

**Town of Red Springs
Red Springs, North Carolina**

Audited Financial Statements

Year Ended June 30, 2020

Town of Red Springs, North Carolina

Audited Financial Statements

For the Year Ended June 30, 2020

Board of Commissioners

Edward Henderson, Mayor

Chris L.B. Edmonds, Mayor Pro-Tem

Murray McKeithan

Duron Burney

Carolina Sumpter

Elma Patterson

Neil Lea'kes

Administrative Officers

Sharon McFarland, Finance Officer

David Ashburn, Town Manager

Timothy Smith, Town Attorney

Town of Red Springs, North Carolina
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Financial Section



S. Preston Douglas & Associates, LLP

CERTIFIED PUBLIC ACCOUNTANTS

MEMBERS
American Institute of CPAs
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Independent Auditor's Report

To the Honorable Mayor and
Members of the Board of Town Commissioners
Red Springs, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Red Springs, North Carolina, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Red Springs ABC Board, which represents 100 percent of the assets, net position, and revenues of the discretely presented component unit. Those financial statements were audited by another auditor whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Red Springs ABC Board, is based solely on the report of another auditor. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Red Springs ABC Board were not audited in accordance with *Governmental Auditing Standards*.

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

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

Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Red Springs, North Carolina as of June 30, 2020, and the respective changes in financial position and cash flows, where appropriate, thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 11, Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Liability and Contributions on pages 62 through 63, and the Law Enforcement Officers' Special Separation Allowance schedules of the Changes in Total Pension Liability and Total Pension Liability as a Percentage of Covered Payroll on pages 64 through 65, and the Other Postemployment Benefits Schedule of Changes in the Total OPEB Liability and Related Ratios on page 66 to be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

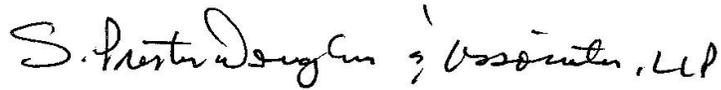
Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the Town of Red Springs, North Carolina. The combining and individual fund statements, budgetary schedules and other schedules as well as the accompanying Schedule of Expenditures of Federal and State Awards as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the State Single Audit Implementation Act are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements, budgetary schedules, other schedules, and the Schedule of Expenditures of Federal and State Awards are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit, the procedures performed as described above, the combining and individual fund financial statements, budgetary schedules, 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 October 16, 2020 on our consideration of the Town of Red Springs's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town of Red Springs's internal control over financial reporting and compliance.

 S. Prater Douglas & Associates, LLP

Lumberton, North Carolina
October 16, 2020

Management's Discussion and Analysis

Town of Red Springs, North Carolina
Management's Discussion and Analysis
June 30, 2020

As management of the Town of Red Springs, we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town of Red Springs for the fiscal year ending June 30, 2020. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

Financial Highlights

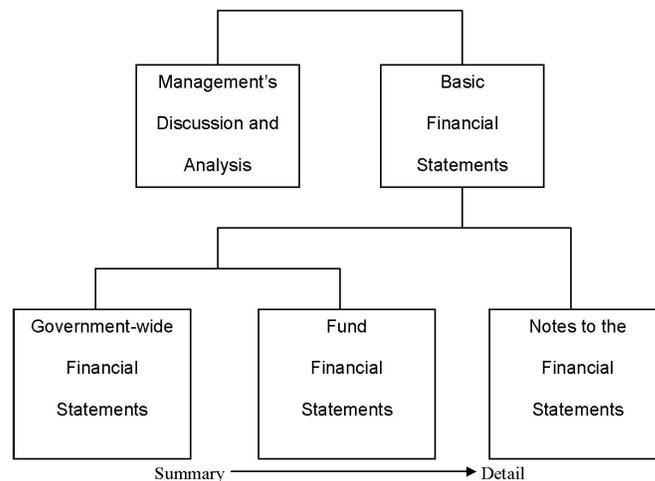
- The assets and deferred outflows of resources of the Town of Red Springs exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$13,311,855 (*net position*).
- The government's total net position increased by \$542,363 primarily due to increases in net position in the Governmental Activities Funds, Electric Fund and Water and Sewer Fund in the amounts of \$181,292, \$170,734 and \$190,337, respectively.
- As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$2,100,964. Approximately 58.26% of this total amount, or \$1,224,048 is available for spending at the government's discretion.
- For the year ended June 30, 2020, the Town's General Fund increased fund balance by \$507,014.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$1,224,048 or 29.46% of total General Fund expenditures.
- Beginning net position was restated at July 1, 2019 primarily attributed to an accumulation of balance sheet account errors from prior years in the Electric Fund and Water and Sewer Fund. The total adjustments to net position decreased beginning net position by \$609,229. The restatements are discussed in Note 7 in the Notes to the Financial Statements.

Overview of the Financial Statements

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

Required Components of Annual Financial Report

Figure 1



Town of Red Springs, North Carolina
Management's Discussion and Analysis (continued)
June 30, 2020

Basic Financial Statements

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

The next statements are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the Town's government. These statements provide more detail than the government-wide statements.

There are three parts to the Fund Financial Statements: 1) the governmental funds statements, 2) the budgetary comparison statements, and 3) the proprietary fund statements.

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

Government-Wide Financial Statements.

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

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

The government-wide statements are divided into three categories: 1) governmental activities and 2) business-type activities 3) component units. The governmental activities include most of the Town's basic services such as general government, public safety, and cultural and recreation. Property taxes and State and federal grant funds finance most of these activities. The business-type activities are those that the Town charges customers to provide. This includes the water and sewer services offered by the Town of Red Springs. Although legally separate from the Town, the ABC Board is important to the Town because the Town exercises control over the Board by appointing its members and because the Board is required to distribute its profits to the Town. Complete financial statements for the ABC Board may be obtained from the entity's administrative offices at Town of Red Springs, 217 South Main Street, Red Springs, NC 28384.

The government-wide financial statements can be found on pages 12 and 13 of this report.

Fund Financial Statements.

The fund financial statements provide a more detailed look at the Town's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Red Springs, 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 divided into two categories: governmental funds and proprietary funds.

Governmental Funds. Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the Town's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and monies that are unexpended at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting*, which provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps determine if there are more or less financial resources available to finance the Town's programs. The relationship between government activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

Town of Red Springs, North Carolina
Management's Discussion and Analysis (continued)
June 30, 2020

Governmental Funds (continued). The Town of Red Springs adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the Town, the management of the Town, and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the Town to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the Town complied with the budget ordinance and whether or not the Town succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document.

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

Proprietary Funds. The Town of Red Springs maintains one type of proprietary fund called an Enterprise Fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town uses the enterprise fund to account for its water and sewer activity. This fund is the same as those functions shown in the business-type activities in the Statement of Net Position and Statement of Activities.

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

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 23-61 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 of Red Springs' progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on beginning on page 62 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 Red Springs, North Carolina
Management's Discussion and Analysis (continued)
June 30, 2020

Government-Wide Financial Analysis

The Town of Red Springs' Net Position
Figure 2

	Governmental Activities		Business-type Activities		Total	
	2020	2019	2020	2019	2020	2019
Current assets	\$ 2,322,014	\$ 1,672,743	\$ 2,679,832	\$ 2,821,646	\$ 5,001,846	\$ 4,494,389
Capital assets	3,554,117	3,563,614	10,747,722	10,764,121	14,301,839	14,327,735
Deferred outflows of resources	726,599	645,865	302,223	420,717	1,028,822	1,066,582
Total assets and deferred outflows of resources	6,602,730	5,882,222	13,729,777	14,006,484	20,332,507	19,888,706
Long-term liabilities outstanding	3,462,480	2,922,028	2,900,128	2,590,980	6,362,608	5,513,008
Other liabilities	144,354	155,131	319,342	545,020	463,696	700,151
Deferred inflows of resources	162,039	233,335	32,309	63,491	194,348	296,826
Total liabilities and deferred inflows of resources	3,768,873	3,310,494	3,251,779	3,199,491	7,020,652	6,509,985
Net position						
Net investment in capital assets	2,627,196	2,743,864	8,790,700	9,038,556	11,417,896	11,782,420
Restricted	876,916	812,030	-	-	876,916	812,030
Unrestricted	(670,255)	(984,166)	1,687,298	1,768,437	1,017,043	784,271
Total net position	\$ 2,833,857	\$ 2,571,728	\$ 10,477,998	\$ 10,806,993	\$ 13,311,855	\$ 13,378,721

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The assets and deferred inflows of the Town exceeded liabilities and deferred outflows by \$13,311,855 as of June 30, 2020. The Town's net position increased by \$542,363 for the fiscal year ended June 30, 2020.

However, the largest portion (85.77%), reflects the Town's net investment in capital assets (e.g., land, buildings, machinery and equipment, and infrastructure). The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should note that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Town of Red Springs' net position, \$876,916, represents the Town's resources that are subject to external restrictions on how they may be used. The remaining balance is \$1,017,043 and is unrestricted.

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

- Property tax collections for the year ended June 30, 2020 were 93.92%, which is a slight decrease from prior year's collection percentage of 93.48%, and is significantly lower than the statewide average of 99%.

Town of Red Springs, North Carolina
Management's Discussion and Analysis (continued)
June 30, 2020

Government-Wide Financial Analysis (continued)

The Town of Red Springs' Changes in Net Position
Figure 3

	Governmental Activities		Business-type Activities		Total	
	2020	2019	2020	2019	2020	2019
Revenues:						
Program revenues:						
Charges for services	\$ 411,569	\$ 354,871	\$ 5,496,955	\$ 5,985,388	\$ 5,908,524	\$ 6,340,259
Operating grants and contributions	189,170	1,305,930	-	2,355	189,170	1,308,285
Capital grants and contributions	-	-	612,402	215,677	612,402	215,677
General revenues:						
Property taxes	1,197,910	1,106,391	-	-	1,197,910	1,106,391
Other taxes	168,313	92,192	-	-	168,313	92,192
Unrestricted intergovernmental	1,152,509	1,153,374	-	-	1,152,509	1,153,374
Other	1,261,106	814,295	14,600	7,962	1,275,706	822,257
Total revenues	<u>4,380,577</u>	<u>4,827,053</u>	<u>6,123,957</u>	<u>6,211,382</u>	<u>10,504,534</u>	<u>11,038,435</u>
Expenses:						
General government	869,013	800,886	-	-	869,013	800,886
Public safety	1,734,391	1,758,687	-	-	1,734,391	1,758,687
Transportation	977,833	632,472	-	-	977,833	632,472
Cultural and recreation	218,431	112,628	-	-	218,431	112,628
Interest on long-term debt	54,806	32,346	-	-	54,806	32,346
Water and sewer	-	-	1,784,542	1,340,586	1,784,542	1,340,586
Sanitation	311,113	-	-	296,141	311,113	296,141
Electric	-	-	4,012,042	4,276,741	4,012,042	4,276,741
Total expenses	<u>4,165,587</u>	<u>3,337,019</u>	<u>5,796,584</u>	<u>5,913,468</u>	<u>9,962,171</u>	<u>9,250,487</u>
Increase (decrease) in net position before transfers	214,990	1,490,034	327,373	297,914	542,363	1,787,948
Transfers	(33,698)	(45,259)	33,698	45,259	-	-
Increase (decrease) in net position	181,292	1,444,775	361,071	343,173	542,363	1,787,948
Net position, beginning, restated	2,652,565	1,126,953	10,116,927	10,463,820	12,769,492	11,590,773
Net position - ending	<u>\$ 2,833,857</u>	<u>\$ 2,571,728</u>	<u>\$ 10,477,998</u>	<u>\$ 10,806,993</u>	<u>\$ 13,311,855</u>	<u>\$ 13,378,721</u>

Town of Red Springs, North Carolina
Management's Discussion and Analysis (continued)
June 30, 2020

Government-Wide Financial Analysis (continued)

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

Business-type activities. Business-type activities increased the Town's net position by \$361,071 compared to an increase in the prior year of \$343,173. Key elements of the slight increase in net position compared to prior year are as follows:

- Decrease in charges for services revenues totaling \$488,433.
- Increase in capital grants and contributions revenues totaling \$396,725.
- Decrease in expenses totaling \$116,884.

Financial Analysis of the Government's Funds

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

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

The General Fund is the chief operating fund of the Town of Red Springs. At the end of the current fiscal year, the unassigned fund balance of the General Fund was \$1,224,048 or 29.46% of total General Fund expenditures. The remainder of fund balance is reserved to indicate that funds are not available for spending because these funds have already been committed 1) to liquidate contracts and purchase orders of the prior year, or 2) for a variety of other restricted purposes.

General Fund Budgetary Highlights

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

- Amendments that adjust for the estimates that are prepared for the original budget ordinance, once exact information is available.
- Amendments that recognize new funding from external sources, such as federal and State grants.
- Amendments that appropriate increases that becomes necessary to maintain services.

Proprietary Funds. The Town of Red Springs' proprietary funds provide the same type of information found in the governmental-wide financial statements, but in more detail.

- Electric Fund increased net position by \$170,734.
- Water and Sewer Fund increased net position by \$190,337.

Town of Red Springs, North Carolina
Management's Discussion and Analysis (continued)
June 30, 2020

Capital Assets and Debt Administration

The Town of Red Springs' investments in capital assets for its governmental and business-type activities as of June 30, 2020, totals \$14,301,839 (net of accumulated depreciation). These assets include land, buildings, infrastructure, machinery and equipment, park facilities, and vehicles.

Major asset transactions during the year include the following:

- During fiscal year 2019/2020, \$875,070 in meters were moved from construction in progress to capital assets being depreciated upon project completion of the Electric/Water Smart Meter Project Fund.

The Town of Red Springs' Capital Assets
(net of depreciation)
Figure 4

	Governmental Activities		Business-type Activities		Total	
	2020	2019	2020	2019	2020	2019
Land	\$ 704,400	\$ 724,639	\$ 120,034	\$ 120,034	\$ 824,434	\$ 844,673
Buildings	1,715,754	1,918,586	-	-	1,715,754	1,918,586
Substations, lines, and related equipment	-	-	6,976,793	7,403,376	6,976,793	7,403,376
Equipment	458,529	148,596	1,349,673	174,782	1,808,202	323,378
Vehicles and motorized equipment	526,166	622,525	44,975	54,542	571,141	677,067
Construction and progress	149,268	149,268	2,256,247	2,987,959	2,405,515	3,137,227
Total capital assets, net	<u>\$ 3,554,117</u>	<u>\$ 3,563,614</u>	<u>\$ 10,747,722</u>	<u>\$ 10,740,693</u>	<u>\$ 14,301,839</u>	<u>\$ 14,304,307</u>

Additional information on the Town's capital assets can be found in the notes on page 34 of this report.

Long-term debt. The Town's total debt increased by \$648,368 primarily due to a \$517,463 increase in capital leases.

Town of Red Springs's Outstanding Liabilities
Figure 5

	Governmental Activities		Business-type Activities		Total	
	2020	2019	2020	2019	2020	2019
Direct placement installment purchase	\$ 742,515	\$ 819,750	\$ 655,868	\$ 721,076	\$ 1,398,383	\$ 1,540,826
Capital leases	184,406	-	333,057	-	517,463	-
Revolving loans	-	-	343,097	369,489	343,097	369,489
Revenue bonds	-	-	625,000	635,000	625,000	635,000
Net pension obligation (LGERS)	550,207	499,725	271,253	237,598	821,460	737,323
Total pension obligation (LEO)	253,776	178,613	-	-	253,776	178,613
Net OPEB liability	1,634,364	1,447,041	530,789	501,862	2,165,153	1,948,903
Compensated absences	97,212	133,710	34,899	64,211	132,111	197,921
Total outstanding debt	<u>\$ 3,462,480</u>	<u>\$ 3,078,839</u>	<u>\$ 2,793,963</u>	<u>\$ 2,529,236</u>	<u>\$ 6,256,443</u>	<u>\$ 5,608,075</u>

Town of Red Springs, North Carolina
Management's Discussion and Analysis (continued)
June 30, 2020

Capital Assets and Debt Administration (continued)

North Carolina's General Statutes limit the amount of general obligation debt that a governmental unit can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for the Town of Red Springs is presently at \$15,475,200 (the amount of additional debt the town could obligate itself to under NC General Statute).

Additional information pertaining to the Town of Red Springs's long-term debt can be found in the notes on page 53 of this report.

Economic Factors and Next Year's Budgets and Rates

The following economic indicators reflect the growth of the Town:

Unemployment is up slightly within the Town due to COVID-19 pandemic. Because of the large number of retirement or government supported residents it has not been near the state or national levels. With the opening of the new Serioplast Company, a plastics manufacturing operation, the Town expects to add 46 new jobs over the next fiscal year.

Budget Highlights for the Fiscal Year Ended June 30, 2021

Governmental Activities: Property tax rates will likely be unchanged at 64 cents per \$100 of valuation. The Town is moving forward with an outside collection agency to improve property tax revenue. Local sales tax has remained relatively strong considering the COVID-19 pandemic. Any additional sales tax or property tax funds will be used to maintain a strong Town budget. The Town has ended the 2019/2020 fiscal year with an approximate 13% cash flow increase over 2018/2019 fiscal year. These efforts have been due to receipt of payments from FEMA and other grants.

Business-Type Activities: There has been a decrease in utility revenues due to Governor Cooper's executive order that allowed people to not pay their utility bills for three months in fiscal year 2019/2020. This has decreased Sanitation fee revenues by 3%, Water and Sewer Fund revenues by 20% and Electric Fund revenues by 5%. Now that the Executive Order has been revoked, the Town has added these past due amounts to the customers' bills based on a 6-month repayment schedule. This should reflect in the 2020/2021 fiscal year and increase utility collections.

The Town has also moved forward with multiple grant projects. The Town was granted a \$9.6 million Water Treatment and Distribution project with the USDA. The Town received a \$2 million CDBG grant for the rehabilitation of sewer lines within the Town. We have also received an Asset and Inventory Assessment grant of \$150,000 from the State of North Carolina Department of Environmental Quality. In addition, the Town received a \$500,000 grant from the NC Office of Recovery and Resilience to pay off a Jet Vac truck, engineering work on a storm water and flooding project and money to offset labor costs on projects. The NCORR has also awarded the Town a zero interest, zero fee loan on funds for advancement of pending FEMA payments for disaster reimbursement in the amount of \$1,024,000. Now that the water plant project has moved forward, the Town has received \$375,000 from the USDA to pay back the Town for money already expended for engineering costs. This should end fiscal year 2020/2021 with an even stronger cash flow reserve and fund balance.

Requests for Information

This report is designed to provide an overview of the Town's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Director of Finance, Town of Red Springs, 217 South Main Street, Red Springs, NC 28377.

Basic Financial Statements

Town of Red Springs, North Carolina
Statement of Net Position
June 30, 2020

	Primary Government			Red Springs ABC Board
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 1,718,283	\$ 291,971	\$ 2,010,254	\$ 104,214
Taxes receivables (net)	76,697	-	76,697	-
Accounts receivable (net)	55,515	719,214	774,729	-
Due from other governments	597,628	585,210	1,182,838	-
Prepaid items	24,126	-	24,126	2,526
Inventories	-	692,874	692,874	136,295
Internal balances	(179,008)	179,008	-	-
Restricted cash and cash equivalents	28,773	211,555	240,328	-
Total current assets	2,322,014	2,679,832	5,001,846	243,035
Non-current assets:				
Capital assets:				
Land, non-depreciable improvements and construction in progress	853,668	2,376,281	3,229,949	-
Other capital assets, net of depreciation	2,700,449	8,371,441	11,071,890	52,434
Total capital assets	3,554,117	10,747,722	14,301,839	52,434
Total assets	5,876,131	13,427,554	19,303,685	295,469
DEFERRED OUTFLOWS OF RESOURCES				
Pension deferrals	726,599	302,223	1,028,822	14,675
Total deferred outflows of resources	726,599	302,223	1,028,822	14,675
LIABILITIES				
Current liabilities:				
Accounts payable and accrued expenses	144,354	319,342	463,696	37,668
Current portion of long-term liabilities	144,469	182,044	326,513	-
Total current liabilities	288,823	501,386	790,209	37,668
Long-term liabilities:				
Due in more than one year	879,664	1,809,877	2,689,541	-
Customer deposits	-	106,165	106,165	-
Net pension liability (LGERS)	550,207	271,253	821,460	20,755
Total pension liability (LEO)	253,776	-	253,776	-
Total OPEB liability	1,634,364	530,789	2,165,153	-
Total liabilities	3,606,834	3,219,470	6,826,304	58,423
DEFERRED INFLOWS OF RESOURCES				
Pension deferrals	162,039	32,309	194,348	-
Total deferred inflows of resources	162,039	32,309	194,348	-
NET POSITION				
Net investment in capital assets	2,627,196	8,790,700	11,417,896	52,434
Restricted for:				
Stabilization by State Statute	848,143	-	848,143	-
Streets	7,671	-	7,671	-
Capital reserves	21,102	-	21,102	-
Working capital	-	-	-	25,578
Unrestricted (deficit)	(670,255)	1,687,298	1,017,043	173,709
Total net position	\$ 2,833,857	\$ 10,477,998	\$ 13,311,855	\$ 251,721

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

Town of Red Springs, North Carolina
Statement of Activities
For the Year Ended June 30, 2020

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Red Springs ABC Board
					Governmental Activities	Business-type Activities	Total	
Primary government:								
Governmental Activities:								
General government	\$ 869,013	\$ 41,961	\$ -	\$ -	\$ (827,052)	\$ -	\$ (827,052)	\$ -
Public safety	1,734,391	21,060	92,229	-	(1,621,102)	-	(1,621,102)	-
Transportation	977,833	-	96,941	-	(880,892)	-	(880,892)	-
Cultural and recreation	218,431	16,933	-	-	(201,498)	-	(201,498)	-
Sanitation	311,113	331,615	-	-	20,502	-	20,502	-
Interest on long-term debt	54,806	-	-	-	(54,806)	-	(54,806)	-
Total governmental activities	4,165,587	411,569	189,170	-	(3,564,848)	-	(3,564,848)	-
Business-type activities:								
Water and sewer	1,784,542	1,311,574	-	612,402	-	139,434	139,434	-
Electric	4,012,042	4,185,381	-	-	-	173,339	173,339	-
Total business-type activities	5,796,584	5,496,955	-	612,402	-	312,773	312,773	-
Total primary government	\$ 9,962,171	\$ 5,908,524	\$ 189,170	\$ 612,402	(3,564,848)	312,773	(3,252,075)	-
Component unit:								
ABC Board	\$ 801,713	\$ 818,964	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 17,251
Total component units	\$ 801,713	\$ 818,964	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 17,251
General revenues:								
Taxes:								
Property taxes, levied for general purpose					1,197,910	-	1,197,910	-
Unrestricted intergovernmental					1,152,509	-	1,152,509	-
Other taxes and licenses					168,313	-	168,313	-
Investment earnings, unrestricted					9,268	2,887	12,155	-
FEMA grants					1,166,209	-	1,166,209	-
Miscellaneous, unrestricted					85,629	11,713	97,342	-
Total general revenues not including transfers					3,779,838	14,600	3,794,438	-
Transfers					(33,698)	33,698	-	-
Total general revenues and transfers					3,746,140	48,298	3,794,438	-
Change in net position					181,292	361,071	542,363	17,251
Net position, beginning previously reported					2,571,728	10,806,993	13,378,721	234,470
Restatement (Note 7)					80,837	(690,066)	(609,229)	-
Net position, beginning, restated					2,652,565	10,116,927	12,769,492	234,470
Net position, ending					\$ 2,833,857	\$ 10,477,998	\$ 13,311,855	\$ 251,721

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

Town of Red Springs, North Carolina
Balance Sheet
Governmental Funds
June 30, 2020

	<u>Major Fund</u> <u>General</u> <u>Fund</u>	<u>Total</u> <u>Non-Major</u> <u>Funds</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 1,718,283	\$ -	\$ 1,718,283
Restricted cash and cash equivalents	28,773	-	28,773
Receivables, net:			
Taxes	76,697	-	76,697
Accounts	55,515	-	55,515
Due from other funds	195,000	-	195,000
Due from other governments	597,628	-	597,628
Prepaid items	24,126	-	24,126
Total assets	<u>\$ 2,696,022</u>	<u>\$ -</u>	<u>\$ 2,696,022</u>
<u>LIABILITIES</u>			
Accounts payable and accrued liabilities	\$ 144,353	\$ -	\$ 144,353
Due to other funds	374,008	-	374,008
Total liabilities	<u>518,361</u>	<u>-</u>	<u>518,361</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Property taxes receivable	76,697	-	76,697
Total deferred inflows of resources	<u>76,697</u>	<u>-</u>	<u>76,697</u>
<u>FUND BALANCES</u>			
Restricted:			
Stabilization by State Statute	848,143	-	848,143
Streets	7,671	-	7,671
Capital reserves	21,102	-	21,102
Unassigned	1,224,048	-	1,224,048
Total fund balances	<u>2,100,964</u>	<u>-</u>	<u>2,100,964</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 2,696,022</u>	<u>\$ -</u>	<u>\$ 2,696,022</u>

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

Town of Red Springs, North Carolina
Balance Sheet
Governmental Funds (continued)
June 30, 2020

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

Total fund balances, governmental funds	\$	2,100,964
Capital assets used in governmental activities are not financial resources and therefore not reported in the funds.		
Gross capital assets at historical cost		7,361,489
Accumulated depreciation		(3,807,372)
		3,554,117
Deferred outflows of resources related to pensions and are not reported in the funds		726,599
Earned revenues considered deferred inflows of resources in fund statements		76,697
Long-term liabilities used in governmental activities are not financial uses and therefore are not reported in the funds:		
Gross long-term debt		(1,024,133)
Net pension liability		(550,207)
Total pension liability		(253,776)
Total OPEB liability		(1,634,364)
Pension related deferrals		(162,039)
		(162,039)
Net position of governmental activities	\$	2,833,857

Town of Red Springs, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2020

	<u>Major Fund</u> <u>General</u> <u>Fund</u>	<u>Total</u> <u>Non-Major</u> <u>Funds</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
Revenues:			
Ad valorem taxes	\$ 1,235,016	\$ -	\$ 1,235,016
Other taxes and licenses	168,313	-	168,313
Unrestricted intergovernmental	1,152,509	-	1,152,509
Restricted intergovernmental	1,425,348	-	1,425,348
Permits and fees	36,533	-	36,533
Sales and services	411,569	-	411,569
Investment earnings	9,268	-	9,268
Miscellaneous	104,485	247	104,732
Total revenues	<u>4,543,041</u>	<u>247</u>	<u>4,543,288</u>
Expenditures:			
Current:			
General government	850,173	-	850,173
Public safety	1,488,265	-	1,488,265
Transportation	1,115,713	-	1,115,713
Cultural and recreational	221,753	-	221,753
Sanitation	311,113	-	311,113
Debt service:			
Principal	130,569	-	130,569
Interest and other charges	37,384	-	37,384
Total expenditures	<u>4,154,970</u>	<u>-</u>	<u>4,154,970</u>
Excess (deficiency) of revenues over expenditures	<u>388,071</u>	<u>247</u>	<u>388,318</u>
Other financing sources (uses):			
Transfers from (to) other funds	(118,797)	85,099	(33,698)
Installment purchase proceeds	237,740	-	237,740
Total other financing sources (uses)	<u>118,943</u>	<u>85,099</u>	<u>204,042</u>
Net change in fund balances	507,014	85,346	592,360
Fund balance, beginning as previously reported	1,433,366	(85,346)	1,348,020
Prior period adjustment (Note 7)	160,584	-	160,584
Fund balance, beginning as restated	<u>1,593,950</u>	<u>(85,346)</u>	<u>1,508,604</u>
Fund balance, ending	<u>\$ 2,100,964</u>	<u>\$ -</u>	<u>\$ 2,100,964</u>

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

Town of Red Springs, North Carolina
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2020

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

Net change in fund balances - total governmental funds \$ 592,360

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.

Capital outlay expenditures which were capitalized	\$ 425,909	
Asset impairment loss	(172,157)	
Depreciation expense for governmental assets	<u>(287,677)</u>	(33,925)

Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities		195,807
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OPEB payments paid and administrative expense are not included on the Statement of Activities		47,644
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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		(162,710)
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The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has an effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

New long-term debt issued	(237,740)	
Principal payments on long-term debt	130,569	
(Increase) decrease in accrued interest payable	<u>(17,422)</u>	(124,593)

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.

Compensated absences	36,498	
Pension revenue (expense)	<u>(369,789)</u>	<u>(333,291)</u>

Total changes in net position of governmental activities		<u>\$ 181,292</u>
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The notes to the financial statements are an integral part of this statement.

Town of Red Springs, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual
General Fund
For the Year Ended June 30, 2020

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
Revenues:				
Ad valorem taxes	\$ 1,222,200	\$ 1,222,200	\$ 1,235,016	\$ 12,816
Other taxes and licenses	95,935	104,525	168,313	63,788
Unrestricted intergovernmental	1,111,900	1,111,900	1,152,509	40,609
Restricted intergovernmental	261,550	699,881	1,425,348	725,467
Permits and fees	30,000	30,000	36,533	6,533
Sales and services	550,500	562,600	411,569	(151,031)
Investment earnings	2,150	2,150	9,268	7,118
Miscellaneous	57,000	103,288	104,485	1,197
Total revenues	<u>3,331,235</u>	<u>3,836,544</u>	<u>4,543,041</u>	<u>706,497</u>
Expenditures:				
Current:				
General government	841,339	1,017,154	850,173	166,981
Public safety	1,650,836	1,588,562	1,488,265	100,297
Transportation	634,111	1,140,508	1,115,713	24,795
Cultural and recreational	207,847	270,007	221,753	48,254
Sanitation	317,359	317,359	311,113	6,246
Debt service:				
Principal retirement	52,415	144,509	130,569	13,940
Interest and other charges	24,231	37,384	37,384	-
Total expenditures	<u>3,728,138</u>	<u>4,515,483</u>	<u>4,154,970</u>	<u>360,513</u>
Revenues over (under) expenditures	<u>(396,903)</u>	<u>(678,939)</u>	<u>388,071</u>	<u>1,067,010</u>
Other financing sources (uses):				
Transfers (to) from	-	(164,028)	(118,797)	45,231
Insurance proceeds	-	-	237,740	237,740
Total other financing sources (uses)	<u>-</u>	<u>(164,028)</u>	<u>118,943</u>	<u>282,971</u>
Fund balance appropriated	396,903	842,967	-	(842,967)
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>507,014</u>	<u>\$ 507,014</u>
Fund balance, beginning as previously reported			1,433,366	
Prior period adjustment (Note 7)			160,584	
Fund balance, beginning as restated			<u>1,593,950</u>	
Fund balance, ending			<u>\$ 2,100,964</u>	

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

Town of Red Springs, North Carolina
Statement of Fund Net Position
Proprietary Funds
June 30, 2020

	Major Enterprise Funds		Total
	Electric Fund	Water and Sewer Fund	
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 232,060	\$ 59,911	\$ 291,971
Restricted cash and cash equivalents	208,610	2,945	211,555
Accounts receivable (net)	531,992	187,222	719,214
Due from other governments	36,242	548,968	585,210
Due from other funds	434,484	76,167	510,651
Inventories	528,432	164,442	692,874
Total current assets	1,971,820	1,039,655	3,011,475
Non-current assets:			
Capital assets:			
Land and other non-depreciable assets	-	2,376,281	2,376,281
Other capital assets, net of depreciation	932,670	7,438,771	8,371,441
Capital assets (net)	932,670	9,815,052	10,747,722
Total assets	2,904,490	10,854,707	13,759,197
DEFERRED OUTFLOWS OF RESOURCES			
Pension deferrals	125,731	154,906	280,637
OPEB deferrals	16,401	5,185	21,586
Total deferred outflows of resources	142,132	160,091	302,223
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities	294,480	24,862	319,342
Due to other funds	-	331,643	331,643
Compensated absences - current	5,000	5,000	10,000
Current portion of long-term debt	72,474	99,570	172,044
Total current liabilities	371,954	461,075	833,029
Noncurrent liabilities:			
Liabilities payable from restricted assets:			
Customer deposits	103,220	2,945	106,165
Compensated absences	9,991	14,908	24,899
Net pension liability	123,117	148,136	271,253
Total OPEB liability	230,741	300,048	530,789
Noncurrent portion of long term debt	493,478	1,291,500	1,784,978
Total noncurrent liabilities	960,547	1,757,537	2,718,084
Total liabilities	1,332,501	2,218,612	3,551,113
DEFERRED INFLOWS OF RESOURCES			
OPEB deferrals	14,045	18,264	32,309
Total deferred inflows of resources	14,045	18,264	32,309
NET POSITION			
Net investment in capital assets	366,718	8,423,982	8,790,700
Unrestricted	1,333,358	353,940	1,687,298
Total net position	\$ 1,700,076	\$ 8,777,922	\$ 10,477,998

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

Town of Red Springs, North Carolina
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
For the Year Ended June 30, 2020

	Major Enterprise Funds		Total
	Electric Fund	Water and Sewer Fund	
Operating revenues:			
Charges for services	\$ 4,169,664	\$ 1,289,057	\$ 5,458,721
Water and sewer taps	-	9,550	9,550
Other operating revenues	15,717	12,967	28,684
Total operating revenues	4,185,381	1,311,574	5,496,955
Operating expenses:			
Electric operations	1,020,743	-	1,020,743
Electric power purchases	2,848,417	-	2,848,417
Water treatment and distribution	-	519,219	519,219
Waste collection and treatment	-	731,703	731,703
Depreciation	123,963	425,276	549,239
Total operating expenses	3,993,123	1,676,198	5,669,321
Operating income (loss)	192,258	(364,624)	(172,366)
Nonoperating revenues (expenses):			
Investment earnings	2,799	88	2,887
Loss on disposals	-	(60,242)	(60,242)
Interest and other charges	(18,918)	(48,103)	(67,021)
Total nonoperating revenue (expenses)	(16,119)	(108,257)	(124,376)
Income (loss) before contributions and transfers	176,139	(472,881)	(296,742)
Capital contributions	-	612,402	612,402
Transfer from (to)	(5,405)	39,103	33,698
Insurance proceeds	-	11,713	11,713
Total contributions and transfers	(5,405)	663,218	657,813
Change in net position	170,734	190,337	361,071
Net position, beginning as previously reported	1,709,690	9,003,113	10,712,803
Prior period adjustment (Note 7)	(180,348)	(415,528)	(595,876)
Net position, beginning as restated	1,529,342	8,587,585	10,116,927
Total net position, ending	\$ 1,700,076	\$ 8,777,922	\$ 10,477,998

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

Town of Red Springs, North Carolina
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2020

	Major Enterprise Funds		Total
	Electric Fund	Water and Sewer Fund	
Cash flows from operating activities:			
Cash received from customers	\$ 4,281,637	\$ 1,376,477	\$ 5,658,114
Cash paid for goods and services	(3,469,685)	(899,958)	(4,369,643)
Cash paid to employees for services	(568,172)	(663,074)	(1,231,246)
Net cash provided (used) by operating activities	<u>243,780</u>	<u>(186,555)</u>	<u>57,225</u>
Cash flows from non-capital financing activities:			
Transfers in (out)	(5,405)	39,103	33,698
Increase (decrease) in due to other funds	(19,008)	(249,683)	(268,691)
Net cash provided (used) by non-capital financing activities	<u>(24,413)</u>	<u>(210,580)</u>	<u>(234,993)</u>
Cash flows from capital and related financing activities:			
Capital contributions and grants	-	612,402	612,402
Loan proceeds	-	145,083	145,083
Acquisition and construction of capital assets	(310,014)	(323,069)	(633,083)
Principal paid on bond and note agreements	(81,916)	(98,495)	(180,411)
Interest paid on bond note agreements	(18,918)	(48,103)	(67,021)
Net cash provided (used) by capital and related financing activities	<u>(410,848)</u>	<u>287,818</u>	<u>(123,030)</u>
Cash flows from investing activities:			
Interest on investments	2,799	88	2,887
Net cash provided (used) by investing activities	<u>2,799</u>	<u>88</u>	<u>2,887</u>
Net increase (decrease) in cash and cash equivalents	(188,682)	(109,229)	(297,911)
Cash and cash equivalents - beginning of year	<u>629,352</u>	<u>172,085</u>	<u>801,437</u>
Cash and cash equivalents - end of year	<u>\$ 440,670</u>	<u>\$ 62,856</u>	<u>\$ 503,526</u>

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

Town of Red Springs, North Carolina
Statement of Cash Flows
Proprietary Fund (continued)
For the Year Ended June 30, 2020

	Major Enterprise Funds		Total
	Electric Fund	Water and Sewer Fund	
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ 192,258	\$ (364,624)	\$ (172,366)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	123,963	425,277	549,240
Change in assets, deferred outflows of resources, and liabilities:			
(Increase) decrease in:			
Accounts receivable	96,256	64,902	161,158
Due from other governments	(13,420)	(484,753)	(498,173)
Inventories	(184,919)	83,420	(101,499)
Prepaid expenses	776	-	776
Deferred outflows of resources	21,019	24,191	45,210
Increase (decrease) in:			
Accounts payable and accrued liabilities	1,289	56,969	58,258
Net pension liability	15,986	17,669	33,655
Deferred inflows of resources	(9,052)	(11,724)	(20,776)
Customer deposits	1,947	180	2,127
Net OPEB liability	12,575	16,352	28,927
Compensated absences	(14,898)	(14,414)	(29,312)
Total adjustments	51,522	178,069	229,591
Net cash provided (used) by operating activities	\$ 243,780	\$ (186,555)	\$ 57,225

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

Notes to the Financial Statements

Town of Red Springs, North Carolina
Notes to the Financial Statements
June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Town of Red Springs, North Carolina conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant accounting policies:

A - Reporting Entity

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

Town of Red Springs ABC Board

The members of the ABC Board's governing board are appointed by the Town. In addition, the ABC Board is required by State statute to distribute its surpluses to the General Fund of the Town. The ABC Board, which has a June 30 year-end, is presented as if it were a proprietary fund (discrete presentation). Complete financial statements for the ABC Board may be obtained from the entity's administrative offices at Town of Red Springs, 217 South Main Street, Red Springs, NC 28384.

B - Basis of Presentation

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

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

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

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

The Town reports the following major governmental fund:

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.

Town of Red Springs, North Carolina
Notes to the Financial Statements (continued)
June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B - Basis of Presentation - Fund Accounting (continued)

The Town reports the following non-major governmental funds:

Special Revenue Fund – North Carolina Step Planning Investment Phase Project - This fund is used to account for grant funds that are restricted for use for a particular purpose.

Special Revenue Fund – Farmers Market Rural Development Grant - This fund is used to account for grant funds that are restricted for use for a particular purpose.

Capital Project Fund – Farmers Market Phase II Grant - This fund is used to account for grant funds that are restricted for use for a particular purpose.

The Town reports the following major enterprise funds:

Electric Fund - This fund is used to account for the Town's electric fund operations. Two funds have been consolidated into the Electric Fund for financial reporting purposes which include: Electric Capital Reserve Fund and the Electric/Water Smart Meter Project Fund.

Water and Sewer Fund - This fund is used to account for the Town's water and sewer operations. Three funds have been consolidated into the Water and Sewer Fund for financial reporting purposes which include: Water and Sewer Capital Project Fund, Electric/Water Smart Meter Project Fund, and Water Treatment Plant Project. The budgetary comparison for these funds has been included in the supplemental information.

C - Measurement Focus and Basis of Accounting

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

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

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

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

Town of Red Springs, North Carolina
Notes to the Financial Statements (continued)
June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C - Measurement Focus and Basis of Accounting (continued)

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

The Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad Valorem taxes receivable are not accrued as a revenue because the amount is not susceptible to accrual. At June 30, taxes receivable for property other than motor vehicles are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of September 1, 2013, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, the State of North Carolina is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts.

Property taxes are due when vehicles are registered. The billed taxes are applicable to the fiscal year in which they are received. Uncollected taxes that were billed in periods prior to September 1, 2013 and for limited registration plates are shown as a receivable in these financial statements and are offset by deferred inflows of resources.

Sales taxes and certain intergovernmental revenues, such as the utilities franchise tax, collected and held by the State at year-end on behalf of the Town are recognized as revenue. Sales taxes are considered shared revenue for the Town of Red Springs because the tax is levied by the County and then remitted to and distributed by the State. Most intergovernmental revenue and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. 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.

D - Budgetary Data

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General and the Enterprise Funds. All annual appropriations lapse at the fiscal-year end. Project ordinances are adopted for the Grant Project Special Revenue Funds. The enterprise fund projects are consolidated with their respective operating fund for reporting purposes. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the departmental level for all annually budgeted funds and at the object level for the multi-year funds. Amendments are required for any revisions that alter total expenditures of any fund or that change functional appropriations by more than \$2,500. All amendments must be approved by the governing board. During the year, several amendments to the original budget were necessary, the effects of which were not material. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

Town of Red Springs, North Carolina
Notes to the Financial Statements (continued)
June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

1. Deposits and Investments

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

State law [G.S. 159-30(c)] authorizes the Town to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain nonguaranteed federal agencies; certain high quality issues of commercial paper and banker's acceptances and the North Carolina Capital Management Trust (NCCMT). The Town's investments are reported at fair value. The NCCMT Government Portfolio, a SEC-registered (2a-7) money market mutual fund, is measured at fair value. The NCCMT- Term Portfolio is bond fund, has no rating and is measured at fair value. As of June 30, 2020, The Term portfolio has a duration of .15 years. Because the NCCMT Government and Term Portfolios have a weighted average maturity of less than 90 days, they are presented as an investment with a maturity of less than 6 months.

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

2. Cash and Cash Equivalents

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

Balances of cash received for projects from various grantor agencies or from loan proceeds that are unspent at year end are presented as restricted cash.

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

Town of Red Springs, North Carolina
Notes to the Financial Statements (continued)
June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

3. Restricted Assets (continued)

Town of Red Springs' Restricted Cash

Governmental Activities:

General Fund		
Streets	\$	7,671
Capital reserves		21,102
Total governmental activities		28,773

Business-type activities:

Electric Fund		
Customer deposits		103,220
Capital reserves		105,390
Water/Sewer Fund		
Customer deposits		2,945
Total business-type activities		211,555
Total restricted cash	\$	240,328

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 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, interest does not accrue until the following January 6th. These taxes are based on the assessed values as of January 1, 2019. As allowed by State law, the Town has established a schedule of discounts that apply to taxes that are paid prior to the due date. In the Town's General Fund, ad valorem tax revenue is reported net of such discounts.

5. Allowance for Doubtful Accounts

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

6. Inventories

The inventories of the Town and the ABC Board are valued at cost (first-in, first-out), which approximates market. The Town's General Fund inventory consists of expendable supplies that are recorded as expenditures as used rather than when purchased, with the exception of postage purchased. The inventories of the Town's enterprise funds and those of the Town of Red Spring ABC Board consist of materials and supplies held for subsequent use. The cost of these inventories is expensed when held for resale rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both governmentwide and fund financial statements and expensed as the items are used.

Town of Red Springs, North Carolina
Notes to the Financial Statements (continued)
June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

7. 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 life in excess of two years. The Town’s capitalization policy is to capitalize any regular asset purchase of \$2,000 or more, effective June 2005. Prior to this date, the Town’s capitalization policy was \$250. The Town’s capitalization policy is to capitalize any infrastructure of \$5,000 or more, effective June 2005. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets received 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. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend assets’ lives are not capitalized.

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

	<u>Estimated Useful Lives</u>
Infrastructure	30
Buildings	50
Improvements	25
Furniture and equipment	10
Vehicles	6
Computer equipment	3

Capital assets of the ABC Board are depreciated over their useful lives on a straight-line basis as follows:

	<u>Estimated Useful Lives</u>
Buildings	15-25
Parking lot improvements	20
Equipment	5-10

8. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, Deferred Outflows of Resources, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Town has one item that meets this criterion; contributions made to the pension plan in the 2020 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 five items that meet the criterion for this category - prepaid license, property taxes receivable, other receivables, deferrals of pension expense that result from the implementation of GASB Statements 68, and deferrals of OPEB expense that result from the implementation of GASB 75.

Town of Red Springs, North Carolina
Notes to the Financial Statements (continued)
June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

9. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method that approximates the effective interest method. Bond issuance costs, except for prepaid insurance, are expensed in the reporting period in which they are incurred. Prepaid insurance costs are expensed over the life of the debt.

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

10. Compensated Absences

The vacation policy of the Town provides for the accumulation of up to thirty days earned vacation leave with such leave being fully vested when earned. The ABC Board allows a maximum of ten days earned vacation leave per year. The leave is considered earned at the beginning of the year, but does not accumulate from year to year. For the Town's government-wide, proprietary funds and the ABC Board, an expense and a liability for compensated absences and the salary-related payments are recorded within the funds as the leave is earned. The Town has assumed a first-in, first-out method of using accumulated compensated time. The portion of that time that is estimated to be used in the next fiscal year has been designated as a current liability in the government-wide financial statements.

The Town's sick leave policy provides for an unlimited accumulation of earned sick leave. The ABC Board provides for an accumulation of up to thirty days per employee. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since neither the Town nor the ABC Board has any obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

Town of Red Springs, North Carolina
Notes to the Financial Statements (continued)
June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

11. Net Position / Fund Balances

Net Position

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

Fund Balances

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

The governmental fund types classify fund balances as follows:

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

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

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

Restricted for Stabilization by State Statute – 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(a) 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". *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 non-spendable. 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.

Town of Red Springs, North Carolina
Notes to the Financial Statements (continued)
June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

11. Net Position / Fund Balances

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

Restricted for Capital Reserves – portion of fund balance that is restricted for capital projects.

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

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

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

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

12. Defined Benefit Cost-Sharing Plans

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

Town of Red Springs, North Carolina
Notes to the Financial Statements (continued)
June 30, 2020

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A - Significant Violations of Finance-Related Legal and Contractual Provisions

1. Noncompliance with North Carolina General Statutes

None.

2. Contractual Violations

The Town was not in compliance with Revenue Bonds debt service coverage ratio requirements for the year ended June 30, 2020. The Bond Order requires the debt service ratio to be no less than 110%. The Town's debt service ratio was 1.33% for the year ended June 30, 2020. The Town will closely monitor this ratio going forward.

B - Deficit in Fund Balance of Individual Funds not appropriated in subsequent year's budget ordinance

None

C - Excess of Expenditures over Appropriations

None

Town of Red Springs, North Carolina
Notes to the Financial Statements (continued)
June 30, 2020

NOTE 3 - DETAIL NOTES ON ALL FUNDS

A - Assets

1. Deposits

All the deposits of the Town and the ABC Board are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the Town's or the ABC Board's agents in these units' names. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town and the ABC Board, these deposits are considered to be held by the Town's and the ABC Board's agents in their 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, the ABC Board or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Town and the ABC Board under the Pooling Method, the potential exists for under-collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Town and the ABC Board have 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, 2020, the Town's deposits had a carrying amount of \$308,026 and a bank balance of \$403,513. Of the bank balance, \$250,000 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method. The carrying amount of deposits for the ABC Board was \$104,214 and the bank balance was \$120,184. All of the bank balance was covered by federal depository insurance. At June 30, 2020, the Town's petty cash fund totaled \$50.

2. Investments

At June 30, 2020, the Town of Red Springs had \$1,942,506 invested with the North Carolina Capital Management Trust's Government Portfolio which earned a credit rating of AAAM by Standard and Poor's. The Town has no policy regarding credit risk. The ABC Board has no such investments.

3. Receivables - Allowance for Doubtful Accounts

The amounts presented in the Balance Sheet and the Statement of Net Position are for the year ended June 30, 2020 are net of the following allowance for doubtful accounts:

General Fund:	
Taxes receivable	\$ 283,003
Total General Fund	283,003
Enterprise Funds:	
Water	148,353
Electric	211,165
Total Enterprise Fund	359,518
Total allowance for doubtful accounts	\$ 642,521

Town of Red Springs, North Carolina
Notes to the Financial Statements (continued)
June 30, 2020

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

A - Assets (continued)

4. Capital Assets

Capital asset activity for the Primary Government for the year ended June 30, 2020, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 724,639	\$ -	\$ 20,239	\$ 704,400
Construction in progress	149,268	-	-	149,268
Total capital assets not being depreciated	<u>873,907</u>	<u>-</u>	<u>20,239</u>	<u>853,668</u>
Capital assets being depreciated:				
Buildings	2,764,725	-	145,552	2,619,173
Equipment	837,163	363,246	219,737	980,672
Vehicles and motorized equipment	2,889,522	62,663	44,209	2,907,976
Total capital assets being depreciated	<u>6,491,410</u>	<u>425,909</u>	<u>409,498</u>	<u>6,507,821</u>
Less accumulated depreciation for:				
Buildings	846,139	57,280	-	903,419
Equipment	688,561	50,278	216,696	522,143
Vehicles and motorized equipment	2,242,575	180,119	40,884	2,381,810
Total accumulated depreciation	<u>3,777,275</u>	<u>287,677</u>	<u>257,580</u>	<u>3,807,372</u>
Total capital assets being depreciated, net	<u>2,714,135</u>			<u>2,700,449</u>
Governmental activities capital assets, net	<u><u>\$ 3,588,042</u></u>			<u><u>\$ 3,554,117</u></u>

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

General government	\$ 64,873
Public safety	105,080
Transportation	115,265
Cultural and recreational	2,459
Total depreciation expense	<u><u>\$ 287,677</u></u>

Town of Red Springs, North Carolina
Notes to the Financial Statements (continued)
June 30, 2020

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

A - Assets (continued)

4. Capital Assets (continued)

Business-type activities:	Beginning			Ending
Electric Fund:	Balances	Increases	Decreases	Balances
Capital assets not being depreciated:				
Construction in progress	\$ 446,884	\$ 15,479	\$ 462,363	\$ -
Total capital assets not being depreciated	<u>446,884</u>	<u>15,479</u>	<u>462,363</u>	<u>-</u>
Capital assets being depreciated:				
Substations, lines, and related equipment	3,900,029	-	1,341,490	2,558,539
Furniture and maintenance equipment	229,423	729,148	-	958,571
Vehicles	359,226	27,750	-	386,976
Total capital assets being depreciated	<u>4,488,678</u>	<u>756,898</u>	<u>1,341,490</u>	<u>3,904,086</u>
Less accumulated depreciation for:				
Substations, lines, and related equipment	3,669,252	25,111	1,318,317	2,376,046
Furniture and maintenance equipment	212,060	29,688	-	241,748
Vehicles	292,058	69,164	7,600	353,622
Total accumulated depreciation	<u>4,173,370</u>	<u>123,963</u>	<u>1,325,917</u>	<u>2,971,416</u>
Total capital assets being depreciated, net	<u>315,308</u>			<u>932,670</u>
Electric fund capital assets, net	<u>\$ 762,192</u>			<u>\$ 932,670</u>

Town of Red Springs, North Carolina
Notes to the Financial Statements (continued)
June 30, 2020

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

A - Assets (continued)

4. Capital Assets (continued)

Water and Sewer Fund:	Beginning			Ending
	Balances	Increases	Decreases	Balances
Capital assets not being depreciated:				
Land	\$ 120,034	\$ -	\$ -	\$ 120,034
Construction in progress	2,541,075	127,881	412,709	2,256,247
Total capital assets not being depreciated	2,661,109	127,881	412,709	2,376,281
Capital assets being depreciated:				
Plant and distribution systems	16,329,424	-	12,833	16,316,591
Furniture and maintenance equipment	523,042	559,792	188,311	894,523
Vehicles	149,948	48,105	12,703	185,350
Total capital assets being depreciated	17,002,414	607,897	213,847	17,396,464
Less accumulated depreciation for:				
Plant and distribution systems	9,156,825	377,300	12,833	9,521,292
Furniture and maintenance equipment	365,623	24,119	128,069	261,673
Vehicles	162,574	23,858	12,703	173,729
Total accumulated depreciation	9,685,022	425,277	153,605	9,956,694
Total capital assets being depreciated, net	7,317,392			7,439,770
Water and Sewer fund activity - capital assets, net	\$ 9,978,501			\$ 9,816,051

Town of Red Springs, North Carolina
Notes to the Financial Statements (continued)
June 30, 2020

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

A - Assets (continued)

4. Capital Assets (continued)

Discretely presented component unit

Activity for the ABC Board for the year ended June 30, 2020 was as follows:

ABC Board:	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets not being depreciated:				
Land	\$ 6,422	\$ -	\$ -	\$ 6,422
Total capital assets not being depreciated	6,422	-	-	6,422
Capital assets being depreciated:				
Buildings & improvements	135,344	-	-	135,344
Parking lot improvements	8,512	-	-	8,512
Equipment	125,067	-	-	125,067
Total capital assets being depreciated	268,923	-	-	268,923
Less accumulated depreciation for:				
Buildings & improvements	110,712	900	-	111,612
Parking lot improvements	6,673	425	-	7,098
Equipment	101,626	2,575	-	104,201
Total accumulated depreciation	219,011	3,900	-	222,911
Total capital assets being depreciated, net	49,912			46,012
ABC capital assets, net	\$ 56,334			\$ 52,434

Town of Red Springs, North Carolina
Notes to the Financial Statements (continued)
June 30, 2020

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities

1. Pension Plan and Postemployment Obligations

a. Local Governmental Employees' Retirement System

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

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

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

Contributions. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. Town of Red Springs employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Town of Red Springs's contractually required contribution rate for the year ended June 30, 2020, was 9.70% of compensation for law enforcement officers and 8.95% for general employees, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Town of Red Springs were \$326,345 for the year ended June 30, 2020.

Town of Red Springs, North Carolina
Notes to the Financial Statements (continued)
June 30, 2020

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

1. Pension Plan and Postemployment Obligations (continued)

a. Local Governmental Employees' Retirement System (continued)

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

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

At June 30, 2020, the Town reported a liability of \$821,460 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2018. The total pension liability was then rolled forward to the measurement date of June 30, 2019 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, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2019, the Town's proportion was 0.03008%, which was a decrease of 0.001% from its proportion measured as of June 30, 2018.

For the year ended June 30, 2020, the Town recognized pension expense (revenue) of \$493,934. At June 30, 2020, 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	\$ 140,655	\$ 3,817
Changes of assumptions	133,885	-
Net difference between projected and actual earnings on pension plan investments	20,037	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	270,096	-
Town contributions subsequent to the measurement date	326,345	-
Total	\$ 891,018	\$ 3,817

\$326,345 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as an decrease of the net pension liability in the year ended June 30, 2021. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2021	\$ 249,954
2022	127,667
2023	137,293
2024	49,759
2025	-
Thereafter	-

Town of Red Springs, North Carolina
Notes to the Financial Statements (continued)
June 30, 2020

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

1. Pension Plan and Postemployment Obligations (continued)

a. Local Governmental Employees' Retirement System (continued)

Actuarial Assumptions. The total pension liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	3.50 to 8.10 percent, including inflation and productivity factor
Investment rate of return	7.00 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, 2018 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

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

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2019 are summarized in the following table:

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

Town of Red Springs, North Carolina
Notes to the Financial Statements (continued)
June 30, 2020

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

1. Pension Plan and Postemployment Obligations (continued)

a. Local Governmental Employees' Retirement System (continued)

The information above is based on 30 year expectations developed with the consulting actuary for the 2018 asset, liability, and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.00%. All rates of return and inflation are annualized.

Discount rate. The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Town's proportionate share of the net pension asset to changes in the discount rate. The following presents the Town's proportionate share of the net pension liability calculated using the discount rate of 7.00 percent, as well as what the Town's proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00 percent) or one percentage point higher (8.00 percent) than the current rate:

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Town's proportionate share of the net pension liability (asset)	\$ 1,878,832	\$ 821,460	\$ (57,428)

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

Town of Red Springs, North Carolina
Notes to the Financial Statements (continued)
June 30, 2020

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

1. Pension Plan and Postemployment Obligations (continued)

b. Law Enforcement Officers' Special Separation Allowance

1. Plan Description

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

All full-time County law enforcement officers are covered by the Separation Allowance. At December 31, 2018, the Separation Allowance's membership consisted of:

Inactive members currently receiving benefits	1
Active plan members	14
Total	15

2. Summary of Significant Accounting Policies

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

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

3. Actuarial Assumptions

The entry age actuarial cost method was used in the December 31, 2018 valuation. The total pension liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 percent
Salary increases	3.5 to 7.35 percent, including inflation and productivity factor
Discount rate	3.26 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, 2018. Mortality rates are based on the RP-2000 Mortality tables with adjustments for mortality improvements based on Scale AA.

Town of Red Springs, North Carolina
Notes to the Financial Statements (continued)
June 30, 2020

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

1. Pension Plan and Postemployment Obligations (continued)

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

4. Contributions

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

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

At June 30, 2020, the Town reported a total pension liability of \$253,776. The total pension liability was measured as of December 31, 2019 based on a December 31, 2018 actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2019 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2020, the Town recognized pension expense of \$13,709.

	Deferred Outflow of	Deferred Inflows of
Differences between expected and actual experience	\$ 44,787	\$ 56,804
Changes of assumptions	9,162	5,456
Total	\$ 53,949	\$ 62,260

\$0 reported as deferred outflows of resources related to pensions resulting from benefit payments made and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total pension liability in the year ended June 30, 2020. Other amounts reported as deferred inflows and deferred outflows of resources related to pensions will be recognized in pension expense (revenue) as follows:

Year ended June 30:	
2021	\$ (5,826)
2022	(5,826)
2023	(5,634)
2024	4,425
2025	4,550
Thereafter	-

Town of Red Springs, North Carolina
Notes to the Financial Statements (continued)
June 30, 2020

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

1. Pension Plan and Postemployment Obligations (continued)

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

4. Contributions (continued)

Sensitivity of the Town's total pension liability to changes in the discount rate. The following presents the Town's total pension liability calculated using the discount rate of 3.26 percent, as well as what the Town's total pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.26 percent) or 1-percentage-point higher (4.26 percent) than the current rate:

	1% Decrease (2.26%)	Discount rate (3.26%)	1% Increase (4.26%)
Total pension liability	\$ 267,174	\$ 253,776	\$ 241,188
			2020
Beginning balance		\$ 178,613	
Service cost			13,066
Interest on the total pension liability			6,469
Differences between expected and actual experience in the measurement of the total pension liability			52,558
Changes of assumptions or other inputs			4,877
Benefit payments			(1,807)
Ending balance of the total pension liability		\$ 253,776	

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

The actuarial assumptions used in the December 31, 2018 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

Town of Red Springs, North Carolina
Notes to the Financial Statements (continued)
June 30, 2020

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

1. Pension Plan and Postemployment Obligations (continued)

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

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

	<u>LGERS</u>	<u>LEOSSA</u>	<u>Total</u>
Pension Expense	\$ 493,934	\$ 11,902	\$ 505,836
Pension Liability	821,460	253,776	1,075,236
Proportionate share of the net pension liability	0.03008%	n/a	
 Deferred of Outflows of Resources			
Differences between expected and actual experience	140,655	44,787	185,442
Changes of assumptions	133,885	9,162	143,047
Net difference between projected and actual earnings on plan investments	20,037	-	20,037
Changes in proportion and differences between contributions and proportionate share of contributions	270,096	-	270,096
Benefit payments and administrative costs paid subsequent to the measurement date	326,345	-	326,345
 Deferred of Inflows of Resources			
Difference between expected and actual experience	3,817	56,804	60,621
Changes of assumptions	-	5,456	5,456

Town of Red Springs, North Carolina
Notes to the Financial Statements (continued)
June 30, 2020

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

1. Pension Plan and Postemployment Obligations (continued)

c. Supplemental Retirement Income Plan for Law Enforcement Officers

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

Funding Policy. Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2020 were \$27,516. No amounts were forfeited.

d. Supplemental Retirement Income Plan for Employees not Engaged in Law Enforcement

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 Town employees not engaged in law enforcement. 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 is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes the pension trust fund financial statements for the Internal Revenue Code Section 401(k) plan that includes the Supplemental Retirement Income Plan for Employees not Engaged in Law Enforcement. 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. The Town's employees may make voluntary contributions to the plan. Contributions for the year ended June 30, 2020 were \$56,352, which consisted of \$29,500 from employees, and \$26,852 from the Town.

e. Other Postemployment Benefits

1. Healthcare Benefits

Plan Description. Under the terms of a Town resolution, the Town's policy provides that retirees may participate in the Town's healthcare plan upon retirement, provided they meet the requirements of North Carolina Local Governmental Employees' Retirement System (System) and are age 55 or older. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 75.

Benefits Provided. Employees hired on or before July 12, 2012, who retire under the North Carolina Local Governmental Employees' Retirement System (NCLGERS) with five consecutive years of creditable service and have attained age 55, who are actively employed with the Town at the time of retirement are eligible to remain on the Town's group plans for the remainder of their life. Employees hired after July 12, 2012 who have attained age 55 or have worked a minimum of 30 years with the Town can remain on the Town's group plans.

Town of Red Springs, North Carolina
Notes to the Financial Statements (continued)
June 30, 2020

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

1. Pension Plan and Postemployment Obligations (continued)

e. Other Postemployment Benefits (continued)

1. Healthcare Benefits (continued)

Employees hired before July 12, 2012, the Town will contribute to the cost of retiree insurance premiums based on the years of service with the Town using the following schedule:

<u>Years of Service at Retirement</u>	<u>Town Contributions</u>
30 or more	100%
25 - 29	75%
20 - 24	50%
0 - 23	0%

When the retiree becomes eligible for Medicare, coverage in the Town's group medical plan ceases. Retirees must select an individual Medicare Supplement and Part D prescription drug plan. The Town will reimburse the retiree based on the same percentages above. Employees hired after July 12, 2012 can stay on the Town's group plans at the cost of the retiree.

Membership of the HCB Plan consisted of the following at December 31, 2019, the date of the latest actuarial valuation:

	<u>Employees</u>
Inactive employees or beneficiaries currently receiving benefits	<u>13</u>
Active plan members	<u>45</u>
Total	<u><u>58</u></u>

Total OPEB Liability

The Town's total OPEB liability of \$2,165,153 was measured as of December 31, 2019 and was determined by an actuarial valuation as of that date.

Town of Red Springs, North Carolina
Notes to the Financial Statements (continued)
June 30, 2020

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

1. Pension Plan and Postemployment Obligations (continued)

e. Other Postemployment Benefits (continued)

1. Healthcare Benefits (continued)

Actuarial assumptions and other inputs. The total OPEB liability in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement unless otherwise specified:

Inflation	2.50 percent
Real wage growth	1.00 percent
Wage inflation	3.50 percent
Salary increases	
General employees	3.50% - 7.75%, average, including inflation
Law enforcement officers	3.50% - 7.35%, average, including inflation
Discount rate	
Prior measurement date	3.89 percent
Measurement date	3.50 percent
Healthcare cost trend rates	
Pre-medicare	7.00% for 2019 decreasing to an ultimate rate of 4.50% by 2026
Medicare	5.00% for 2019 decreasing to an ultimate rate of 4.50% by 2021

Changes in the OPEB Liability

	<u>Total OPEB Liability</u>
Balance at June 30, 2019	\$ 2,047,158
Changes for the year	
Service costs	39,007
Interest	78,947
Changes in benefit terms	1,541
Differences between expected and actual experience	34,200
Benefit payments	(35,700)
Net changes	<u>117,995</u>
Total OPEB Liability as of June 30, 2020	<u>\$ 2,165,153</u>

Changes in assumptions and other inputs reflect a change in the discount rate from 3.89% to 3.50%.

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

The actuarial assumptions used in the December 31, 2018 valuation were based on the results of an actuarial experience study for the period January 2010 through December 2014.

Town of Red Springs, North Carolina
Notes to the Financial Statements (continued)
June 30, 2020

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

1. Pension Plan and Postemployment Obligations (continued)

e. Other Postemployment Benefits (continued)

1. Healthcare Benefits (continued)

Sensitivity of the total OPEB liability to changes in the discount rate. The following presents the total OPEB liability of the Town, as well as what the Town's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.50 percent) or 1-point-percentage higher (4.50 percent) than the current discount rate.

	<u>1% Decrease</u>	<u>(3.50%) Discount rate</u>	<u>1% Increase</u>
Total OPEB Liability	\$ 1,873,399	\$ 2,165,153	\$ 2,530,684

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

	<u>1% Decrease</u>	<u>(3.50%) Discount rate</u>	<u>1% Increase</u>
Total OPEB Liability	\$ 2,509,104	\$ 2,165,153	\$ 1,888,599

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

For the year ended June 30, 2020, the Town recognized OPEB expense of \$81,507. At June 30, 2020, the Town reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflow of</u>	<u>Deferred Inflows of</u>
Differences between expected and actual experience	\$ 33,962	\$ 9,175
Changes of assumptions	-	119,096
Benefit payments and plan administrative expense made subsequent to the measurement date	49,893	-
Total	<u>\$ 83,855</u>	<u>\$ 128,271</u>

Town of Red Springs, North Carolina
Notes to the Financial Statements (continued)
June 30, 2020

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

1. Pension Plan and Postemployment Obligations (continued)

e. Other Postemployment Benefits (continued)

1. Healthcare Benefits (continued)

\$49,893 reported as deferred outflows of resources related to pensions resulting from benefit payments made and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total pension liability in the year ended June 30, 2020. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2020	\$ (64,764)
2021	(28,600)
2022	(2,515)
2023	-
2024	-
Thereafter	-

e. Other Postemployment Benefits (continued)

2. Other Employment Benefits

The Town has also elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, State-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest months' salary in a row during the 24 months prior to the employee's death, but the benefit may not exceed \$50,000 or be less than \$25,000. All death benefit payments are made from the Death Benefit Plan. The Town has no liability beyond the payment of monthly contributions. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount. The Town considers these contributions to be immaterial.

Town of Red Springs, North Carolina
Notes to the Financial Statements (continued)
June 30, 2020

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

1. Pension Plan and Postemployment Obligations (continued)

f. Deferred Outflows and Inflows of Resources

Deferred outflows of resources are comprised of the following:

Contributions to pension plan in current fiscal year	\$	326,345
Benefit payments made and administrative expenses for OPEB made subsequent to measurement date		49,893
Differences between expected and actual experience		219,404
Changes of assumptions		143,047
Net difference between projected and actual		20,037
Changes in proportion and differences between employer contributions and proportionate share of contributions		270,096
Total	\$	1,028,822

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

	Statement of Net Position	General Fund Balance sheet
Taxes receivable, less penalties (General Fund)	\$ -	\$ 76,697
Differences between expected and actual experience	65,979	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	128,369	-
Total	\$ 194,348	\$ 76,697

Town of Red Springs, North Carolina
Notes to the Financial Statements (continued)
June 30, 2020

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

2. 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 a self-funded risk-financing pool administered by the North Carolina League of Municipalities. These pools are reinsured through commercial companies for single occurrence claims against general liability, auto liability, police professional liability and public officials liability in excess of \$1,000,000; property in excess of \$500,000 and \$1,000,000 up to statutory limits, for workers' compensation. The property liability pool has an aggregate limit for the total property losses in a single year, with the reinsurance limit based upon a percentage of the total insurance values.

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

The Town does not have any flood insurance.

In accordance with G.S. 159-29, the Town's employees that have access to \$100 or more at any given time of the Town's funds are performance bonded through a commercial surety bond. The finance officer is individually bonded for \$75,000 and tax collector is individually bonded for \$10,000. The remaining employees that have access to funds are bonded under a blanket bond for \$10,000.

The Town of Red Springs ABC Board 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 ABC Board has commercial property, general liability, auto liability, workers' compensation, and employee health coverage. The ABC Board also has liquor legal liability. There have been no significant reductions in insurance coverage in the prior year and settled claims have not exceeded coverage in any of the past three fiscal years.

3. Claims, Judgments and Contingent Liabilities

At June 30, 2020, there were no outstanding suits against the Town. The Town attorney also stated they were not aware of any unasserted claims or assessments that must be disclosed.

Town of Red Springs, North Carolina
Notes to the Financial Statements (continued)
June 30, 2020

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

4. Long-Term Obligations

a. Installment Purchase

Governmental Activities:

The Town has a note payable to Branch Banking & Trust Company for the purchase of a street sweeper. The balance on the note at June 30, 2020 was \$125,724 to be paid in quarterly installments of \$7,836, including interest at 2.60%. The street sweeper is listed as collateral.

The Town has a note payable to USDA for the construction of a community center. The balance on the loan at June 30, 2020 was \$79,946 to be paid in annual installments of \$7,152, including interest at 4.25%.

The Town has a note payable to USDA for the construction of a community center. The balance on the loan at June 30, 2020 was \$49,022 to be paid in annual installments of \$4,292, including interest at 4.25%.

The Town has a note payable to Southern Bank & Trust for the purchase of a building. The balance of the note at June 30, 2020 was \$108,036 to be paid in monthly installments of \$3,218, including interest at 6.06%. The building is listed as collateral.

The Town has a note payable to USDA for the construction of a building. The balance on the loan at June 30, 2020 was \$86,469 to be paid in annual installments of \$9,345, including interest at 4.625%.

The Town has a note payable to USDA for the installation of an elevator. The balance on the loan at June 30, 2020 was \$30,457 to be paid in annual installments of \$5,506, including interest at 4.125%.

The Town has a note payable (\$25,000 - \$15,500 serviced by the General Fund) to Lumbee River EMC for the purchase of radio equipment. The balance on the note at June 30, 2020 was \$5,989 to be paid in monthly installments of \$219, including interest at 1.00%. The equipment is listed as collateral.

The Town has a note payable to Lumbee River EMC for the purchase of Chavis/Locklear Park. The balance on the note at June 30, 2020 was \$15,584 to be paid in monthly installments of \$458, including interest at 0.00%. The land is listed as collateral.

The Town has a note payable to USDA for the construction of a community center. The balance on the loan at June 30, 2020 was \$66,135 to be paid in annual installments of \$6,020, including interest at 4.25%.

The Town has a note payable to USDA for the purchase of a fire truck. The balance on the loan at June 30, 2020 of \$175,153 to be paid in annual installments of \$15,114, including interest at 3.75%.

Town of Red Springs, North Carolina
Notes to the Financial Statements (continued)
June 30, 2020

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

4. Long-Term Obligations (continued)

a. Installment Purchase (continued)

Annual debt service payments of the installment purchase agreements as of June 30, 2020, including interest, are as follows:

Years Ending <u>June 30:</u>	Governmental Activities	
	Principal	Interest
2021	\$ 82,284	\$ 26,756
2022	84,169	24,057
2023	85,204	21,292
2024	82,641	18,460
2025	80,307	16,517
2026-2030	112,519	27,769
2031-2035	146,099	30,389
2036-2039	69,292	16,886
Total	<u>\$ 742,515</u>	<u>\$ 182,126</u>

Business-type Activities:

Serviced by Enterprise Funds:

The Town has a note payable (\$25,000 - \$9,500 serviced by the Water Fund) to Lumbee River EMC for the purchase of radio equipment. The balance on the note at June 30, 2020 was \$3,709 to be paid in monthly installments of \$219, including interest at 1.00%. The equipment is listed as collateral.

The Town has an Electric Fund/Water Sewer Fund meter capital project loan to Branch Banking & Trust Company. The loan is a drawdown loan and was approved for \$850,000. The balance on the loan at June 30, 2020 was \$652,158. The loan is to be paid in annual installments of \$83,820, including interest of 2.69%.

Annual debt service payments of the installment purchase agreements as of June 30, 2020, including interest, are as follows:

Years Ending <u>June 30:</u>	Business-Type Activities	
	Principal	Interest
2021	\$ 66,008	\$ 17,812
2022	67,783	16,037
2023	69,607	14,213
2024	71,479	12,341
2025	73,402	10,418
2026-2030	307,588	21,389
Total	<u>\$ 655,867</u>	<u>\$ 92,211</u>

Town of Red Springs, North Carolina
Notes to the Financial Statements (continued)
June 30, 2020

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

6. Long-Term Obligations (continued)

b. General Obligation Indebtedness

At June 30, 2020, the Town did not have any general obligation debt outstanding.

At June 30, 2020, the Town of Red Springs had a legal debt margin of \$13,143,801.

c. Revolving Loans

In August 2012, the Town was approved for a \$358,533 State Revolving Loan. The term of the loan is schedule for 20 years, with annual principal payments of \$17,165 due May 1st of each year. As of June 30, 2020, the Town had drawn a total of \$240,307. \$ 240,307

In August 2012, the Town was approved for a \$429,630 State Revolving Loan, which would include \$214,815 of principal forgiveness. The term of the loan is schedule for 20 years, with annual principal payments of \$10,741 due May 1st of each year. As of June 30, 2020, the Town had drawn a total of \$129,812. 129,182

Total revolving loans \$ 369,489

Current annual debt service requirements to maturity for the revolving loan is as follows:

<u>Year Ending June 30</u>	<u>Principal</u>
2021	\$ 26,392
2022	26,392
2023	26,392
2024	26,392
2025	26,392
2026-2030	131,960
2031-2034	<u>105,569</u>
Total	<u><u>\$ 369,489</u></u>

d. Revenue Bonds

\$694,000 Water and Sewer Revenue Bonds, Series 2012, issued to help finance wastewater treatment plant improvements. Principal installments are due annually on June 1, at an annual interest rate of 4.375%. As of June 30, 2020, the balance of the revenue bonds was \$625,000.

Town of Red Springs, North Carolina
Notes to the Financial Statements (continued)
June 30, 2020

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

6. Long-Term Obligations (continued)

d. Revenue Bonds (continued)

The future payments of the revenue bond for the years ending June 30, 2020 are as follows:

Year Ending June 30	Principal	Interest
2021	\$ 10,000	\$ 27,344
2022	11,000	26,906
2023	11,000	26,425
2024	12,000	25,944
2025	12,000	25,419
2026-2030	70,000	118,606
2031-2035	87,000	101,850
2036-2040	110,000	80,938
2041-2045	135,000	54,688
2046-2050	167,000	22,575
Total	\$ 625,000	\$ 510,695

The Town was not in compliance with the covenants as to rates, fees, rentals and charges in Section 3.04 of the Bond Order, authorizing the issue of the Water and Sewer Revenue Bonds, Series 2011. Section 3.04 of the Bond Order requires the debt service coverage ratio to be no less than 110%.

Operating revenues	\$ 1,311,574
Operating expenses*	(1,250,922)
Operating income	60,652
Nonoperating revenues (expenses)**	(60,154)
Income available for debt service	498
Debt service, principal and interest	
paid (revenue bond only)	\$ 37,344
Debt service coverage ratio	1.33%

*This does not include the depreciation expense of \$425,276.

** This does not include revenue bond interest paid of \$48,103.

e. Capital Leases

Governmental Activities:

The Town has a capital lease (\$290,165 - \$142,083 serviced by the General Fund) with KS State Bank for the purchase of a vac truck. The balance on the lease at June 30, 2020 was \$116,049 to be paid in annual installments of \$31,858, including interest at 3.85%.

Town of Red Springs, North Carolina
Notes to the Financial Statements (continued)
June 30, 2020

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

6. Long-Term Obligations (continued)

e. Capital Leases (continued)

Governmental Activities: (continued)

The Town has a capital lease with an original amount of \$92,658 with Caterpillar Financial for the purchase of an excavator and attachments. The balance on the lease at June 30, 2020 was \$68,357 to be paid in annual installments of \$23,061, including interest at 3.85%.

Annual debt service payments of the capital lease agreements as of June 30, 2020, including interest, are as follows:

Years Ending	Governmental Activities	
June 30:	Principal	Interest
2021	\$ 50,238	\$ 4,468
2022	49,798	3,414
2023	51,730	2,319
2024	32,640	1,181
Total	\$ 184,406	\$ 11,381

Business-type Activities:

The Town has a capital lease (\$290,165 - \$142,082 serviced by the Water/Sewer Fund) with KS State Bank for the purchase of a vac truck. The balance on the lease at June 30, 2020 was \$116,049 to be paid in annual installments of \$31,858, including interest at 3.85%.

The Town has a capital lease with an original amount of \$266,785 with Altec Industries, Inc. for the purchase of a derrick digger truck. The balance on the lease at June 30, 2020 was \$217,008 to be paid in annual installments of \$49,777, including interest at 4.75%.

Annual debt service payments of the capital lease agreements as of June 30, 2020, including interest, are as follows:

Years Ending	Business-Type Activities	
June 30:	Principal	Interest
2021	\$ 66,860	\$ 14,776
2022	69,788	11,847
2023	72,847	8,788
2024	76,041	5,593
2025	47,521	2,257
Total	\$ 333,057	\$ 43,260

Town of Red Springs, North Carolina
Notes to the Financial Statements (continued)
June 30, 2020

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

6. Long-Term Obligations (continued)

e. Changes in Long-Term Liabilities

The following is a summary of changes in the Town's long-term obligations as of June 30, 2020.

Governmental activities:	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Direct placement					
Installment purchase	\$ 819,750	\$ -	\$ (77,235)	\$ 742,515	\$ 82,709
Capital leases	-	237,740	(53,334)	184,406	51,760
Compensated absences	133,710	-	(36,498)	97,212	10,000
Net pension obligation (LGERS)	499,725	50,482	-	550,207	-
Total pension obligation (LEO)	178,613	75,163	-	253,776	-
Net OPEB Liability	1,447,041	187,323	-	1,634,364	-
Governmental activity long-term liabilities	<u>\$ 3,078,839</u>	<u>\$ 550,708</u>	<u>\$ (167,067)</u>	<u>\$ 3,462,480</u>	<u>\$ 144,469</u>
Business-type activities:					
Water and Sewer Fund:					
Direct placement					
Installment purchase	\$ 339,993	\$ -	\$ (33,069)	\$ 306,924	\$ 34,275
Capital leases	-	145,083	(29,034)	116,049	27,389
Revolving loans	369,489	-	(26,392)	343,097	27,906
Revenue bonds	635,000	-	(10,000)	625,000	10,000
Compensated absences	34,322	-	(14,414)	19,908	5,000
Net pension obligation (LGERS)	130,467	17,669	-	148,136	-
Net OPEB Liability	283,696	16,352	-	300,048	-
Total Water and Sewer Fund	<u>1,792,967</u>	<u>179,104</u>	<u>(112,909)</u>	<u>1,859,162</u>	<u>104,570</u>
Electric Fund:					
Direct placement					
Installment purchase	\$ 381,083	\$ -	\$ (32,139)	\$ 348,944	\$ 33,004
Capital leases	-	266,785	(49,777)	217,008	39,470
Compensated absences	29,889	-	(14,898)	14,991	5,000
Net pension obligation (LGERS)	107,131	15,986	-	123,117	-
Net OPEB Liability	218,166	12,575	-	230,741	-
	<u>736,269</u>	<u>295,346</u>	<u>(96,814)</u>	<u>934,801</u>	<u>77,474</u>
Total business-type activities	<u>\$ 2,529,236</u>	<u>\$ 474,450</u>	<u>\$ (209,723)</u>	<u>\$ 2,793,963</u>	<u>\$ 182,044</u>

Town of Red Springs, North Carolina
Notes to the Financial Statements (continued)
June 30, 2020

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

C - Interfund Balances and Activity

Balances Due to/from Other Funds

Balances due to/from other funds at June 30, 2020, consist of the following:

Due to the General Fund for the allocation of costs from the:	
Capital Reserve Fund	\$ 164,490
Water Treatment Plant Project Fund	155,000
Total	\$ 319,490
Due to the Electric Fund for the allocation of costs from the:	
General Fund	\$ 93,351
Water and Sewer Fund	176,643
Total	\$ 269,994
Due to the Water and Sewer Fund for the allocation of costs from the:	
General Fund	\$ 76,167
Total	\$ 76,167

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, 2020, consist of the following:

	Amount
From the NC Step Planning Investment Phase Project Fund to the General Fund to close the fund at June 30, 2020.	\$ 15,000
From the Electric/Water Smart Meter Project Fund to the Water and Sewer Fund to close the inactive fund at June 30, 2020.	9,103
From the Water and Sewer Capital Project Fund to the Water and Sewer Fund to close one of the capital projects at June 30, 2020.	12,967
From the General Fund to the Farmers Market Rural Development Grant Fund to close the inactive fund at June 30, 2020.	34,199
From the General Fund to the Water and Sewer Fund for operating cash due to COVID-19 concerns.	30,000
From the General Fund to the Farmers Market Project Phase II to close the inactive fund at June 30, 2020.	65,900
	\$ 167,169

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 matching funds for various grant programs.

Town of Red Springs, North Carolina
Notes to the Financial Statements (continued)
June 30, 2020

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

D - Net Investment in Capital Assets

	Governmental	Business-Type
Capital assets	\$ 3,554,117	\$ 10,747,722
less: long-term debt	(926,921)	(1,957,022)
Net investment in capital asset	\$ 2,627,196	\$ 8,790,700

E - Fund Balance

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

<i>Total fund balance - General Fund</i>	\$ 2,100,964
Less:	
Stabilization by State Statute	848,143
Streets-Powell Bill	7,671
Capital projects and grants	21,102
Remaining fund balance	\$ 1,224,048

NOTE 4 - JOINTLY GOVERNED ORGANIZATIONS

The Town, in conjunction with twenty other local governments, is a member of the North Carolina Town Electric Agency (Electric Agency). The Electric Agency was formed to enable municipalities that own electric distribution systems to finance, construct, own, operate, and maintain generation and transmission facilities. Each participating government appoints one commissioner to the Electric Agency's governing board. The twenty-one members, who receive power from the Electric Agency, have signed power sales agreements to purchase a specified share of the power generated by the Electric Agency. Except for the power sales purchase requirements, no local government participant has any obligation, entitlement, or residual interest. The Town's purchases of power for the fiscal year ended June 30, 2020 were \$2,848,417.

The Town, in conjunction with several other municipalities and counties participates in the Lumber River Council of Governments (COG). The participating governments established the Council to coordinate various funding received from federal and state agencies. Each participating government appoints one member to the Council's governing board. The Town paid \$1,131 to the Council during the fiscal year ended June 30, 2020.

Town of Red Springs, North Carolina
Notes to the Financial Statements (continued)
June 30, 2020

NOTE 5 - JOINT VENTURES

The Town and the members of the Town's fire department each appoint two members to the five-member local board of trustees for the Firemen's Relief Fund. The State Insurance Commissioner appoints one additional member to the local board of trustees. The Firemen's Relief Fund is funded by a portion of the fire and lightning insurance premiums that insurers remit to the State. The State passes these moneys to the local board of the Firemen's Relief Fund. The funds are used to assist fire fighters in various ways. The Town obtains an ongoing financial benefit from the Fund for the on-behalf of payments for salaries and fringe benefits made to members of the Town's fire department by the board of trustees. The participating governments do not have any equity interest in the joint venture, so no equity has been reflected in the financial statements at June 30, 2020. The Firemen's Relief Fund does not issue separate audited financial statements. Instead, the local board of trustees files an annual financial report with the State Firemen's Association. This report can be obtained from the Association at 323 West Jones Street, Suite 401, Raleigh, North Carolina 27603.

NOTE 6 - SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES

Federal and State Assisted Programs

The Town has received proceeds from several Federal and State grants. Periodic audits of these grants are required, and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant monies to the grantor agencies. Management believes that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant monies.

NOTE 7 - RESTATEMENTS

Prior Period Adjustments

During the fiscal year ended June 30, 2020, the Town decided to classify the Sanitation Fund as a governmental fund. Formerly classified a proprietary fund, this change in classification resulted in an adjustment to the beginning net fund balance of the General Fund and beginning net position of business-type activities in the Statement of Activities and Statement of Net Position. The net effect of the adjustment to the respective funds was approximately \$94,190.

During the fiscal year ended June 30, 2020, the Town determined that fund balance at July 1, 2019 was understated by \$160,584 in error in the General Fund. Approximately \$94,190 of the understated was related to moving the Sanitation Fund into the General Fund at July 1, 2019. The remaining difference was attributed to errors in due to/due from accounts. An adjustment to the beginning fund balance in the General Fund has been recorded in the amount of \$160,584. The net effect of the adjustment increased beginning fund balance by \$160,584.

During the fiscal year ended June 30, 2020, the Town determined that net position at July 1, 2019 was overstated by \$415,528 in error in the Water and Sewer Fund. The overstatement was mostly attributed to errors in overstatement of accounts receivable. Therefore, an adjustment to the beginning fund balance in the Water and Sewer Fund has been recorded in the amount of \$415,528. The net effect of the adjustment decreased beginning net position by \$415,528.

During the fiscal year ended June 30, 2020, the Town determined that net position at July 1, 2019 was overstated by \$180,348 in error in the Electric Fund. The overstatement was mostly attributed to errors in overstatement of accounts receivable. Therefore, an adjustment to the beginning fund balance in the Electric Fund has been recorded in the amount of \$180,348. The net effect of the adjustment decreased beginning net position by \$180,348.

NOTE 8 - SUBSEQUENT EVENTS

Subsequent events were evaluated through October 16, 2020, which is the date the financial statements were available to be issued.

Required Supplementary Financial Data

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

- Schedule of Proportionate Share of Net Pension Liability for Local Government Employees' Retirement System.
- Schedule of Contributions to Local Government Employees' Retirement System.
- Schedule of Changes in Total Pension Liability.
- Schedule of Total Pension Liability as a Percentage of covered Payroll.
- Schedule of Changes in Total OPEB Liability and Related Ratios.

Town of Red Springs, North Carolina
Town of Red Springs' Proportionate Share of Net Pension Liability (Asset)
Required Supplementary Information
Last Seven Fiscal Years

Local Government Employees' Retirement System

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Red Springs' proportion of the net pension liability (asset) (%)	0.0301%	0.0311%	0.0299%	0.0315%	0.0315%	0.03212%	0.02900%
Red Springs' proportion of the net pension liability (asset) (\$)	\$ 821,460	\$ 737,324	\$ 457,247	\$ 668,536	\$ 141,505	\$ (189,426)	\$ 349,561
Red Springs' covered-employee payroll	\$ 2,096,901	\$ 2,070,244	\$ 1,951,780	\$ 1,854,259	\$ 1,775,143	\$ 1,778,788	\$ 1,680,542
Red Springs' proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	39.17%	35.62%	23.43%	36.05%	7.97%	-10.65%	20.80%
Plan fiduciary net position as a percentage of the total pension liability.**	91.63%	94.18%	91.47%	98.09%	99.07%	102.64%	94.35%

* 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 Red Springs, North Carolina
Town of Red Springs' Contributions
Required Supplementary Information
Last Seven Fiscal Years

Local Government Employees' Retirement System

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 332,419	\$ 307,233	\$ 297,558	\$ 276,313	\$ 250,548	\$ 247,240	\$ 244,397
Contributions in relation to the contractually required contribution	332,419	307,233	297,558	276,313	250,548	247,240	244,397
Contribution deficiency (excess)	<u>\$ -</u>						
Red Springs' covered payroll	\$ 2,172,659	\$ 2,096,901	\$ 2,070,244	\$ 1,951,780	\$ 1,854,259	\$ 1,775,143	\$ 1,778,788
Contributions as a percentage of covered-employee payroll	15.30%	14.65%	14.37%	14.16%	13.51%	13.93%	13.74%

Town of Red Springs, North Carolina
Schedule of Changes in Total Pension Liability
Law Enforcement Officer's Special Separation Allowance
June 30, 2020

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Beginning balance	\$ 178,614	\$ 165,127	\$ 241,793	\$ 240,656
Service Cost	13,065	11,965	12,298	5,902
Interest on the total pension liability	6,469	5,189	9,314	7,314
Differences between expected and actual experience in the measurement of the total pension liability	52,558	2,950	(107,075)	3,927
Changes of assumptions or other inputs	4,877	(4,810)	9,770	(1,006)
Benefit payments	<u>(1,807)</u>	<u>(1,807)</u>	<u>(973)</u>	<u>(15,000)</u>
Ending balance of the total pension liability	<u>\$ 253,776</u>	<u>\$ 178,614</u>	<u>\$ 165,127</u>	<u>\$ 241,793</u>

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

Town of Red Springs, North Carolina
Schedule of Total Pension Liability as a Percentage of Covered Payroll
Law Enforcement Officer's Special Separation Allowance
June 30, 2020

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total pension liability	\$ 253,776	\$ 178,613	\$ 165,127	\$ 315,969
Covered payroll	710,048	637,885	630,403	689,233
Total pension liability as a percentage of covered payroll	35.74%	28.00%	26.19%	45.84%

Notes to the schedules:

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

Town of Red Springs, North Carolina
Schedule of Changes in the Total OPEB Liability
and Related Ratios
June 30, 2020

Total OPEB Liability	<u>2020</u>	<u>2019</u>	<u>2018</u>
Service Cost	\$ 39,007	\$ 41,702	\$ 47,799
Interest	78,947	73,347	66,977
Changes of benefit terms	-	-	-
Differences between expected and actual experience	34,200	19,682	(29,872)
Changes of assumptions or other inputs	1,541	(111,514)	(203,839)
Benefit payments	(35,700)	(72,133)	(20,160)
Net change in total OPEB liability	<u>117,995</u>	<u>(48,916)</u>	<u>(139,095)</u>
Total OPEB Liability - Beginning	<u>2,047,158</u>	<u>2,096,074</u>	<u>2,235,169</u>
Total OPEB Liability - Ending	<u>\$ 2,165,153</u>	<u>\$ 2,047,158</u>	<u>\$ 2,096,074</u>

Notes to the Schedule

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

<u>Fiscal Year</u>	<u>Rate</u>
2020	3.50%
2019	3.89%
2018	3.56%

Individual Fund Statements and Schedules

General Fund

Town of Red Springs, North Carolina
General Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance -
Budget and Actual
For the Year Ended June 30, 2020

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Ad valorem taxes:			
Taxes	\$	\$ 1,205,263	\$
Penalties and interest		29,753	
Total	<u>1,222,200</u>	<u>1,235,016</u>	<u>12,816</u>
Other taxes and licenses:			
License and fees		415	
Fire district tax		167,898	
Total	<u>104,525</u>	<u>168,313</u>	<u>63,788</u>
Unrestricted intergovernmental:			
Local option sales tax		891,356	
Utility franchise tax		199,239	
ABC profit distribution		27,157	
Excise tax on motor fuels		14,888	
Beer and wine tax		14,163	
Solid waste disposal tax		2,517	
Court costs		3,189	
Total	<u>1,111,900</u>	<u>1,152,509</u>	<u>40,609</u>
Restricted intergovernmental:			
FEMA funds		1,166,209	
Golden Leaf grant		64,969	
Powell bill allocation		96,941	
Other grants		5,000	
School resource officer reimbursement		92,229	
Total	<u>699,881</u>	<u>1,425,348</u>	<u>725,467</u>
Permits and fees:			
Building permits		36,203	
Zoning permits		330	
Total	<u>30,000</u>	<u>36,533</u>	<u>6,533</u>
Sales and services:			
Sanitation fees		331,615	
Utility reimbursement		9,093	
Cemetery revenues		10,355	
Recreation revenues		6,578	
Fire department		14,550	
Police department		6,510	
Property rentals		32,868	
Total	<u>\$ 562,600</u>	<u>\$ 411,569</u>	<u>\$ (151,031)</u>

Town of Red Springs, North Carolina
General Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance -
Budget and Actual (continued)
For the Year Ended June 30, 2020

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Investment earnings	\$ 2,150	\$ 6,993	\$ 4,843
Miscellaneous revenues:			
Insurance proceeds		15,088	
Sale of capital assets		43,261	
Other revenues		46,136	
Total	<u>103,288</u>	<u>104,485</u>	<u>1,197</u>
Total revenues	<u>3,836,544</u>	<u>4,540,766</u>	<u>704,222</u>
Expenditures:			
General government:			
Governing body:			
Salaries and benefits		5,393	
Other operating expenditures		33,671	
Total	<u>47,983</u>	<u>39,064</u>	<u>8,919</u>
Finance:			
Salaries and employee benefits		136,643	
Other operating expenditures		161,552	
Total	<u>357,340</u>	<u>298,195</u>	<u>59,145</u>
Human resources:			
Salaries and employee benefits		38,877	
Other operating expenditures		14,387	
Total	<u>59,169</u>	<u>53,264</u>	<u>5,905</u>
Legal:			
Salaries and employee benefits		30,964	
Total	<u>35,375</u>	<u>30,964</u>	<u>4,411</u>
Administration:			
Salaries and benefits		87,348	
Other operating expenditures		65,282	
Total	<u>157,156</u>	<u>152,630</u>	<u>4,526</u>
Public buildings:			
Salaries and employee benefits		11,395	
Other operating expenditures		162,111	
Capital outlay		102,550	
Total	<u>360,131</u>	<u>276,056</u>	<u>84,075</u>
Total general government	<u>\$ 1,017,154</u>	<u>\$ 850,173</u>	<u>\$ 166,981</u>

Town of Red Springs, North Carolina
General Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance -
Budget and Actual (continued)
For the Year Ended June 30, 2020

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Public Safety:			
Police:			
Salaries and employee benefits	\$	\$ 957,204	\$
Other operating expenditures		161,882	
Total	<u>1,199,185</u>	<u>1,119,086</u>	<u>80,099</u>
Fire:			
Salaries and employee benefits		74,266	
Other operating expenditures		172,982	
Total	<u>256,188</u>	<u>247,248</u>	<u>8,940</u>
Planning and Zoning:			
Salaries and employee benefits		114,355	
Other operating expenditures		7,576	
Total	<u>133,189</u>	<u>121,931</u>	<u>11,258</u>
Total public safety	<u>1,588,562</u>	<u>1,488,265</u>	<u>100,297</u>
Transportation:			
Streets and highways:			
Salaries and benefits		299,702	
Other operating expenditures		351,153	
Capital outlay		296,578	
Total	<u>950,605</u>	<u>947,433</u>	<u>3,172</u>
Powell Bill expenditures:			
Salaries and benefits		14,610	
Contracted services		140,590	
Capital outlay		13,080	
Total	<u>189,903</u>	<u>168,280</u>	<u>21,623</u>
Total transportation	<u>1,140,508</u>	<u>1,115,713</u>	<u>24,795</u>
Cultural and recreation:			
Parks and recreation:			
Salaries and employee benefits		67,079	
Other operating expenditures		140,973	
Capital outlay		13,701	
Total	<u>\$ 270,007</u>	<u>\$ 221,753</u>	<u>\$ 48,254</u>

Town of Red Springs, North Carolina
General Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance -
Budget and Actual (continued)
For the Year Ended June 30, 2020

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Sanitation:			
Salaries and benefits	\$	\$ 188,489	\$
Other operating expenditures		122,624	
Total	<u>317,359</u>	<u>311,113</u>	<u>6,246</u>
Debt service:			
Principal		130,569	
Interest		37,384	
Total	<u>181,893</u>	<u>167,953</u>	<u>13,940</u>
Total expenditures	<u>4,515,483</u>	<u>4,154,970</u>	<u>360,513</u>
Revenues over (under) expenditures	<u>(678,939)</u>	<u>385,796</u>	<u>1,064,735</u>
Other financing sources (uses):			
Installment purchase proceeds	-	237,740	237,740
Transfers (to) from other funds	<u>(164,028)</u>	<u>(118,797)</u>	<u>45,231</u>
Total	<u>(164,028)</u>	<u>118,943</u>	<u>282,971</u>
Fund balance appropriated	842,967	-	842,967
Net change in fund balances	<u>\$ -</u>	504,739	<u>\$ 504,739</u>

**A Capital Reserve Fund is consolidated into the General Fund
for reporting purposes:**

Investment earnings	\$	2,275
Fund balance, beginning as previously reported		1,433,366
Prior period adjustment (Note 7)		<u>160,584</u>
Fund balance, beginning as restated		<u>1,593,950</u>
Fund balance, ending	\$	<u>2,100,964</u>

Town of Red Springs, North Carolina
Capital Reserve Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance -
Budget and Actual
For the Year Ended June 30, 2020

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Interest income	\$ -	\$ 2,275	\$ -
Total revenues	<u>-</u>	<u>2,275</u>	<u>-</u>
 Revenues over (under) expenditures	 <u>-</u>	 <u>2,275</u>	 <u>-</u>
 Revenues and other sources over (under) expenditures and other (uses)	 <u>\$ -</u>	 <u>2,275</u>	 <u>\$ -</u>
Change in net position		<u><u>\$ 2,275</u></u>	

Non-Major Governmental Fund

Town of Red Springs, North Carolina
Combining Balance Sheets for
Non-Major Governmental Funds
June 30, 2020

	<u>Special Revenue Funds</u>		<u>Capital Project</u>	
	<u>North Carolina Step Planning Investment Phase Project</u>	<u>Farmers Market Rural Development Grant</u>	<u>Farmers Market Project - Phase II</u>	<u>Total Non-Major Governmental Funds</u>
Assets:				
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -
Total assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Liabilities:				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances:				
Unassigned	-	-	-	-
Total fund balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Town of Red Springs, North Carolina
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Non-Major Governmental Funds
For the Fiscal Year Ended June 30, 2020

	<u>Special Revenue Funds</u>		<u>Capital Project</u>	
	<u>North Carolina Step Planning Investment Phase Project</u>	<u>Farmers Market Rural Development Grant</u>	<u>Farmers Market Project - Phase II</u>	<u>Total Non-Major Governmental Funds</u>
Revenues:				
Miscellaneous revenues	\$ 244	\$ 3	\$ -	\$ 247
Total revenues	<u>244</u>	<u>3</u>	<u>-</u>	<u>247</u>
Other financing sources (uses):				
Transfer from other funds	-	34,199	65,900	100,099
Transfer to other funds	(15,000)	-	-	(15,000)
Total other sources (uses)	<u>(15,000)</u>	<u>34,199</u>	<u>65,900</u>	<u>85,099</u>
Net change in fund balance	<u>(14,756)</u>	<u>34,202</u>	<u>65,900</u>	<u>85,346</u>
Fund balance, beginning	<u>14,756</u>	<u>(34,202)</u>	<u>(65,900)</u>	<u>(85,346)</u>
Fund balance, ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Town of Red Springs, North Carolina
North Carolina Step Planning Investment Phase Project
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
From Inception and For the Fiscal Year Ended June 30, 2020

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Actual Current Year</u>	<u>Total to Date</u>	<u>Variance Positive (Negative)</u>
Revenues:					
Restricted intergovernmental:					
NC Step Planning Investment Grants	\$ 125,000	\$ 124,213	\$ -	\$ 124,213	\$ (787)
Sales tax refund	-	306	-	306	306
Miscellaneous revenues	-	74	244	318	318
Total revenues	<u>125,000</u>	<u>124,593</u>	<u>244</u>	<u>124,837</u>	<u>(163)</u>
Expenditures:					
Economic and physical development:					
Grant expenditures	125,000	124,837	-	124,837	163
Total expenditures	<u>125,000</u>	<u>124,837</u>	<u>-</u>	<u>124,837</u>	<u>163</u>
Revenue over (under) expenditures	<u>-</u>	<u>(244)</u>	<u>244</u>	<u>-</u>	<u>-</u>
Other financing sources (uses):					
Transfers from Electric Fund	-	15,000	-	15,000	15,000
Transfers to General Fund	(15,000)	-	(15,000)	(15,000)	-
Fund balance appropriated	15,000	-	-	-	(15,000)
Total other sources (uses)	<u>-</u>	<u>15,000</u>	<u>(15,000)</u>	<u>-</u>	<u>-</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 14,756</u>	<u>(14,756)</u>	<u>\$ -</u>	<u>\$ -</u>
Fund balance, beginning			<u>14,756</u>		
Fund balance, ending			<u>\$ -</u>		

Town of Red Springs, North Carolina
Farmer's Market Rural Development Grant
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
From Inception and For the Fiscal Year Ended June 30, 2020

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Actual Current Year</u>	<u>Total to Date</u>	<u>Variance Positive (Negative)</u>
Revenues:					
Restricted intergovernmental:					
Farmer's market grant	\$ 99,000	\$ 99,000	\$ -	\$ 99,000	\$ -
Miscellaneous revenues	-	-	3	3	3
Total revenues	<u>99,000</u>	<u>99,000</u>	<u>3</u>	<u>99,003</u>	<u>3</u>
Expenditures:					
Economic and physical development:					
Grant expenditures	105,930	133,202	-	133,202	(27,272)
Total expenditures	<u>105,930</u>	<u>133,202</u>	<u>-</u>	<u>133,202</u>	<u>(27,272)</u>
Revenue over (under) expenditures	<u>(6,930)</u>	<u>(34,202)</u>	<u>3</u>	<u>(34,199)</u>	<u>(27,269)</u>
Other financing sources (uses):					
Transfers from General Fund	41,129	-	34,199	34,199	(6,930)
Fund balance appropriated	(34,199)	-	-	-	34,199
Total other sources (uses)	<u>6,930</u>	<u>-</u>	<u>34,199</u>	<u>34,199</u>	<u>27,269</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ (34,202)</u>	<u>34,202</u>	<u>\$ -</u>	<u>\$ -</u>
Fund balance, beginning			<u>(34,202)</u>		
Fund balance, ending			<u>\$ -</u>		

Town of Red Springs, North Carolina
Farmer's Market Project Phase II
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
From Inception and For the Fiscal Year Ended June 30, 2020

	<u>Project</u> <u>Authorization</u>	<u>Prior</u> <u>Years</u>	<u>Actual</u> <u>Current</u> <u>Year</u>	<u>Total to</u> <u>Date</u>	<u>Variance</u> <u>Positive</u> <u>(Negative)</u>
Revenues:					
Grant proceeds	\$ 63,247	\$ 50,368	\$ -	\$ 50,368	\$ 12,879
Total revenues	<u>63,247</u>	<u>50,368</u>	<u>-</u>	<u>50,368</u>	<u>12,879</u>
Expenditures:					
Construction	132,653	138,770	-	138,770	(6,117)
Engineering	42,068	10,498	-	10,498	31,570
Total expenditures	<u>174,721</u>	<u>149,268</u>	<u>-</u>	<u>149,268</u>	<u>25,453</u>
Revenue over (under) expenditures	<u>(111,474)</u>	<u>(98,900)</u>	<u>-</u>	<u>(98,900)</u>	<u>12,574</u>
Other financing sources (uses):					
Transfers from Electric Fund	111,474	33,000	-	33,000	(78,474)
Transfer from General Fund	65,900	-	65,900	65,900	-
Fund balance appropriated	(65,900)	-	-	-	65,900
Total other sources (uses)	<u>111,474</u>	<u>33,000</u>	<u>65,900</u>	<u>98,900</u>	<u>(12,574)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ (65,900)</u>	<u>65,900</u>	<u>\$ -</u>	<u>\$ -</u>
Fund balance, beginning			<u>(65,900)</u>		
Fund balance, ending			<u>\$ -</u>		

Enterprise Funds

Town of Red Springs, North Carolina
Electric Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non – GAAP)
For the Year Ended June 30, 2020

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Operating revenues:			
Charges for services:			
Electricity sales	\$	\$ 3,921,340	\$
Sales tax - lights		199,097	
Reconnection and late fees		49,227	
Miscellaneous revenues		10,186	
	<u>4,345,000</u>	<u>4,179,850</u>	<u>(165,150)</u>
Nonoperating revenues:			
Interest earnings		130	
Total	<u>409</u>	<u>130</u>	<u>(279)</u>
Total revenues	<u>4,345,409</u>	<u>4,179,980</u>	<u>(165,429)</u>
Expenditures:			
Electrical operations:			
Power purchases		2,848,417	
Salaries and benefits		568,172	
Other operating expenditures		426,942	
Capital outlay		294,535	
Total	<u>4,292,153</u>	<u>4,138,066</u>	<u>154,087</u>
Debt service:			
Interest and fees		18,918	
Principal retirement		81,916	
Total	<u>101,033</u>	<u>100,834</u>	<u>199</u>
Total expenditures	<u>4,393,186</u>	<u>4,238,900</u>	<u>154,286</u>
Revenues over (under) expenditures	<u>\$ (47,777)</u>	<u>\$ (58,920)</u>	<u>\$ (11,143)</u>

Town of Red Springs, North Carolina
Electric Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non – GAAP) (continued)
For the Year Ended June 30, 2020

	Budget	Actual	Variance Positive (Negative)
Other financing sources (uses):			
Loan proceeds	\$ 47,777	\$ 266,785	\$ 219,008
Total other financing sources (uses)	47,777	266,785	219,008
 Revenues and other sources over expenditures and other uses:			
	\$ -	207,865	\$ 207,865
 Reconciliation from budgetary basis (modified accrual) to full accrual:			
 Reconciling items:			
Capital outlay		294,535	
Depreciation		(123,963)	
Interest income		2,669	
Sales tax refund		5,531	
Decrease in compensated absences		14,898	
Increase in net pension liability		(15,986)	
Decrease in deferred outflows of resources - pensions		(16,581)	
Decrease in deferred inflows of resources - pensions		725	
Increase in OPEB liability		(12,574)	
Decrease in deferred outflows of resources - OPEB		(4,608)	
Decrease in deferred inflows of resources - OPEB		8,497	
Transfers in (out)		(5,405)	
Loan proceeds		(266,785)	
Principal retirement		81,916	
Total reconciling items		(37,131)	
Change in net position		\$ 170,734	

Town of Red Springs, North Carolina
Electric Capital Reserve Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non – GAAP)
For the Year Ending June 30, 2020

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Interest income	\$ -	\$ 2,669	\$ -
Total revenues	<u>-</u>	<u>2,669</u>	<u>-</u>
Revenues over (under) expenditures	<u>-</u>	<u>2,669</u>	<u>-</u>
Change in net position		<u>\$ 2,669</u>	

Town of Red Springs, North Carolina
Electric/Water Smart Meter Project Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non-GAAP)
From Inception and For the Year Ending June 30, 2020

	Project Authorization	Actual		Total to Date	Variance Positive (Negative)
		Prior Years	Current Year		
Revenues:					
Sales tax refund	\$ -	\$ 17,536	\$ 5,531	\$ 23,067	\$ 23,067
Total revenues	<u>-</u>	<u>17,536</u>	<u>5,531</u>	<u>23,067</u>	<u>23,067</u>
Expenditures:					
Engineering	23,824	15,455	-	15,455	8,369
Construction	359,448	431,419	15,479	446,898	(87,450)
Contingency	58,829	-	-	-	58,829
Administration	8,923	8	-	8	8,915
Total expenditures	<u>451,024</u>	<u>446,882</u>	<u>15,479</u>	<u>462,361</u>	<u>(11,337)</u>
Revenues over (under) expenditures	<u>(451,024)</u>	<u>(429,346)</u>	<u>(9,948)</u>	<u>(439,294)</u>	<u>11,730</u>
Other financing sources:					
Loan proceeds	450,000	444,699	-	444,699	(5,301)
Transfer to Water and Sewer Fund	(5,405)	-	(5,405)	(5,405)	-
Fund balance appropriated	5,405	-	-	-	(5,405)
Local funds	1,024	-	-	-	(1,024)
Total other sources (uses)	<u>451,024</u>	<u>444,699</u>	<u>(5,405)</u>	<u>439,294</u>	<u>(11,730)</u>
Revenues and other sources over (under) expenditures and other (uses)	<u>\$ -</u>	<u>\$ 15,353</u>	<u>\$ (15,353)</u>	<u>\$ -</u>	<u>\$ -</u>

The Town has one fund for this project, but it is split 50% for electric and 50% for water/sewer.

Town of Red Springs, North Carolina
Water and Sewer Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non-GAAP)
For the Year Ending June 30, 2020

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Operating revenues:			
Charges for services:			
Water sales	\$	\$ 575,075	\$
Sewer charges		713,982	
Water and sewer taps		9,550	
Other operating revenues		12,967	
Total	<u>1,560,742</u>	<u>1,311,574</u>	<u>249,168</u>
Nonoperating revenues:			
Interest earnings		57	
Total nonoperating revenues	<u>100</u>	<u>57</u>	<u>(43)</u>
Total revenues	<u>1,560,842</u>	<u>1,311,631</u>	<u>249,125</u>
Expenditures:			
Water treatment and distribution:			
Water department:			
Salaries and benefits		365	
Supplies		120,285	
Other operating expenditures		48,442	
Total	<u>98,837</u>	<u>169,092</u>	<u>(70,255)</u>
Water treatment plant:			
Salaries and benefits		308,269	
Chemicals		42,511	
Other operating expenditures		32,221	
Capital outlay		48,105	
Total	<u>498,333</u>	<u>431,106</u>	<u>67,227</u>
Total water treatment and distribution	<u>597,170</u>	<u>600,198</u>	<u>(3,028)</u>
Waste collection and treatment:			
Sewer department:			
Salaries and benefits		248,546	
Supplies		29,340	
Other operating expenditures		50,556	
Capital outlay		147,083	
Total	<u>\$ 513,465</u>	<u>\$ 475,525</u>	<u>\$ 37,940</u>

Town of Red Springs, North Carolina
Water and Sewer Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non-GAAP) (continued)
For the Year Ending June 30, 2020

	Budget	Actual	Variance Positive (Negative)
Expenditures (continued):			
Wastewater treatment plant:			
Salaries and benefits	\$	\$ 105,894	\$
Chemicals		46,097	
Other operating expenditures		186,321	
Total	454,531	338,312	116,219
Total waste collection and treatment	967,996	813,837	154,159
Debt service:			
Principal retirement		98,495	
Interest and fees		48,103	
Total	140,500	146,598	(6,098)
Total expenditures	1,705,666	1,560,633	145,033
Revenues over (under) expenditures	(144,824)	(249,002)	(104,178)
Other financing sources (uses):			
Transfers in (out)	100,495	52,362	(48,133)
Insurance proceeds	44,329	11,713	(32,616)
Loan proceeds	-	145,083	145,083
Total	144,824	209,158	64,334
Revenues and other sources over expenditures and other uses:	\$ -	(39,844)	\$ (39,844)
Reconciliation from budgetary basis (modified accrual) to full accrual:			
Reconciling items:			
Capital outlay		195,188	
Depreciation		(425,276)	
Loss on disposals of capital assets		(60,242)	
Interest income		31	
Transfers in (out)		(13,259)	
Capital contributions		612,402	
Decrease in compensated absences		14,414	
Increase in net pension liability		(17,669)	
Decrease in deferred outflows of resources - pensions		(18,326)	
Decrease in deferred inflows of resources - pensions		801	
Increase in OPEB liability		(16,352)	
Decrease in deferred outflows of resources - OPEB		(5,992)	
Decrease in deferred inflows of resources - OPEB		11,049	
Loan proceeds		(145,083)	
Principal retirement		98,495	
Total reconciling items		230,181	
Change in net position		\$ 190,337	

Town of Red Springs, North Carolina
Utility Capital Reserve Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non - GAAP)
For the Year Ended June 30, 2020

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Interest income	\$ -	\$ 31	\$ -
Total revenues	<u>-</u>	<u>31</u>	<u>31</u>
Revenues over (under) expenditures	<u>-</u>	<u>31</u>	<u>31</u>
Other financing sources:			
Transfer to Water and Sewer Fund	(292)	(292)	-
Total other financing sources (uses)	<u>(292)</u>	<u>(292)</u>	<u>-</u>
Fund balance appropriated	292	-	(292)
Revenues and other sources over (under) expenditures and other (uses)	<u>\$ -</u>	<u>(261)</u>	<u>\$ (261)</u>
Change in net position		<u><u>\$ (261)</u></u>	

Town of Red Springs, North Carolina
Water and Sewer Capital Project Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non - GAAP)
From Inception and For the Year Ended June 30, 2020

	Project Authorization	Prior Years	Actual Current Year	Total to Date	Variance Positive (Negative)
Revenues:					
Rural Center Economic Development					
Planning Grant	\$ 40,000	\$ 22,500	\$ -	\$ 22,500	\$ (17,500)
NCDENR grant	150,000	-	69,734	69,734	(80,266)
CDBG grant	1,988,741	-	42,668	42,668	(1,946,073)
NCORR grant	500,000	-	500,000	500,000	-
Total revenues	<u>2,678,741</u>	<u>22,500</u>	<u>612,402</u>	<u>634,902</u>	<u>(2,043,839)</u>
Expenditures - Rural Center grant					
Grant administration and review	3,000	27,310	-	27,310	(24,310)
Optimization report	57,000	49,190	-	49,190	7,810
Total	<u>60,000</u>	<u>76,500</u>	<u>-</u>	<u>76,500</u>	<u>(16,500)</u>
Expenditures - NCDENR grant					
Engineering/design	150,000	-	69,734	69,734	80,266
Expenditures - CDBG grant					
Engineering/design	212,533	-	33,182	33,182	179,351
Construction	1,392,324	-	-	-	1,392,324
Contingency	143,409	-	-	-	143,409
Administration	240,475	-	9,486	9,486	230,989
Total	<u>1,988,741</u>	<u>-</u>	<u>42,668</u>	<u>42,668</u>	<u>1,946,073</u>
Expenditures - NCORR grant					
Vac Truck payoff	241,792	-	-	-	241,792
Consulting	21,500	-	-	-	21,500
Total	<u>263,292</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>263,292</u>
Total expenditures	<u>2,462,033</u>	<u>76,500</u>	<u>112,402</u>	<u>188,902</u>	<u>2,273,131</u>
Revenues over (under) expenditures	<u>216,708</u>	<u>(54,000)</u>	<u>500,000</u>	<u>446,000</u>	<u>229,292</u>
Other financing sources:					
Transfer (to) from Water and Sewer Fund	20,000	66,967	(12,967)	54,000	34,000
Transfer (to) from General Fund	(236,708)	-	-	-	236,708
Total other financing sources (uses)	<u>(216,708)</u>	<u>66,967</u>	<u>(12,967)</u>	<u>54,000</u>	<u>34,000</u>
Revenues and other sources over (under) expenditures and other (uses)	<u>\$ -</u>	<u>\$ 12,967</u>	<u>\$ 487,033</u>	<u>\$ 500,000</u>	<u>\$ 263,292</u>

Town of Red Springs, North Carolina
Electric/Water Smart Meter Project Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non - GAAP)
From Inception and For the Year Ended June 30, 2020

	<u>Project Authorization</u>	<u>Actual</u>		<u>Total to Date</u>	<u>Variance Positive (Negative)</u>
		<u>Prior Years</u>	<u>Current Year</u>		
Revenues:					
Sales tax refund	\$ -	\$ 15,588	\$ 5,531	\$ 21,119	\$ 21,119
Total revenues	<u>-</u>	<u>15,588</u>	<u>5,531</u>	<u>21,119</u>	<u>21,119</u>
Expenditures:					
Engineering	21,176	13,738	-	13,738	7,438
Construction	319,509	383,484	15,479	398,963	(79,454)
Contingency	52,293	-	-	-	52,293
Administration	7,931	8	-	8	7,923
Total expenditures	<u>400,909</u>	<u>397,230</u>	<u>15,479</u>	<u>412,709</u>	<u>(11,800)</u>
Revenues over (under) expenditures	<u>(400,909)</u>	<u>(381,642)</u>	<u>(9,948)</u>	<u>(391,590)</u>	<u>9,319</u>
Other financing sources:					
Loan proceeds	400,000	395,288	-	395,288	(4,712)
Transfer to Water and Sewer Fund	(3,698)	-	(3,698)	(3,698)	-
Fund balance appropriated	3,698	-	-	-	(3,698)
Local funds	909	-	-	-	(909)
Total other sources (uses)	<u>400,909</u>	<u>395,288</u>	<u>(3,698)</u>	<u>391,590</u>	<u>(9,319)</u>
Revenues and other sources over (under) expenditures and other (uses)	<u>\$ -</u>	<u>\$ 13,646</u>	<u>\$ (13,646)</u>	<u>\$ -</u>	<u>\$ -</u>

The Town has one fund for this project, but it is split 50% for electric and 50% for water/sewer.

Town of Red Springs, North Carolina
Water Treatment Plant Project
Schedule of Revenues and Expenditures
Budget and Actual (Non - GAAP)
From Inception and For the Year Ended June 30, 2020

	Project	Actual		Total to	Variance
	Authorization	Prior	Current	Date	Positive
		Years	Year		(Negative)
Revenues:					
Grant proceeds	\$ 4,887,000	\$ -	\$ -	\$ -	\$ (4,887,000)
Total revenues	4,887,000	-	-	-	(4,887,000)
Expenditures:					
Interest	90,000	-	-	-	90,000
Construction	5,615,019	-	-	-	5,615,019
Engineering	970,000	173,363	198,237	371,600	598,400
Legal	50,000	-	-	-	50,000
Administration	10,000	15	232	247	9,753
Equipment	20,000	-	-	-	20,000
Contingency	551,981	-	-	-	551,981
Total expenditures	7,307,000	173,378	198,469	371,847	6,935,153
Revenues over (under) expenditures	(2,420,000)	(173,378)	(198,469)	(371,847)	2,048,153
Other financing sources:					
Loan proceeds	2,200,000	-	-	-	(2,200,000)
Transfer from General Fund	20,000	20,000	-	20,000	-
Transfer from Water Fund	200,000	200,000	-	200,000	-
Total other financing sources (uses)	2,420,000	220,000	-	220,000	(2,200,000)
Revenues and other financing sources over (under) expenditures and other (uses)	\$ -	\$ 46,622	\$ (198,469)	\$ (151,847)	\$ (151,847)

Other Schedules

This section contains additional information on property taxes.

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

Town of Red Springs, North Carolina
Schedule of Ad Valorem Taxes Receivable
June 30, 2020

<u>Fiscal Year</u>	<u>Uncollected Balances June 30, 2019</u>	<u>Additions</u>	<u>Collections and Credits</u>	<u>Uncollected Balances June 30, 2020</u>
2019-2020	\$ -	\$ 1,238,016	\$ 1,162,763	\$ 75,253
2018-2019	78,559	-	29,216	49,343
2017-2018	54,151	-	12,010	42,141
2016-2017	41,739	-	6,785	34,954
2015-2016	41,132	-	6,605	34,527
2014-2015	31,692	-	4,866	26,826
2013-2014	36,339	-	7,515	28,824
2012-2013	34,941	-	8,180	26,761
2011-2012	28,315	-	7,552	20,763
2010-2011	26,832	-	7,560	19,272
2009-2010	23,113	-	22,077	1,036
	<u>\$ 396,813</u>	<u>\$ 1,238,016</u>	<u>\$ 1,275,129</u>	<u>359,700</u>

Less: allowance for uncollectible accounts - General Fund	<u>283,003</u>
Ad valorem taxes receivable - net	<u><u>\$ 76,697</u></u>

Reconciliation with revenues:

Ad valorem taxes - General Fund	\$ 1,235,016
Reconciling items:	
Interest collected	(29,753)
Discounts, releases, and other credits	<u>69,866</u>
Subtotal	<u>40,113</u>
Total collections and credits	<u><u>\$ 1,275,129</u></u>

Town of Red Springs, North Carolina
Analysis of Current Year Tax Levy
For the Year Ended June 30, 2020

	Town-Wide Levy		Total Levy		
	Property Valuation	Rate	Total Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Property taxed at current rate	\$ 193,440,000	0.64	\$ 1,238,016	\$ 1,085,210	\$ 152,806
Total	<u>\$ 193,440,000</u>		<u>1,238,016</u>	<u>1,085,210</u>	<u>152,806</u>
Uncollected taxes at June 30, 2020			<u>(75,253)</u>	<u>(75,253)</u>	<u>-</u>
Current year's taxes collected			<u>\$ 1,162,763</u>	<u>\$ 1,009,957</u>	<u>\$ 152,806</u>
Current levy collection percentage			<u>93.92%</u>	<u>93.07%</u>	<u>100.00%</u>

Compliance Section

S. Preston Douglas & Associates, LLP

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Independent Auditor's Report

To the Honorable Mayor and
Members of the Board of Commissioners
Town of Red Springs, North Carolina

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Red Springs, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprises the Town of Red Springs' basic financial statements and have issued our report thereon dated October 16, 2020.

Internal Control over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be a significant deficiency (item 2020-002).

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be material weaknesses (item 2020-001).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Red Springs' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 2020-002.

Purpose of this Report

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

A handwritten signature in black ink that reads "S. Preston Douglas, III, CPA". The signature is written in a cursive style with a large initial "S" and a prominent "III" before the last name.

Lumberton, North Carolina
October 16, 2020

S. Preston Douglas & Associates, LLP

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Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; With OMB Uniform Guidance and the State Single Audit Implementation Act

Independent Auditor's Report

To the Honorable Mayor and
Members of the Board of Commissioners
Town of Red Springs, North Carolina

Report on Compliance for Each Major Federal Program

We have audited the Town of Red Springs' compliance with the types of compliance requirements described in the OMB *Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of the Town of Red Springs' major federal programs for the year ended June 30, 2020. The Town of Red Springs' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with Federal statutes and State statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Town of Red Springs' major federal programs based on our audit of the types of compliance requirements referred to above. 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. Those standards, the Uniform Guidance, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town of Red Springs' compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Town of Red Springs' compliance.

Opinion on Each Major State Program

In our opinion the Town of Red Springs complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with applicable sections of section the Uniform Guidance as described in the Audit Manual for Governmental Auditors in North Carolina and which are described in the accompanying schedule of findings and questioned costs as item 2020-003. Our opinion on each major state program is not modified with respect to these matters.

The Town of Red Springs' response to the noncompliance findings identified in our audit is described in the accompanying Corrective Action Plan. The Town of Red Springs' response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of Town of Red Springs is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Town of Red Springs' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Town of Red Springs' internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2020-003 that we consider to be a material weakness.

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.



Lumberton, North Carolina
October 16, 2020

S. Preston Douglas & Associates, LLP

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Report On Compliance For Each Major State Program; Report on Internal Control Over Compliance; In accordance with OMB Uniform Guidance; and the State Single Audit Implementation Act

Independent Auditor's Report

To the Honorable Mayor and
Members of the Board of Commissioners
Town of Red Springs, North Carolina

Report on Compliance for Each Major State Program

We have audited the Town of Red Springs' compliance with the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of the Town's major State programs for the year ended June 30, 2020. The Town of Red Springs' major State programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Town of Red Springs' major state programs based on our audit of the types of compliance requirements referred to above. 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 applicable sections of Title 2 US Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), as described in the *Audit Manual for Governmental Auditors in North Carolina*, and the State Single Audit Implementation Act. Those standards, Uniform Guidance, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about the Town of Red Springs' compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major State program. However, our audit does not provide a legal determination of the Town of Red Springs' compliance.

Opinion on Each Major State Program

In our opinion, the Town of Red Springs complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major State programs for the year ended June 30, 2020.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with applicable sections of section the Uniform Guidance as described in the Audit Manual for Governmental Auditors in North Carolina and which are described in the accompanying schedule of findings and questioned costs as items 2020-003. Our opinion on each major state program is not modified with respect to these matters.

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

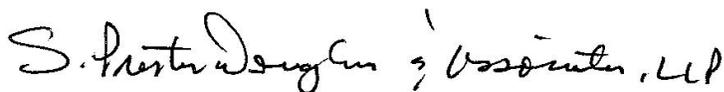
Report on Internal Control Over Compliance

The management of the Town of Red Springs is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Town of Red Springs' internal control over compliance with the types of requirements that could have a direct and material effect on a major State program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major State program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over compliance.

A deficiency in internal control over compliance 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, 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 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 correct, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2020-003 that we consider to be a significant deficiency.

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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Lumberton, North Carolina
October 16, 2020

**Town of Red Springs, North Carolina
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2020**

Section I. Summary of Auditor's Results
--

Financial Statements

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

Federal Awards

Internal control over major federal programs			
• Material weakness(es) identified?		<u> X </u> yes	<u> </u> no
• Significant deficiency(s) identified that are not considered to be material weaknesses		<u> </u> yes	<u> X </u> no

Type of auditor's report issued on compliance for major federal programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)	<u> X </u> yes <u> </u> no

Identification of major federal programs:

<u>Names of Federal Program or Cluster</u>	<u>CFDA Numbers</u>
Disaster Grants – Public Assistance Program	97.036

Dollar threshold used to distinguish between Type A And Type B programs	\$750,000
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Auditee qualified as low-risk auditee?	<u> </u> yes <u> X </u> no
--	-----------------------------------

Town of Red Springs, North Carolina
Schedule of Findings and Questioned Costs (continued)
For the Fiscal Year Ended June 30, 2020

Section I. Summary of Auditor's Results (continued)
--

State Awards

Internal control over major federal programs

- Material weakness(es) identified? X yes no

- Significant deficiency(s) identified that are not considered to be material weaknesses yes X no

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

Any audit finding disclosed that is required to be reported in accordance with the State Single Audit Implementation Act X yes no

Identification of major State programs:

Program Name
 Disaster Grants – Public Assistance Program*

*The State matching funds for Disaster Grants – Public Assistance Program was tested as a major program.

Town of Red Springs, North Carolina
Schedule of Findings and Questioned Costs (continued)
For the Fiscal Year Ended June 30, 2020

Section II. Financial Statement Findings

MATERIAL WEAKNESS

Finding 2020-001 Material Prior Period Adjustments

Criteria: Balance sheet accounts should be accurately presented to ensure that financial reporting is accurate and reliable.

Condition: Beginning fund balances and net position at July 1, 2019 were materially understated. Details of the prior period adjustments are shown in Note 7.

Effect: June 30, 2019 audited financial statements presented balances were materially misstated which could cause the users of the financial statements to be misinformed about the Town's financial position and operating results.

Cause: The Finance Director and Town Manager did not adequately review the June 30, 2019 audited financial statements and underlying accounting records before issuance.

Repeat Finding: This is a repeat finding from the immediate previous audit, 2019-003.

Recommendation: We recommend that the Finance Director perform a careful review of the audit report before issuance.

Views of responsible officials and planned corrective actions:

The Town agrees with the finding and agrees to adhere to the correction action plan on page 96.

SIGNIFICANT DEFICIENCY

Finding 2020-002 Noncompliance with Debt Service Coverage Ratio Requirements

Criteria: In accordance with Water and Sewer Revenue Bonds, Series 2011, Section 3.04 of the Bond Order requires the debt service coverage ratio to be no less than 110%.

Condition: The debt service coverage ratio was 1.33% during the year ended June 30, 2020.

Effect: The Town is not in compliance with the debt covenants.

Cause: The Finance Director and Town Manager did not review the debt service coverage ratio during the year to anticipate this finding.

Repeat Finding: This was not a repeat finding.

Recommendation: We recommend that the Finance Director perform a careful review of the debt service coverage ratio on a quarterly basis.

Views of responsible officials and planned corrective actions:

The Town agrees with the finding and agrees to adhere to the correction action plan on page 96.

Town of Red Springs, North Carolina
Schedule of Findings and Questioned Costs (continued)
For the Fiscal Year Ended June 30, 2020

Section III. Federal Award Findings and Questioned Costs

MATERIAL WEAKNESS

Finding 2020-003 Improper Recording of Federal and State Awards

Criteria: The Town must properly record transactions related to Federal and State awards.

Condition: The Town did not properly record transactions related to FEMA awards.

Effect: The Town required a journal entry to record material revenues and receivables relating to FEMA awards.

Cause: The Finance Director's uncertainty regarding the timing of when the grant money was "obligated".

Repeat Finding: This was not a repeat finding.

Recommendation: We recommend the finance director contact FEMA representatives for guidance on proper recording of FEMA awards.

Views of responsible officials and planned corrective actions:

The Town agrees with the finding and agrees to adhere to the correction action plan on page 97.

TOWN OF RED SPRINGS

Mayor Edward Henderson
Mayor Pro Tem Chris L.B. Edmonds
Commissioner Duron Burney
Commissioner Neal Lea'kes
Town Manager David Ashburn



Commissioner Caroline Sumpter
Commissioner Murray McKeithan
Commissioner Elma Patterson
Town Clerk Barbara McColl

Correction Action Plan For the Year Ended June 30, 2020

MATERIAL WEAKNESS

Finding 2020-001 Material Prior Period Adjustments

Name of Contact Person: Sharon McFarland, Finance Director

Corrective Action:

The prior period adjustments were caused by unadjusted differences and incorrect postings that had been in the General Ledger for years. We changed audit firms this year primarily with the expectation that the new audit firm would do a better job pointing out areas of improvements. The Finance Director and Town Manager became aware of the extent of the General Ledger issues when they were identified by the new audit firm during preliminary audit fieldwork. The Town identified and cleared liability accounts that were out of balance since 2015. Some Balance Sheet errors existed since the late 1990s. Additionally, the Town closed 8 funds in an effort to simplify the accounting records to avoid unnecessary complication and reliance on auditors. All financial records have been thoroughly reviewed by the Finance Director and Town Manager and we do not expect any additional clean up adjustments needed in the next fiscal year.

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

SIGNIFICANT DEFICIENCY

Finding 2020-002 Noncompliance with Debt Service Coverage Ratio Requirements

Name of Contact Person: Sharon McFarland, Finance Director

Corrective Action:

Key factors contributing to the underfunding of the debt service ratio for the Water and Sewer Revenue Bonds, Series 2011 was disruption from the COVID-19 pandemic and the Governor's EO 124 and 142, as well as the addition of a debt service payment for a vac truck in the Water/Sewer Department. The vac truck debt was retired in 2021 through a grant from the NC Office of Resiliency and Recovery and, currently, the Town is recovering the missed Covid-19 revenues while customers are making their payments on their COVID-19 repayment plans. Additionally, the Water/Sewer Department received some FEMA reimbursement funds, in the amount of \$96,674 during fiscal year 2021. This was a highly unusual circumstance and this deficiency is not expected to reoccur in fiscal year 2021. The Town will monitor the ratio on a quarterly basis.

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

**Correction Action Plan (continued)
For the Year Ended June 30, 2020**

MATERIAL WEAKNESS

Finding 2020-003 Improper Recording of Federal and State Awards

Name of Contact Person: Sharon McFarland, Finance Director

Corrective Action:

The Finance Director was not aware that the FEMA awards were to be recognized when the award has been both obligated and expenditures related to the award had been made. In the future FEMA events will be tracked through separate revenue and expenditure accounts and awards will be recognized when both the award is obligated, and funds have been expended. These procedures have not been followed in the past when FEMA reimbursement funds were obligated, expended, and received. Prior auditors did not indicate this as a finding nor was it a discussion item. Careful attention will be paid to these procedures in the future.

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

Town of Red Springs, North Carolina
Summary Schedule of Prior Year Audit Findings
For the Fiscal Year Ended June 30, 2020

Finding: 2019-001 – Segregation of Duties
Status: This finding has been corrected.

Finding: 2019-002 – Inadequate internal control over preparation of financial statements being audited.
Status: This finding has been corrected.

Finding: 2019-003 – Inadequate controls over reconciliation of records.
Status: This finding has not been corrected. Repeated as finding 2020-001.

Finding: 2019-004 – Deficit Fund Balance
Status: This finding has been corrected.

Finding: 2019-005 – Budget Violations
Status: This finding has been corrected.

Finding: 2018-001 – Segregation of Duties
Status: This finding has been corrected.

Finding: 2018-002 – Inadequate internal control over preparation of financial statements being audited.
Status: This finding has been corrected.

Finding: 2018-003 – Inadequate controls over reconciliation of records.
Status: This finding has not been corrected. Repeated as finding 2020-001.

Finding: 2018-004 – Deficit Fund Balance
Status: This finding has been corrected.

Finding: 2018-005 – Budget Violations
Status: This finding has been corrected.

Town of Red Springs, North Carolina
Schedule of Expenditures of Federal and State Awards
For the Fiscal Year Ended June 30, 2020

Grantor/Pass-through Grant/Program Title	Federal CFDA Number	Award Number/State Pass-through Grantor's Number	Federal (Direct Pass- through) Expenditures	State Expenditures
Federal Grants:				
<u>US Department of Homeland Security</u>				
Disatser Grants - Public Assistance - Hurricane Florence	97.036		\$ 874,657	\$ 291,552
<u>U.S. Department of Housing and Urban Development</u>				
Passed through NC Department of Environmental Quality Community Development Block Grant - Infrastructure	14.228	15-I-2750	42,668	-
Total Federal programs			917,325	291,552
State Grants:				
<u>N.C. Department of Environment and Natural Resources</u>				
Asset and Inventory Assessment Grant			-	69,734
<u>N.C. Department of Transportation</u>				
Powell Bill			-	168,281
Total State programs			-	238,015
Total Federal and State programs			\$ 917,325	\$ 529,567

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

Note 1: Basis of Presentation

The accompanying schedule of expenditures of Federal and State awards (SEFSA) includes the federal and State grant activity of the Town of Red Springs under the programs of the federal government and the State of North Carolina for the year ended June 30, 2020. The information in this SEFSA is presented in accordance with the requirements of Title 2 US Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and the State Single Audit Implementation Act. Because the Schedule presents only a selected portion of the operations of the Town of Red Springs, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Town of Red Springs.

Note 2: Summary of Significant Accounting Policies

Expenditures reported in the SEFSA are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3: Indirect Cost Rate

The Town of Red Springs has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.