statement requires that the proprietary fund statement of revenues, expenses, and changes in fund net position continue to distinguish between operating and nonoperating revenues and expenses. Operating revenues and expenses are defined as revenues and expenses other than nonoperating revenues and expenses. Nonoperating revenues and expenses are defined as (1) subsidies received and provided, (2) contributions to permanent and term endowments, (3) revenues and expenses related to financing, (4) resources from the disposal of capital assets and inventory, and (5) investment income and expenses.

In addition to the subtotals currently required in a proprietary fund statement of revenues, expenses, and changes in fund net position, this Statement requires that a subtotal for operating income (loss) and noncapital subsidies be presented before reporting other nonoperating revenues and expenses. Subsidies are defined as (1) resources received from another party or fund (a) for which the proprietary fund does not provide goods and services to the other party or fund and (b) that directly or indirectly keep the proprietary fund's current or future fees and charges lower than they would be otherwise, (2) resources provided to another party or fund (a) for which the other party or fund does not provide goods and services to the proprietary fund and (b) that are recoverable through the proprietary fund's current or future pricing policies, and (3) all other transfers.

This Statement requires governments to present each major component unit separately in the reporting entity's statement of net position and statement of activities if it does not reduce the readability of the statements. If the readability of those statements would be reduced, combining statements of major component units should be presented after the fund financial statements.

This Statement requires governments to present budgetary comparison information using a single method of communication—RSI. Governments also are required to present (1) variances between original and final budget amounts and (2) variances between final budget and actual amounts. An explanation of significant variances is required to be presented in notes to RSI. The requirements of this Statement are effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter. Earlier application is encouraged. The City is currently reviewing this statement to determine the effect on the financial statements.

TOWN OF SPENCER, NORTH CAROLINA
Notes to the Financial Statements
For the Year Ended June 30, 2025

I) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

14) Recent Accounting Pronouncements (Continued)

GASB Statement No. 104, Disclosure of Certain Capital Assets

In September 2024, the GASB issued GASB Statement No. 104, Disclosure of Certain Capital Assets. This Statement requires certain types of capital assets to be disclosed separately in the capital assets note disclosures required by Statement 34. Lease assets recognized in accordance with Statement No. 87, Leases, and intangible right-to-use assets recognized in accordance with Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements, should be disclosed separately by major class of underlying asset in the capital as-sets note disclosures. Subscription assets recognized in accordance with Statement No. 96, Subscription-Based Information Technology Arrangements, also should be separately disclosed. In addition, this Statement requires intangible assets other than those three types to be disclosed separately by major class.

This Statement also requires additional disclosures for capital assets held for sale. A capital asset is a capital asset held for sale if (a) the government has decided to pursue the sale of the capital asset and (b) it is probable that the sale will be finalized within one year of the financial statement date. Governments should consider relevant factors to evaluate the likelihood of the capital asset being sold within the established time frame. This Statement requires that capital assets held for sale be evaluated each reporting period. Governments should disclose (1) the ending balance of capital assets held for sale, with separate disclosure for historical cost and accumulated depreciation by major class of asset, and (2) the carrying amount of debt for which the capital assets held for sale are pledged as collateral for each major class of asset. The requirements of this Statement are effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter. Earlier application is encouraged.

II) DETAIL NOTES ON ALL FUNDS

A) Assets

1) Deposits

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

At June 30, 2025, the Town's deposits had a carrying amount of \$1,052,050 and a bank balance of \$1,091,138. Of the bank balance, \$250,000 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method. At June 30, 2025, the Town's petty cash totaled \$100.

2) Investments

At June 30, 2025, the Town's investments balances consisted of \$1,041,454 invested with the North Carolina Capital Management Trust Cash Portfolio which carried a credit rating of AAAm by Standard and Poor's (S&P) and AAA-mf by Moody's Investors Service as of June 30, 2025. The Town has no policy regarding credit risk.

TOWN OF SPENCER, NORTH CAROLINA
Notes to the Financial Statements
For the Year Ended June 30, 2025

II) DETAILED NOTES ON ALL FUNDS AND ACTIVITIES (Continued)

A) Assets (Continued)

3) Receivables – Due from Other Governments

The due from other governments that is owed to the Town for the year ended June 30, 2025, consists of the following:

Local options sales tax	\$	206,985
Franchise and utility tax		51,417
Rowan County		27,187
Sales tax and other refunds		182,788
Downtown park project		500,000
Community development block grant		<u>28,060</u>
Total	\$	<u>996,437</u>

4) Capital Assets

Capital asset activity for the Town's governmental activities for the year ended June 30, 2025 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, non-depreciable:				
Land	\$ 568,085	\$ -	\$ -	\$ 568,085
Construction in progress	1,201,502	2,049,856	789,113	2,462,245
Total capital assets, non-depreciable	<u>1,769,587</u>	<u>2,049,856</u>	<u>789,113</u>	<u>3,030,330</u>
Capital assets, depreciable:				
Buildings	2,571,659			2,571,659
Improvements	5,560,171	789,113		6,349,284
Equipment	1,095,933	17,285	12,354	1,100,864
Vehicles and motorized equipment	3,028,718	1,036,687	40,245	4,025,160
Total capital assets, depreciable	<u>12,256,481</u>	<u>1,843,085</u>	<u>52,599</u>	<u>14,046,967</u>
Less accumulated depreciation for:				
Buildings	1,453,004	51,079	-	1,504,083
Improvements	770,505	168,846	-	939,351
Equipment	588,555	90,997	4,782	674,770
Vehicles and motorized equipment	1,958,129	288,157	17,439	2,228,847
Total accumulated depreciation	<u>4,770,193</u>	<u>599,079</u>	<u>22,221</u>	<u>5,347,051</u>
Total capital assets being depreciated, net	<u>7,486,288</u>			<u>8,699,916</u>
Governmental activities capital assets, net	<u>\$ 9,255,875</u>			<u>\$ 11,730,246</u>

TOWN OF SPENCER, NORTH CAROLINA
Notes to the Financial Statements
For the Year Ended June 30, 2025

II) DETAILED NOTES ON ALL FUNDS AND ACTIVITIES (Continued)

A) Assets (Continued)

4) Capital Assets (Continued)

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

Functions/Programs	Depreciation Expense
General government	\$ 93,816
Land management	29,028
Public safety	299,297
Transportation	82,669
Environmental protection	66,616
Culture and recreation	27,653
	\$ 599,079

The Town has active construction projects as of June 30, 2025. At year-end, the government's commitments with contractors are as follows:

Project	Spent-to-date	Commitment
Downtown Park Project	\$ 2,238,047	\$ 2,463,000
17th St Stormwater Improvements	224,198	1,959,462
	\$ 2,462,245	\$ 4,422,462

5) Right to Use Subscription Assets

The Town has recorded one right to use subscription asset. The asset is for the right to use a license and service subscription. The right to use asset is amortized on a straight-line basis over the terms of the related lease.

Right to use asset activity for the Town for the year ended June 30, 2025, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Right to Use Subscription Asset:				
Police equipment	\$ 49,494	\$ -	\$ -	\$ 49,494
Less accumulated amortization for:				
Police equipment	-	9,899	-	9,899
Rights to use assets, net	\$ 49,494			\$ 39,595

TOWN OF SPENCER, NORTH CAROLINA
Notes to the Financial Statements
For the Year Ended June 30, 2025

II) DETAILED NOTES ON ALL FUNDS AND ACTIVITIES (Continued)

B) Liabilities

1) Pension Plan and Postemployment Obligations

a) Local Governmental Employees' Retirement System

Plan Description. The Town 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 ("LEO") of participating local governmental entities. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the State Senate, one appointed by the State House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. The Local Governmental Employees' Retirement System is included in the Annual Comprehensive Financial Report ("ACFR") for the State of North Carolina. The State's ACFR 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 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's contractually required contribution rate for the year ended June 30, 2025, was 15.04% of compensation for law enforcement officers and 13.65% of compensation 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 and by employees were \$302,044 for the year ended June 30, 2025.

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

TOWN OF SPENCER, NORTH CAROLINA
Notes to the Financial Statements
For the Year Ended June 30, 2025

II) DETAILED NOTES ON ALL FUNDS AND ACTIVITIES (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 and Deferred Inflows of Resources Related to Pensions

At June 30, 2025, the Town reported a liability of \$1,486,090 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2024. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2023. The total pension liability was then rolled forward to the measurement date of June 30, 2024, 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 the June 30, 2024 (measurement date), the Town's proportion was 0.02204%, which was an increase of 0.00225% from its proportion of 0.01949% measured as of June 30, 2023.

For the year ended June 30, 2025, the Town recognized pension expense of \$499,830. At June 30, 2025, 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	\$ 260,419	\$ 1,751
Changes in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	202,033	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	111,555	14,143
Employer contributions subsequent to the measurement date	302,044	-
Total	\$ 876,051	\$ 15,894

TOWN OF SPENCER, NORTH CAROLINA
Notes to the Financial Statements
For the Year Ended June 30, 2025

II) DETAILED NOTES ON ALL FUNDS AND ACTIVITIES (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 and Deferred Inflows of Resources Related to Pensions

\$302,044 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2026. Other amounts reported as deferred outflows of resources (deferred pension charges) and deferred inflows of resources (deferred pension credits) related to pensions will increase (decrease) pension expense as follows:

	Year ended June 30:	
	2026	\$ 181,865
	2027	333,934
	2028	65,159
	2029	(22,845)
	2030	-
	Thereafter	-
		\$ 558,113

Actuarial Assumptions. The total pension liability in the December 31, 2024, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 percent
Salary Increases	3.25 to 8.25 percent, including inflation and productivity factor
Investment Rate of Return	6.50 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, 2023, valuation were based on the results of an actuarial experience study for the period January 1, 2015 through December 31, 2019.

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.

TOWN OF SPENCER, NORTH CAROLINA
Notes to the Financial Statements
For the Year Ended June 30, 2025

II) DETAILED NOTES ON ALL FUNDS AND ACTIVITIES (Continued)

B) Liabilities (Continued)

1) Pension Plan and Postemployment Obligations (Continued)

a) Local Governmental Employees' Retirement System (Continued)

The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2025, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Public Equity	35.8%	1.4%
Fixed Income	23.9%	5.3%
Cash and Receivables	14.3%	4.3%
Other*	26.0%	8.9%
	100.0%	

* Real Estate, Alternatives, Inflation, and Credit

The information above is based on 30-year expectations developed with the consulting actuary for the 2023 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 2.50%. All rates of return and inflation are annualized.

Discount Rate. The discount rate used to measure the total pension liability was 6.50%. 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 liability to changes in the discount rate. The following presents the Town's proportionate share of the net pension asset calculated using the discount rate of 6.50 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 (5.50 percent) or one percentage point higher (7.50 percent) than the current rate:

	1% Decrease (5.50%)	Discount Rate (6.50%)	1% Increase (7.50%)
Town's proportionate share of the net pension liability (asset)	\$ 2,633,395	\$ 1,486,090	\$ 542,274

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

TOWN OF SPENCER, NORTH CAROLINA
Notes to the Financial Statements
For the Year Ended June 30, 2025

II) DETAILED NOTES ON ALL FUNDS AND ACTIVITIES (Continued)

B) Liabilities (Continued)

1) Pension Plan and Postemployment Obligations (Continued)

b) Law Enforcement Officers Special Separation Allowance

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

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

At December 31, 2023, the valuation date, the Separation Allowance’s membership consisted of:

Retirees receiving benefits	1
Active plan members	14
Total	15

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

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

Actuarial Assumptions. The entry age actuarial cost method was used in the December 31, 2023 valuation. The total pension liability in the December 31, 2023, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5 percent
Salary increases	3.25 to 7.75 percent, including inflation and productivity factor
Discount rate	4.28 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, 2023.

Mortality rates are based on the Pub-2010 amount-weighted tables. RP-2000 Mortality tables with adjustments for mortality improvements based on Scale MP-2019.

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 \$7,108 as benefits came due for the reporting period.

TOWN OF SPENCER, NORTH CAROLINA
Notes to the Financial Statements
For the Year Ended June 30, 2025

II) DETAILED NOTES ON ALL FUNDS AND ACTIVITIES (Continued)

B) Liabilities (Continued)

1) Pension Plan and Postemployment Obligations (Continued)

b) Law Enforcement Officers Special Separation Allowance (Continued)

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

At June 30, 2025, the Town reported a total pension liability of \$266,740. The total pension liability was measured as of December 31, 2024, based on a December 31, 2023, actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2024, utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2025, the Town recognized pension expense of \$38,071.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 90,935	\$ 17,860
Changes in assumptions and other inputs	15,532	18,089
Benefit payments and administrative expenses subsequent to the measurement date	3,718	-
Total	\$ 110,185	\$ 35,949

\$3,718 paid as benefits came due subsequent to the measurement date have been reported as deferred outflows of resources. Other amounts reported as deferred outflows of resources (deferred pension charges) and deferred inflows of resources (deferred pension credits) related to pensions will be recognized in pension expense as follows:

Year ended June 30:		
2026	\$	11,563
2027		9,853
2028		12,540
2029		16,744
2030		11,460
Thereafter		8,358
	\$	70,518

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 4.28 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 (3.28 percent) or 1-percentage-point higher (5.28 percent) than the current rate:

	1% Decrease (3.28%)	Discount Rate (4.28%)	1% Increase (5.28%)
Town's proportionate share of the net pension liability (asset)	\$ 295,300	\$ 266,740	\$ 240,937

TOWN OF SPENCER, NORTH CAROLINA
Notes to the Financial Statements
For the Year Ended June 30, 2025

II) DETAILED NOTES ON ALL FUNDS AND ACTIVITIES (Continued)

B) Liabilities (Continued)

1) Pension Plan and Postemployment Obligations (Continued)

b) Law Enforcement Officers Special Separation Allowance (Continued)

Schedule of Changes in Total Pension Liability

Total Pension Liability as of December 31, 2023	\$ 183,749
Changes for the Year:	
Service Cost at End of Year	20,029
Interest on Total Pension Liability	7,208
Differences Between Expected and Actual Experience	70,573
Changes of Assumptions and Other Inputs	(7,711)
Benefit Payments	(7,108)
Net Changes	<u>82,991</u>
Ending balance of the total pension liability	<u>\$ 266,740</u>

The plan currently uses mortality tables that vary by age, and health status (i.e., disable 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, 2023, valuations were based on the results of an actuarial experience study for the period January 1, 2015 through December 31, 2019.

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TOWN OF SPENCER, NORTH CAROLINA
Notes to the Financial Statements
For the Year Ended June 30, 2025

II) DETAILED NOTES ON ALL FUNDS AND ACTIVITIES (Continued)

B) Liabilities (Continued)

1) Pension Plan and Postemployment Obligations (Continued)

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

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

	LGERS	LEOSSA	Total
Pension expense	\$ 499,830	\$ 38,071	\$ 537,901
Pension liability	1,486,090	266,740	1,752,830
Proportionate share of the net pension liability	0.02204%	N/A	
 Deferred Outflows of Resources			
Differences between expected and actual experience	260,419	90,935	351,354
Changes of assumptions	-	15,532	15,532
Net difference between projected and actual earnings on plan investments	202,033	-	202,033
Changes in proportion and differences between contributions and proportionate share of contributions	111,555	-	111,555
Benefit payments and administrative costs paid subsequent to the measurement date	302,044	3,718	305,762
 Deferred Inflows of Resources			
Differences between expected and actual experience	1,751	17,860	19,611
Changes of assumptions	-	18,089	18,089
Net difference between projected and actual earnings on plan investments	-	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	14,143	-	14,143

d) Supplemental Retirement Income Plan for Law Enforcement Officers and General Employees

Plan Description. The Town contributes to the Supplemental Retirement Income Plan (“Plan”), a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Plan provides retirement benefits to law enforcement officers employed by the Town. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Supplemental Retirement Income Plan for Law Enforcement Officers is included in the ACFR for the State of North Carolina. The State’s ACFR includes the pension trust fund financial statements for the Internal Revenue Code Section 401(k) plan that includes the Supplemental Retirement Income Plan for Law Enforcement Officers. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

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

The Town made contributions of \$96,382 for the year ended June 30, 2025. No amounts were forfeited.

TOWN OF SPENCER, NORTH CAROLINA
Notes to the Financial Statements
For the Year Ended June 30, 2025

II) DETAILED NOTES ON ALL FUNDS AND ACTIVITIES (Continued)

B) Liabilities (Continued)

2) Other Employment Benefits

The Town has elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, State-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest months' salary in a row during the 24 months prior to the employee's death, but the benefit may not exceed \$50,000 or be less than \$25,000. Because all death benefit payments are made from the Death Benefit Plan and not by the Town, the Town does not determine the number of eligible participants. The Town has no liability beyond the payment of monthly contributions. The contributions to the Death Benefit Plan cannot be separated between the postemployment benefit amount and the other benefit amount. Contributions are determined as a percentage of monthly payroll based upon rates established annually by the State. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. The Town considers these contributions to be immaterial.

3) Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets, errors and omissions; injuries to employees; and natural disasters. The Town 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. Excess insurance coverage is purchased by the Board of Trustees to protect against large workers' compensation claims that exceed certain dollar cost levels. Medical 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. The Town carries commercial coverage for all other risks of loss. There have been no significant reductions in insurance coverage from the prior year and settled claims have not exceeded insurance coverage in any of the past three fiscal years.

The Town carries no flood insurance. The Town is being mapped by FEMA for flood plains.

In accordance with G.S. 159-29, the Town's employees that have access to \$100 or more at any given time of the Town's funds are performance bonded through a commercial surety bond. The finance officer is individually bonded for \$550,000. The remaining employees that have access to funds are bonded under a blanket bond for \$50,000.

4) Long-Term Obligations

a) Legal Debt Margin

At June 30, 2025, the Town had a legal debt margin of \$31,706,909.

TOWN OF SPENCER, NORTH CAROLINA
Notes to the Financial Statements
For the Year Ended June 30, 2025

II) DETAILED NOTES ON ALL FUNDS AND ACTIVITIES (Continued)

B) Liabilities (Continued)

4) Long-Term Obligations (Continued)

b) Construction Loan

A USDA loan was obtained in March 2022 in the amount of \$2,826,202, including 2.125% interest for the purpose of paying off the initial Truist loan.

The future minimum payments of the USDA loan including interest is as follows:

	Principal	Interest	Total
2026	\$ 72,786	\$ 55,610	\$ 128,396
2027	74,332	54,064	128,396
2028	75,768	52,628	128,396
2029	77,522	50,874	128,396
2030	79,169	49,227	128,396
Thereafter	2,237,384	587,428	2,824,812
Total	\$ 2,616,961	\$ 849,831	\$ 3,466,792

c) Installment Purchases

In July 2023, the Town entered into an installment purchase contract to finance the purchase of a new garbage truck; the financing contract requires ten annual payments beginning July 6, 2024, of \$35,214, including interest at 3.625%. The principal balance at June 30, 2025 was \$266,335.

In November 2023, the Town entered into an installment purchase contract to finance the purchase of Axon cameras and equipment; the financing contract requires five annual payments with no interest, the first annual payment being broken into two parts, beginning January 1, 2024, of \$718. The principal balance at June 30, 2025 was \$57,438.

In November 2024, the Town entered into an installment purchase contract to finance the purchase of a new fire truck; the financing contract requires twenty annual payments beginning November 4, 2025, of \$49,660, including interest at 3.750%. The principal balance at June 30, 2025 was \$690,000.

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

The future minimum payments of the installment contracts as of June 30, 2025, including \$353,580 of interest, are as follows:

	Principal	Interest	Total
2026	\$ 63,703	\$ 35,530	\$ 99,233
2027	65,522	33,711	99,233
2028	67,407	31,826	99,233
2029	69,362	29,871	99,233
2030	57,031	27,844	84,875
Thereafter	690,748	194,798	885,546
Total	\$ 1,013,773	\$ 353,580	\$ 1,367,353

TOWN OF SPENCER, NORTH CAROLINA
Notes to the Financial Statements
For the Year Ended June 30, 2025

II) DETAILED NOTES ON ALL FUNDS AND ACTIVITIES (Continued)

B) Liabilities (Continued)

4) Long-Term Obligations (Continued)

d) Subscriptions

The Town has entered into subscription-based information technology arrangements (SBITA). The arrangements qualify as other than short-term arrangements under GASB Statement No. 96 and, therefore, have been recorded at the present value of the future minimum subscription payments as of the date of their inception.

As of June 30, 2025, the Town has 1 active subscription. The annual subscription payment totals \$10,641. The subscription does not have a stated interest rate. Accordingly, the Town's estimated incremental borrowing rate of 3.8% was used to discount the subscription payments. The initial liability for the subscription was \$48,962. The liability as of June 30, 2025, totaled \$38,853. The value of the right to use subscription asset, as of June 30, 2025, of \$49,494 with accumulated amortization of \$9,899 is included within the Subscription Class activities table found below.

	Subscription Asset Value	Accumulated Amortization	Subscriptions, net
Subscriptions	\$ 49,494	\$ 9,899	\$ 39,595
Future maturities:			
Governmental Activities:			
Fiscal year	Principal	Interest	Total
2026	\$ 9,184	\$ 1,457	\$ 10,641
2027	9,528	1,113	10,641
2028	9,885	756	10,641
2029	10,256	385	10,641
	\$ 38,853	\$ 3,711	\$ 42,564

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TOWN OF SPENCER, NORTH CAROLINA
Notes to the Financial Statements
For the Year Ended June 30, 2025

II) DETAILED NOTES ON ALL FUNDS AND ACTIVITIES (Continued)

B) Liabilities (Continued)

4) Long-Term Obligations (Continued)

e) Changes in Long-Term Liabilities

Presented below is a summary of changes in long-term obligations for the Town's governmental and business-type activities for the year ended June 30, 2025:

Long-Term Obligations	Beginning Balance, Restated	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Debt					
Installment purchase - police equipment	\$ 71,079	\$ -	\$ 13,641	\$ 57,438	\$ 14,359
Installment purchase - garbage truck	291,000	-	24,665	266,335	25,559
Installment purchase - fire truck	-	690,000	-	690,000	23,785
Subscription liability	48,962	-	10,109	38,853	9,184
USDA loan	2,688,232	-	71,271	2,616,961	72,786
Total Debt	<u>3,099,273</u>	<u>690,000</u>	<u>119,686</u>	<u>3,669,587</u>	<u>145,673</u>
Other Obligations:					
Compensated Absences*	148,758	40,796	-	189,554	90,374
Net Pension Liability - LGERS	1,291,105	194,985	-	1,486,090	-
Separation allowance	183,749	82,991	-	266,740	-
Total Other Obligations	<u>1,623,612</u>	<u>318,772</u>	<u>-</u>	<u>1,942,384</u>	<u>90,374</u>
Total Governmental Activities	<u>\$ 4,722,885</u>	<u>\$ 1,008,772</u>	<u>\$ 119,686</u>	<u>\$ 5,611,971</u>	<u>\$ 236,047</u>

*The change in compensated absences liability is presented as a net change.

5) Fund Balance

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

Total Fund Balance - General Fund	\$ 2,266,878
Less:	
Stabilization by State Statute	(743,121)
Streets - Powell Bill	(227,237)
Appropriated fund balance in 2026 budget	<u>(304,308)</u>
Remaining Fund Balance - General Fund	<u>\$ 992,212</u>

TOWN OF SPENCER, NORTH CAROLINA
Notes to the Financial Statements
For the Year Ended June 30, 2025

III) INTERCOMPANY BALANCES AND ACTIVITY

The interfund balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Transfers to/from other funds at June 30, 2025, consist of the following:

	Amount
From the ARPA Fund to the General Fund	\$ 225,000
From the General Fund to the Capital Reserve and Replacement Fund	352,807
From the Yadkin River Trail Fund to the General Fund	36,012
	\$ 613,819

Transfers are used to move unrestricted revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts provided matchings funds for various grant programs.

IV) SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES

A) 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.

V) CHANGE IN ACCOUNTING PRINCIPLE

Effective July 1, 2024, the Town implemented Governmental Accounting Standards Board (GASB) Statement No. 101, Compensated Absences. The objective of this standard is to unify the recognition and measurement guidance for compensated absences and to revise certain previously required disclosures. As a result of adopting GASB 101, the Town recognized additional liabilities for compensated absences related to vacation and sick leave totaling \$35,491 for governmental activities as of June 30, 2024. These adjustments resulted in a corresponding decrease in beginning net position for each activity.

VI) SIGNIFICANT EFFECTS OF SUBSEQUENT EVENTS

The Town has evaluated all subsequent events through January 8, 2026, which is the date financial statements were available to be issued. There were no recognized subsequent events meriting disclosure.

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of the Town's Proportionate Share of Net Pension Liability (Asset)
Local Government Employees' Retirement System

Schedule of the Town's Contributions
Local Government Employees' Retirement System

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

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

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

	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>
Town's proportion of the net pension liability (asset)	0.02204%	0.01949%	0.01549%	0.01563%
Town's proportionate share of the net pension liability (asset)	\$ 1,486,090	\$ 1,291,105	\$ 873,857	\$ 239,701
Town's covered payroll	\$ 2,064,785	\$ 1,463,682	\$ 1,113,281	\$ 1,106,521
Town's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	71.97%	88.21%	78.49%	21.66%
Plan fiduciary net position as a percentage of the total pension liability**	83.30%	83.30%	82.49%	84.14%
	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Town's proportion of the net pension liability (asset)	0.13130%	0.01541%	0.01717%	0.01537%
Town's proportionate share of the net pension liability (asset)	\$ 469,191	\$ 420,835	\$ 407,331	\$ 234,811
Town's covered payroll	\$ 901,154	\$ 931,093	\$ 952,734	\$ 899,860
Town's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	52.07%	45.20%	42.75%	26.09%
Plan fiduciary net position as a percentage of the total pension liability**	95.51%	88.61%	90.86%	91.63%
	<u>2017</u>	<u>2016</u>		
Town's proportion of the net pension liability (asset)	0.01553%	0.01701%		
Town's proportionate share of the net pension liability (asset)	\$ 329,599	\$ 76,340		
Town's covered payroll	\$ 977,219	\$ 969,865		
Town's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	33.73%	7.87%		
Plan fiduciary net position as a percentage of the total pension liability**	94.18%	91.47%		

Notes to schedule:

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

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

TOWN OF SPENCER, NORTH CAROLINA
Schedule of the Town's Contributions
Local Government Employees' Retirement System
Last Ten Fiscal Years*

	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>
Contractually required contribution	\$ 302,044	\$ 239,804	\$ 183,130	\$ 129,560
Contributions in relation to the contractually required contribution:	302,044	239,804	183,130	129,560
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Town's covered payroll	\$ 2,064,785	\$ 1,786,042	\$ 1,463,682	\$ 1,113,281
Contributions as a percentage of covered payroll	14.63%	13.43%	12.51%	11.64%
	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Contractually required contribution	\$ 116,503	\$ 90,802	\$ 76,532	\$ 73,625
Contributions in relation to the contractually required contribution:	116,503	90,802	76,532	73,625
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Town's covered payroll	\$ 1,106,521	\$ 901,154	\$ 931,093	\$ 952,734
Contributions as a percentage of covered payroll	10.53%	10.08%	8.22%	7.73%
	<u>2017</u>	<u>2016</u>		
Contractually required contribution	\$ 70,173	\$ 69,892		
Contributions in relation to the contractually required contribution:	70,173	69,892		
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>		
Town's covered payroll	\$ 899,860	\$ 977,219		
Contributions as a percentage of covered payroll	7.80%	7.15%		

Notes to schedule:

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

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

	<u>2025</u>	<u>2024</u>	<u>2023</u>
Beginning balance of the total pension liability	\$ 183,749	\$ 124,073	\$ 159,171
Changes for the year:			
Service Cost	20,029	13,254	12,173
Interest on total pension liability	7,208	5,194	3,501
Differences between expected and actual experience in the measurement of the total pension liability	70,573	43,450	(21,781)
Changes of assumptions or other inputs	(7,711)	4,886	(21,883)
Benefit payments	<u>(7,108)</u>	<u>(7,108)</u>	<u>(7,108)</u>
Net changes	82,991	59,676	(35,098)
Ending balance of the total pension liability	<u>\$ 266,740</u>	<u>\$ 183,749</u>	<u>\$ 124,073</u>
	<u>2022</u>	<u>2021</u>	<u>2020</u>
Beginning balance of the total pension liability	\$ 149,552	\$ 117,362	\$ 117,482
Changes for the year:			
Service Cost	15,663	9,046	10,630
Interest on total pension liability	2,818	3,826	4,103
Differences between expected and actual experience in the measurement of the total pension liability	2,578	(35,511)	(9,307)
Changes of assumptions or other inputs	(4,332)	54,829	3,968
Benefit payments	<u>(7,108)</u>	<u>-</u>	<u>(9,514)</u>
Net changes	9,619	32,190	(120)
Ending balance of the total pension liability	<u>\$ 159,171</u>	<u>\$ 149,552</u>	<u>\$ 117,362</u>
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Beginning balance of the total pension liability	\$ 228,221	\$ 217,734	\$ 216,919
Changes for the year:			
Service Cost	12,102	11,176	11,301
Interest on total pension liability	6,986	8,129	7,489
Differences between expected and actual experience in the measurement of the total pension liability	(110,488)	(7,814)	-
Changes of assumptions or other inputs	(5,068)	13,267	(3,704)
Benefit payments	<u>(14,271)</u>	<u>(14,271)</u>	<u>(14,271)</u>
Net changes	(110,739)	10,487	815
Ending balance of the total pension liability	<u>\$ 117,482</u>	<u>\$ 228,221</u>	<u>\$ 217,734</u>

Notes to schedule:

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

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

	<u>2025</u>	<u>2024</u>	<u>2023</u>
Total pension liability	\$ 266,740	\$ 183,749	\$ 124,073
Covered-employee payroll	778,278	512,019	452,297
Total pension liability as a percentage of covered payroll	34.27%	35.89%	27.43%
	<u>2022</u>	<u>2021</u>	<u>2020</u>
Total pension liability	\$ 159,171	\$ 149,552	\$ 117,362
Covered-employee payroll	590,225	478,589	517,263
Total pension liability as a percentage of covered payroll	26.97%	31.25%	22.69%
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total pension liability	\$ 117,482	\$ 228,221	\$ 217,734
Covered-employee payroll	493,369	492,235	507,038
Total pension liability as a percentage of covered payroll	23.81%	46.36%	42.94%

Notes to schedule:

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

COMBINING AND INDIVIDUAL FUND SCHEDULES

TOWN OF SPENCER, NORTH CAROLINA
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
General Fund
For the Year Ended June 30, 2025

Schedule 1

	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
REVENUES			
Ad valorem taxes:			
Taxes	\$ 2,320,714	\$ 2,360,609	\$ 39,895
Interest	15,000	22,416	7,416
Total	<u>2,335,714</u>	<u>2,383,025</u>	<u>47,311</u>
Other taxes and licenses:			
Landfill fees	266,745	265,809	(936)
Other fees and taxes	22,100	33,274	11,174
Total	<u>288,845</u>	<u>299,083</u>	<u>10,238</u>
Unrestricted intergovernmental:			
Local option sales taxes	1,194,270	1,210,049	15,779
Utility franchise tax	200,000	245,327	45,327
Beer and wine tax	14,500	13,485	(1,015)
ABC revenue	16,000	16,542	542
Total	<u>1,424,770</u>	<u>1,485,403</u>	<u>60,633</u>
Restricted intergovernmental:			
Powell bill allocation	131,971	134,903	2,932
Powell bill interest	10,000	8,640	(1,360)
State and other grants	233,500	275,243	41,743
Controlled substance tax	-	802	802
Total	<u>375,471</u>	<u>419,588</u>	<u>44,117</u>
Sales and services:			
Sale of fixed assets	60,000	9,750	(50,250)
Security services	270,060	271,046	986
Total	<u>330,060</u>	<u>280,796</u>	<u>(49,264)</u>
Investment earnings	<u>120,000</u>	<u>54,640</u>	<u>(65,360)</u>
Miscellaneous:			
Lien payments	15,000	23,734	8,734
Miscellaneous	66,121	51,734	(14,387)
Total	<u>81,121</u>	<u>75,468</u>	<u>(5,653)</u>
Total revenues	<u>\$ 4,955,981</u>	<u>\$ 4,998,003</u>	<u>\$ 42,022</u>

TOWN OF SPENCER, NORTH CAROLINA
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
General Fund
For the Year Ended June 30, 2025

Schedule 1
(Continued)

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
EXPENDITURES			
General government:			
Town Commissioners:			
Salaries and employee benefits	\$ 26,563	\$ 26,429	\$ 134
Other operating expenditures	300,025	171,263	128,762
Total	<u>326,588</u>	<u>197,692</u>	<u>128,896</u>
Administration:			
Salaries and employee benefits	452,777	444,160	8,617
Other operating expenditures	448,478	385,214	63,264
Total	<u>901,255</u>	<u>829,374</u>	<u>71,881</u>
Total general government	<u>1,227,843</u>	<u>1,027,066</u>	<u>200,777</u>
Public safety:			
Police:			
Salaries and employee benefits	1,520,588	1,494,582	26,006
Other operating expenditures	275,611	255,473	20,138
Capital outlay	8,894	8,894	-
Total	<u>1,805,093</u>	<u>1,758,949</u>	<u>46,144</u>
Fire:			
Salaries and employee benefits	793,396	792,032	1,364
Other operating expenditures	187,182	177,969	9,213
Total	<u>980,578</u>	<u>970,001</u>	<u>10,577</u>
Total public safety	<u>2,785,671</u>	<u>2,728,950</u>	<u>56,721</u>
Transportation:			
Streets and highways:			
Salaries and employee benefits	302,762	301,830	932
Other operating expenditures	563,756	352,028	211,728
Powell Bill - repairs	132,792	117,733	15,059
Total transportation	<u>999,310</u>	<u>771,591</u>	<u>227,719</u>
Environmental protection:			
Solid waste:			
Salaries and employee benefits	263,943	231,513	32,430
Other operating expenditures	82,066	62,330	19,736
Tipping fees	66,915	66,915	-
Total environmental protection	<u>\$ 412,924</u>	<u>\$ 360,758</u>	<u>\$ 52,166</u>

TOWN OF SPENCER, NORTH CAROLINA
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
General Fund
For the Year Ended June 30, 2025

Schedule 1
(Continued)

	Budget	Actual	Variance Positive (Negative)
EXPENDITURES (CONTINUED)			
Culture and recreation:			
Parks and recreation:			
Salaries and employee benefits	\$ 13,647	\$ -	\$ 13,647
Other operating expenditures	161,643	27,796	133,847
Total	175,290	27,796	147,494
Libraries:			
Salaries and employee benefits	17,994	17,993	1
Other operating expenditures	28,241	27,568	673
Total	46,235	45,561	674
Total culture and recreation	221,525	73,357	148,168
Debt service:			
Principal retirement	108,289	105,594	2,695
Interest and other charges	67,674	67,674	-
Total debt service	175,963	173,268	2,695
Total expenditures	5,823,236	5,134,990	688,246
Revenues over (under) expenditures	(867,255)	(136,987)	730,268
OTHER FINANCING SOURCES (USES)			
Transfer from other funds:			
ARPA fund	225,000	225,000	-
Capital Project Fund - Yadkin River Trail	-	36,012	36,012
Transfer to other funds:			
Capital reserve and replacement fund	(416,731)	(352,807)	63,924
Total other financing sources (uses)	(191,731)	(91,795)	99,936
Fund balance appropriated	1,058,986	-	(1,058,986)
Net change in fund balance	\$ -	(228,782)	\$ (228,782)
Fund balance, beginning		2,495,660	
Fund balances, ending		\$ 2,266,878	

TOWN OF SPENCER, NORTH CAROLINA
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
Special Revenue Fund - Capital Reserve and Replacement Fund
For the Year Ended June 30, 2025

Schedule 2

	Budget	Actual	Variance Positive (Negative)
REVENUES			
Restricted intergovernmental	\$ -	\$ -	\$ -
EXPENDITURES			
Public safety:			
Police:			
Other operating expenditures	4,147	4,086	61
Capital outlay	142,681	133,419	9,262
Total police	146,828	137,505	9,323
Fire:			
Other operating expenditures	13,489	13,488	1
Capital outlay	902,069	901,897	172
Total fire	915,558	915,385	173
Total public safety	1,062,386	1,052,890	9,496
Transportation:			
Streets and highways:			
Other operating expenditures	669	220	449
Total transportation	669	220	449
Environmental protection:			
Solid waste:			
Capital outlay	73,199	13,199	60,000
Total environmental protection	73,199	13,199	60,000
Total expenditures	1,136,254	1,066,309	69,945
Revenues over (under) expenditures	(1,136,254)	(1,066,309)	(69,945)
OTHER FINANCING SOURCES (USES)			
Installment purchase financing	690,000	690,000	-
Transfers from other funds:			
General fund	416,731	352,807	63,924
Total other financing sources (uses)	1,106,731	1,042,807	63,924
Fund balance appropriated	29,523	-	29,523
Net change in fund balance	\$ -	(23,502)	\$ 23,502
Fund balance, beginning		30,035	
Fund balance, ending		\$ 6,533	

TOWN OF SPENCER, NORTH CAROLINA
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Capital Project Fund - Downtown Park Project
From Inception and For the Fiscal Year Ended June 30, 2025

Schedule 3

	Project Authorization	Actual			Variance Positive (Negative)
		Prior Years	Current Year	Total to Date	
REVENUES					
Restricted intergovernmental:					
Downtown park project	\$ 2,060,000	\$ -	\$ 1,916,902	\$ 1,916,902	\$ (143,098)
EXPENDITURES					
Land management:					
Other operating expenditures	160,000	125,200	34,800	160,000	-
Capital outlay	2,303,000	75,986	2,011,097	2,087,083	215,917
Total expenditures	2,463,000	201,186	2,045,897	2,247,083	215,917
Revenues over (under) expenditures	(403,000)	(201,186)	(128,995)	(330,181)	72,819
OTHER FINANCING SOURCES (USES)					
Transfer from other funds:					
General fund	403,000	403,000	-	403,000	-
Net change in fund balance	\$ -	\$ 201,814	(128,995)	\$ 72,819	\$ 72,819
Fund balance, beginning			201,814		
Fund balance, ending			\$ 72,819		

TOWN OF SPENCER, NORTH CAROLINA
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2025

Schedule 4

	American Rescue Plan Fund	Capital Project Fund - Community Development Block Grant	Capital Project Fund - Yadkin River Trail
ASSETS			
Cash and cash equivalents	\$ -	\$ -	\$ -
Due from other governments	-	28,060	-
Total assets	<u>-</u>	<u>28,060</u>	<u>-</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Due to General Fund	-	28,060	-
Fund balances:			
Restricted - Stanback Forest Center and Trails	-	-	-
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ 28,060</u>	<u>\$ -</u>

	Capital Project Fund - 17th St Stormwater Improvements	Capital Project Fund - Stanback Forest Center and Trails	Total Nonmajor Governmental Funds
ASSETS			
Cash and cash equivalents	\$ -	\$ 350,000	\$ 350,000
Due from other governments	-	-	28,060
Total assets	<u>-</u>	<u>350,000</u>	<u>378,060</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Due to General Fund	-	-	28,060
Fund balances:			
Restricted - Stanback Forest Center and Trails	-	350,000	350,000
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ 350,000</u>	<u>\$ 378,060</u>

TOWN OF SPENCER, NORTH CAROLINA
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2025

Schedule 5

	American Rescue Plan Fund	Capital Project Fund - Community Development Block Grant	Capital Project Fund - Yadkin River Trail
REVENUES			
Restricted intergovernmental revenue	\$ -	\$ 291,550	\$ 2,600
EXPENDITURES			
Land management:			
Rehab expenses	-	267,871	-
Admin expenses	-	23,679	-
Other operating expenses	-	-	-
Total expenditures	-	291,550	-
Revenues over (under) expenditures	-	-	2,600
OTHER FINANCING SOURCES (USES)			
Transfer to other funds:			
General fund	(225,000)	-	(36,012)
Net change in fund balances	(225,000)	-	(33,412)
Fund balance, beginning	225,000	-	33,412
Fund balance, ending	\$ -	\$ -	\$ -

	Capital Project Fund - 17th St Stormwater Improvements	Capital Project Fund - Stanback Forest Center and Trails	Total Nonmajor Governmental Funds
REVENUES			
Restricted intergovernmental revenue	\$ 12,819	\$ 350,000	\$ 656,969
EXPENDITURES			
Land management:			
Rehab expenses	-	-	267,871
Admin expenses	-	-	23,679
Other operating expenses	12,819	-	12,819
Total expenditures	12,819	-	304,369
Revenues over (under) expenditures	-	350,000	352,600
OTHER FINANCING SOURCES (USES)			
Transfer to other funds:			
General fund	-	-	(261,012)
Total other financing sources (uses)	-	-	(261,012)
Net change in fund balances	-	350,000	91,588
Fund balance, beginning	-	-	258,412
Fund balance, ending	\$ -	\$ 350,000	\$ 350,000

TOWN OF SPENCER, NORTH CAROLINA
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
American Rescue Plan Fund
From Inception and For the Fiscal Year Ended June 30, 2025

Schedule 6

	Project Authorization	Actual			Variance Positive (Negative)
		Prior Years	Current Year	Total to Date	
REVENUES					
Restricted intergovernmental:					
ARPA Grant	\$ 1,037,997	\$ 1,037,997	\$ -	\$ 1,037,997	\$ -
EXPENDITURES					
Total expenditures	-	-	-	-	-
Revenues over (under) expenditures	1,037,997	1,037,997	-	1,037,997	-
OTHER FINANCING SOURCES (USES)					
Transfer to other funds:					
General fund	(1,037,997)	(812,997)	(225,000)	(1,037,997)	-
Net change in fund balance	<u>\$ -</u>	<u>\$ 225,000</u>	(225,000)	<u>\$ -</u>	<u>\$ -</u>
Fund balance, beginning			225,000		
Fund balance, ending			<u>\$ -</u>		

TOWN OF SPENCER, NORTH CAROLINA
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Capital Project Fund - Yadkin River Trail
From Inception and For the Fiscal Year Ended June 30, 2025

Schedule 7

	Project Authorization	Actual			Variance Positive (Negative)
		Prior Years	Current Year	Total to Date	
REVENUES					
Restricted intergovernmental:					
Yadkin River Trail	\$ 640,075	\$ 637,474	\$ 2,600	\$ 640,074	\$ (1)
EXPENDITURES					
Land management:					
Other operating expenditures	69,807	70,024	-	70,024	(217)
Capital outlay	755,526	719,296	-	719,296	36,230
Total expenditures	825,333	789,320	-	789,320	36,013
Revenues over (under) expenditures	(185,258)	(151,846)	2,600	(149,246)	36,012
OTHER FINANCING SOURCES (USES)					
Transfer from other funds:					
General fund	185,258	185,258	-	185,258	-
Transfer to other funds:					
General fund	-	-	(36,012)	(36,012)	(36,012)
Total other financing sources (uses)	185,258	185,258	(36,012)	149,246	(36,012)
Net change in fund balance	\$ -	\$ 33,412	(33,412)	\$ -	\$ -
Fund balance, beginning			33,412		
Fund balance, ending			\$ -		

TOWN OF SPENCER, NORTH CAROLINA

Schedule 8

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
 Capital Project Fund - Community Development Block Grant
 From Inception and For the Fiscal Year Ended June 30, 2025

	Project Authorization	Actual			Variance Positive (Negative)
		Prior Years	Current Year	Total to Date	
REVENUES					
Restricted intergovernmental:					
Community development block grant	\$ 750,000	\$ 109,053	\$ 291,550	\$ 400,603	\$ (349,397)
EXPENDITURES					
Land management:					
Rehab expenses	675,000	98,025	267,871	365,896	309,104
Admin expenses	75,000	11,028	23,679	34,707	40,293
Total expenditures	750,000	109,053	291,550	400,603	349,397
Revenues over (under) expenditures	-	-	-	-	-
Net change in fund balance	\$ -	\$ -	-	\$ -	\$ -
Fund balance, beginning			-		
Fund balance, ending			\$ -		

TOWN OF SPENCER, NORTH CAROLINA
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Capital Project Fund - 17th St Stormwater Improvement
From Inception and For the Fiscal Year Ended June 30, 2025

Schedule 9

	Project Authorization	Actual			Variance Positive (Negative)
		Prior Years	Current Year	Total to Date	
REVENUES					
Restricted intergovernmental:					
17th St stormwater improvements	\$ 1,959,462	\$ 211,203	\$ 12,819	\$ 224,022	\$ (1,735,440)
EXPENDITURES					
Land management:					
Other operating expenditures	469,042	211,203	12,819	224,022	245,020
Capital outlay	1,490,420	-	-	-	1,490,420
Total expenditures	1,959,462	211,203	12,819	224,022	1,735,440
Revenues over (under) expenditures	-	-	-	-	-
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	-	<u>\$ -</u>	<u>\$ -</u>
Fund balance, beginning			-		
Fund balance, ending			<u>\$ -</u>		

TOWN OF SPENCER, NORTH CAROLINA
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Capital Project Fund - Stanback Forest Center and Trails
From Inception and For the Fiscal Year Ended June 30, 2025

Schedule 10

	Project Authorization	Actual			Variance Positive (Negative)
		Prior Years	Current Year	Total to Date	
REVENUES					
Restricted intergovernmental:					
Stanback Forest Center and Trails	\$ 350,000	\$ -	\$ 350,000	\$ 350,000	\$ -
EXPENDITURES					
Land management:					
Other operating expenditures	250,000	-	-	-	250,000
Capital outlay	100,000	-	-	-	100,000
Total expenditures	350,000	-	-	-	350,000
Revenues over (under) expenditures	-	-	350,000	350,000	350,000
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	350,000	<u>\$ 350,000</u>	<u>\$ 350,000</u>
Fund balance, beginning			-		
Fund balance, ending			<u>\$ 350,000</u>		

TOWN OF SPENCER, NORTH CAROLINA
Schedule of Ad Valorem Taxes Receivable
June 30, 2025

Schedule 11

<u>Fiscal Year</u>	<u>Uncollected Balance June 30, 2024</u>	<u>Additions</u>	<u>Collections and Credits</u>	<u>Uncollected Balance June 30, 2025</u>
2024-2025	\$ -	\$ 2,397,835	\$ 2,327,982	\$ 69,853
2023-2024	54,643	-	24,988	29,655
2022-2023	17,192	-	8,465	8,727
2021-2022	16,154	-	7,127	9,027
2020-2021	9,304	-	4,626	4,678
2019-2020	5,535	-	2,773	2,762
2018-2019	1,597	-	2,231	(634)
2017-2018	5,884	-	3,079	2,805
2016-2017	4,195	-	2,160	2,035
2015 and prior	4,438	-	3,198	1,240
	<u>\$ 118,942</u>	<u>\$ 2,397,835</u>	<u>\$ 2,386,629</u>	<u>\$ 130,148</u>

Reconciliation to revenues:

Ad valorem taxes - General Fund	\$ 2,383,025
Reconciling items:	
Discounts allowed and releases	<u>3,604</u>
Total collections and credits	<u>\$ 2,386,629</u>

TOWN OF SPENCER, NORTH CAROLINA
Analysis of Current Tax Levy
Town-Wide Levy
June 30, 2025

Schedule 12

	Town - Wide		Total Levy		
	Property Valuation	Rate	Total Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Property taxed at current rate	\$ 396,336,364	0.605	\$ 2,397,835	\$ 2,202,822	\$ 195,013
Discoveries - current and prior years	-		-	-	-
Abatements	-		-	-	-
Net levy	<u>\$ 396,336,364</u>		2,397,835	2,202,822	195,013
Uncollected taxes at June 30, 2025			<u>69,853</u>	<u>69,853</u>	-
Current year's taxes collected			<u>\$ 2,327,982</u>	<u>\$ 2,132,969</u>	<u>\$ 195,013</u>
Current levy collection percentage			<u>97.09%</u>	<u>96.83%</u>	<u>100.00%</u>

Secondary Market Disclosures:

Assessed valuation:	
Assessment ratio	100%
Real property	\$ 304,243,320
Personal property	43,135,257
Vehicles	32,349,679
Public service companies	<u>16,608,108</u>
Total assessed valuation	396,336,364
Tax rate per \$100	0.605
Levy (includes discoveries, releases, and abatements)	<u>\$ 2,397,835</u>

TOWN OF SPENCER, NORTH CAROLINA
Ten Largest Taxpayers
For the Year Ended June 30, 2025

Schedule 13

<u>Name</u>	<u>Type of Business</u>	<u>Property Value</u>	<u>Tax Levy</u>	<u>Percentage of Total Assessed Value</u>
Innospec Active Chemicals LLC	Manufacturing	\$ 28,722,715	\$ 173,772	7.25%
Packaging Corp of America	Manufacturing	17,073,507	103,295	4.31%
STR Real Properties NC	Real Estate Leasing	9,473,581	57,315	2.39%
Compass Realty Rowan LLC	Rental	3,827,432	23,156	0.97%
Spencer Marketplace Partners	Investment Management	3,663,310	22,163	0.92%
Duke Energy	Public Service	3,565,346	21,570	0.90%
Chroma Color Corporation	Manufacturing	3,565,202	21,570	0.90%
Norfolk Southern	Public Service	3,182,094	19,252	0.80%
Piedmont Natural Gas	Public Service	3,005,250	18,182	0.76%
Residence Care Group LLC	Assisted Living	2,060,627	12,467	0.52%
		<u>\$ 78,139,064</u>	<u>\$ 472,742</u>	<u>19.72%</u>

COMPLIANCE SECTION



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

To the Honorable Mayor and Board of Alderman
Town of Spencer, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Spencer, North Carolina, as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the Town of Spencer, North Carolina's basic financial statements and have issued our report thereon dated January 8, 2026.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Town of Spencer, North Carolina's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Town of Spencer, North Carolina's internal control. Accordingly, we do not express an opinion on the effectiveness of Town of Spencer, North Carolina'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Town of Spencer, North Carolina's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

Strickland Hardee PLLC

Lexington, North Carolina
January 8, 2026



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE AND THE STATE SINGLE
AUDIT IMPLEMENTATION ACT**

To the Honorable Mayor and Board of Alderman
Town of Spencer, North Carolina

Report on Compliance for Major Federal Program

Opinion on Major Federal Program

We have audited the Town of Spencer, North Carolina's (Town) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on the Town's major federal program for the year ended June 30, 2025. The Town's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Town complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2025.

Basis for Opinion on Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance); and the State Single Audit Implementation Act. Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Town and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the major federal program. Our audit does not provide a legal determination of the Town's compliance with the compliance requirements referred to above.

Responsibility of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Town's federal programs.

Auditor's Responsibility for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Town's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Town's compliance with the requirements of the major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Town's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Town's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Strickland Hardee PLLC

Lexington, North Carolina
January 8, 2026



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR STATE PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE AND THE STATE SINGLE
AUDIT IMPLEMENTATION ACT**

To the Honorable Mayor and Board of Alderman
Town of Spencer, North Carolina

Report on Compliance for Major State Program

Opinion on Major State Program

We have audited Town of Spencer, North Carolina's (Town) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on the Town's major State program for the year ended June 30, 2025. The Town's major State program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Town complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major State program for the year ended June 30, 2025.

Basis for Opinion on Major State Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance); and the State Single Audit Implementation Act. Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Town and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the major State program. Our audit does not provide a legal determination of the Town's compliance with the compliance requirements referred to above.

Responsibility of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Town's State programs.

Auditor's Responsibility for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Town's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Town's compliance with the requirements of the major State program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Town's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Town's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance and State Single Audit Implementation Act. Accordingly, this report is not suitable for any other purpose.

Strickland Hardee PLLC

Lexington, North Carolina
January 8, 2026

TOWN OF SPENCER, NORTH CAROLINA
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2025

Schedule 14

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditor's report issued on whether the financial statements audited were prepared in accordance with

U.S. GAAP: Unmodified

Internal control over financial reporting:

Material weaknesses identified? _____ yes ✓ no

Significant deficiencies identified that are not considered to be material weaknesses? _____ yes ✓ none reported

Noncompliance material to financial statements noted _____ yes ✓ no

Federal Awards

Type of auditor's report issued on compliance for major Federal programs:

Unmodified

Internal control over major federal programs:

Material weaknesses identified? _____ yes ✓ no

Significant deficiencies identified that are not considered to be material weaknesses? _____ yes ✓ none reported

Any audit findings disclosed that are required to be reported in accordance with §200.516 of the Uniform Guidance _____ yes ✓ no

Identification of major Federal programs:

Assistance Listing Number
21.027

Assistance Listing Program Title
Rural Transformation Grant Fund (SFRF)

Dollar threshold used to distinguish between Type A and Type B programs

\$ 750,000

Auditee qualified as low-risk auditee? _____ yes ✓ no

TOWN OF SPENCER, NORTH CAROLINA
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2025

Schedule 14
(Continued)

SECTION I - SUMMARY OF AUDITORS' RESULTS (Continued)

State Awards

Type of auditor's report issued on compliance for major
Federal programs:

Unmodified

Internal control over major federal programs:

Material weaknesses identified?

_____ yes ✓ no

Significant deficiencies identified that are
not considered to be material weaknesses?

_____ yes ✓ none reported

Any audit findings disclosed that are required to be reported in
accordance with the State Single Audit Implementation Act

_____ yes ✓ no

Identification of major State programs:

Program Name

Parks and Recreation Trust Fund Grant (PARTF)

SECTION II - FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS

None reported.

TOWN OF SPENCER, NORTH CAROLINA
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2025

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding Number	Description	Status
2024-001	Year-End Closing Adjustments	Resolved

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

TOWN OF SPENCER, NORTH CAROLINA
Schedule of Expenditures of Federal and State Awards
For the Year Ended June 30, 2025

Schedule 16

Grantor/Pass-Through Grantor/Program or Cluster Title:	Assistance Listing Number	State/Pass-Through Entity Identifying Number	Expenditures
Federal Assistance			
<u>U.S. Department of Treasury</u>			
Pass-through from NC Department of Environmental Quality: Coronavirus State Fiscal Recovery Fund (SFRF)	21.027		\$ 225,000
Pass-through from NC Department of Commerce: Rural Transformation Grant Fund (SFRF)	21.027	SLFRP0129	900,000
			1,125,000
<u>U.S. Department of Housing and Urban Development</u>			
Pass-through from NC Department of Commerce: Community Development Block Grant	14.228-1	19-C-3140	291,550
			1,416,550
State Assistance			
<u>N.C. Department of Transportation</u>			
Powell Bill Program		DOT-4	137,190
<u>N.C. Department of Environmental Quality Division of Water Infrastructure</u>			
Local Assistance for Stormwater Infrastructure Investments Grant - Planning		SRP-SW-ARP-0032	179,888
Local Assistance for Stormwater Infrastructure Investments Grant - Construction		SRP-SW-ARP-0017	12,819
Total N.C. Department of Housing and Urban Development			192,707
<u>N.C. Department of Agriculture Division of Soil and Water Conservation</u>			
Streamflow Rehabilitation Assistance Program (stRAP)		22-080-4078	5,000
<u>N.C. Department of Commerce:</u>			
Rural Downtown Economic Development Grant		SA-0333	275,000
<u>N.C. Department of Natural and Cultural Resources</u>			
Parks and Recreation Trust Fund Grant (PARTF)		2023-1076	500,000
			1,109,897
Total Federal and State Assistance			
			\$ 2,526,447

Notes to the Schedule of Expenditures of Federal and State Awards

A. Basis of Presentation

The accompanying Schedule of Federal and State Awards (SEFSA) presents the activity of all federal and state award programs of the Town of Spencer, North Carolina (Town) for the year ended June 30, 2025. Expenditures for federal and state financial assistance awarded directly from the federal or state agencies, as well as those passed through other entities, are included on the SEFSA. The information in this SEFSA is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards ("Uniform Guidance") and the State Single Audit Implementation Act.

B. Basis of Accounting

The accompanying SEFSA is presented using the modified accrual basis of accounting, which is described in the notes to the Town's financial statements.

C. Indirect Cost Rate

The Town has elected not to use the 10 percent de minimus indirect cost rate allowed under the Uniform Guidance.