

Town of Red Oak
Red Oak, North Carolina
Financial Statements
For The Year Ended June 30, 2021

BOARD OF COMMISSIONERS

Craig New

Scott Briley

Sandra Russ

MAYOR

Levell Langley

MAYOR PRO TEM

Tony Bennett

TOWN CLERK

Tracy Shearin

Town of Red Oak, North Carolina

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June 30, 2021

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American Institute of
Certified Public Accountants

Independent Auditor's Report

To the Honorable Mayor
and Members of the Town Council
Town of Red Oak, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of the Town of Red Oak, North Carolina, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers 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 opinion.

Opinion

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Town of Red Oak as of June 30, 2021, and the respective changes in financial position 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 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 an opinion on the financial statements that collectively comprise the basic financial statements of the Town of Red Oak, North Carolina. The individual fund budgetary schedules, and other schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Flowers & Stanley, LLP

Tarboro, North Carolina
November 16, 2021

Town of Red Oak

Management's Discussion and Analysis

As management of the Town of Red Oak, we offer readers of the Town of Red Oak's financial statements this narrative overview and analysis of the financial activities of the Town of Red Oak for the fiscal year ended June 30, 2021. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

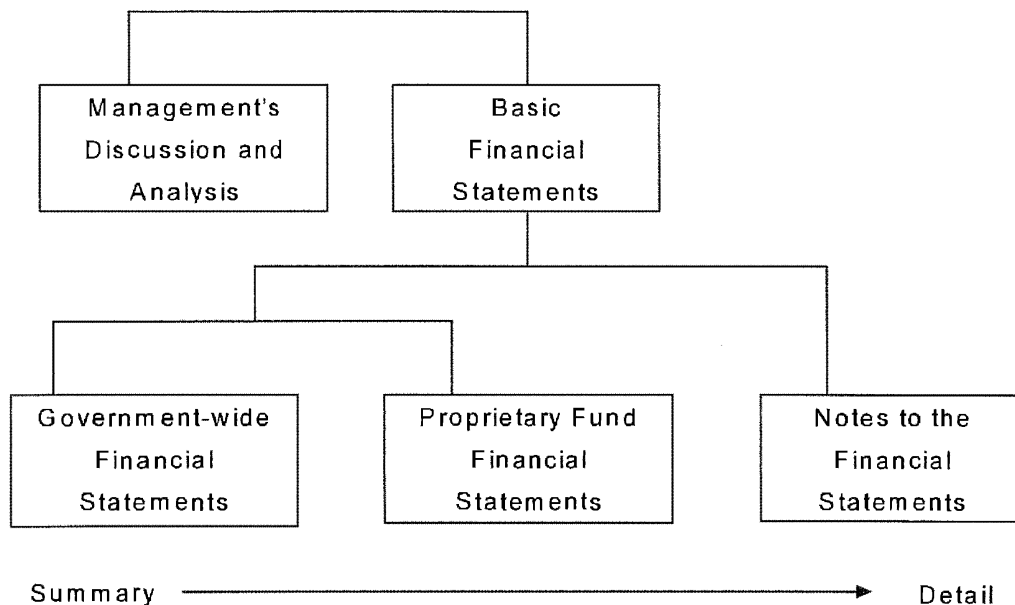
Financial Highlights

- The assets and deferred outflows of resources of the Town *exceeded* its liabilities and deferred inflows of resources at the close of the fiscal year by \$11,795,201 (**net position**).
- The government's total net position *increased* by \$502,693.
- As of the close of the current fiscal year, the Town of Red Oak's governmental fund reported an ending fund balance of \$7,806,683 an increase of \$185,572 in comparison with the prior year. Approximately 97% of this total fund balance amount, or \$7,593,121, is available for spending at the government's discretion (**unassigned**).
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$7,593,121.

Overview of the Financial Statements

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

Required Components of Annual Financial Report
Figure 1



Basic Financial Statements

The first two statements (Exhibits 1 and 2) in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the Town's financial status.

The next statements (Exhibits 3 through 5) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the Town's government. These statements provide more detail than the government-wide statements. There are two parts to the Fund Financial Statements: 1) the governmental funds statements and 2) the budgetary comparison statements.

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

Government-wide Financial Statements

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

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

The government-wide statements are divided into three categories: 1) governmental activities, 2) business-type activities, and 3) component units. The governmental activities include all of the Town's basic services such as public safety, parks and recreation, and general administration. Sales taxes and other various taxes received from the state finance most of these activities. The Town has no business-type activities or component units.

The government-wide financial statements are Exhibits 1 and 2 of this report.

Fund Financial Statements

The fund financial statements (see Figure 1) provide a more detailed look at the Town's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Red Oak, 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 funds of the Town of Red Oak are categorized as governmental funds.

Governmental Funds

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

The Town of Red Oak 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. To account for the difference between the budgetary basis of accounting and the modified accrual basis, a reconciliation showing the differences in the reported activities is shown at the end of the budgetary statement.

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.

Government-wide Financial Analysis

The Town of Red Oak's Net Position
Figure 2

	Governmental Activities	
	2021	2020
Assets		
Current and other assets	\$ 7,821,310	\$ 7,642,622
Capital assets	4,048,518	3,671,397
Deferred outflows of resources	-	-
Total Assets & deferred outflows of resources	<u>\$ 11,869,828</u>	<u>\$ 11,314,019</u>
Liabilities		
Long term liabilities	\$ 60,000	\$ -
Other liabilities	14,627	21,511
Deferred inflows of resources	-	-
Total Liabilities & deferred outflows of resources	<u>\$ 74,627</u>	<u>\$ 21,511</u>
Net Position		
Net investment in capital assets	\$ 4,048,518	\$ 3,671,397
Restricted net assets	203,664	163,587
Unrestricted net assets	7,543,019	7,457,524
Total Net Position	<u>\$ 11,795,201</u>	<u>\$ 11,292,508</u>

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets and deferred outflows of the Town of Red Oak exceeded liabilities and deferred inflows by \$11,795,201 as of June 30, 2021. The Town's net position increased by \$502,693 for the fiscal year ended June 30, 2021. A portion of the net position 34% reflects the Town's net investment in capital assets (e.g., land, buildings, machinery, and equipment). The Town of Red Oak uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. An additional portion of the Town of Red Oak's net position 2% represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$7,543,019 is unrestricted.

Town of Red Oak's Changes in Net Position
Figure 3

	Governmental Activities	
	2021	2020
Revenues:		
Program Revenues:		
Charges for services	\$ 57,839	\$ 31,576
Capital grants & contributions	61,900	-
General Revenues:		
Grants and contributions not restricted to specific programs	1,107,503	1,038,783
Other	10,067	3,430
Investment earnings	26,414	17,021
 Total Revenues	 \$ 1,263,723	 \$ 1,090,810
 Expenses:		
General Government	\$ 564,312	\$ 419,817
Public Safety	74,223	78,919
Culture & Recreation	122,495	127,461
 Total Expenses	 \$ 761,030	 \$ 626,197
 Increase (Decrease) in Net Position	 \$ 502,693	 \$ 464,613
 Net Position, July 1	 11,292,508	 10,827,895
 Net Position, June 30	 \$ 11,795,201	 \$ 11,292,508

Governmental Activities

Governmental activities, which include all the Town's operations, increased the Town's net position by \$502,693, which is an 8% increase over the prior year.

State shared intergovernmental revenues for the year were \$1,107,503.

Financial Analysis of the Town of Red Oak's Funds

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

Governmental Funds

The focus of the Town of Red Oak's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the Town of Red Oak's financing requirements. Specifically, unreserved fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The general fund is the only fund of the Town of Red Oak. At the end of the current fiscal year, Town of Red Oak's unassigned fund balance in the General Fund was \$6,593,121, while total fund balance reached \$7,806,683. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 612% of total general fund expenditures, while total fund balance represents 724%.

General Fund Budgetary Highlights.

During the fiscal year, the Town of Red Oak made no amendments to the original budget. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and 3) increases in appropriations that become necessary to maintain services.

Capital Asset and Debt Administration

Capital Assets

The Town of Red Oak's investment in capital assets for its governmental activities as of June 30, 2021, totals \$4,048,518 (net of accumulated depreciation).

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

	Governmental Activities	
	2021	2020
Land	\$ 294,878	\$ 294,878
Buildings	195,118	199,178
Other Improvements & Equipment	2,284,924	1,857,831
Sewer lines	1,273,598	1,319,510
Total Capital Assets	<u>\$ 4,048,518</u>	<u>\$ 3,671,397</u>

Management Discussion and Analysis
Town of Red Oak

Additional information on the Town's capital assets can be found in the basic financial statements.

Budget Highlights for the Fiscal Year Ending June 30, 2021

Governmental Activities

The Town has no planned significant budgetary or operational changes in the near future.

Requests for Information

This report is designed to provide an overview of the Town of Red Oak'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 Town Clerk, Tracy Shearin, P.O. Box A, Red Oak, North Carolina, 27868 or by calling (252) 443-1239.

Town of Red Oak, North Carolina
Statement of Net Position
June 30, 2021

Exhibit 1

Assets

Current Assets:

Cash and cash equivalents	\$ 7,607,748
Accounts Receivable	-
Intergovernmental receivables	203,664
Prepaid insurance	9,898
Total Current Assets	<u>\$ 7,821,310</u>

Non-current Assets:

Capital Assets:

Land	\$ 294,937
Other capital assets, net of depreciation	3,753,581
Total Capital Assets	<u>\$ 4,048,518</u>

Total Assets	<u>\$ 11,869,828</u>
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Deferred Outflows of Resources

<u>\$ -</u>

Liabilities

Current Liabilities:

Accounts payable & accrued expenses	\$ 14,627
Accrued salaries	-
Total Current Liabilities	<u>\$ 14,627</u>

Long-term Liabilities:

Accrued Longevity Pay	\$ 60,000
Total Liabilities	<u>\$ 74,627</u>

Deferred Inflows of Resources

<u>\$ -</u>

Net Position

Net investment in capital assets	\$ 4,048,518
Restricted:	
Stabilization by State Statute	203,664
Unrestricted	7,543,019
Total Net Position	<u>\$ 11,795,201</u>

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

Town of Red Oak, North Carolina
Statement of Activities
Year Ended June 30, 2021

Exhibit 2

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Charges for Services</u>	<u>Capital Grants & Contributions</u>	<u>Net (Expense) Revenue and Change in Net Position</u>
Primary Government:				
Governmental Activities:				
General Government	\$ 564,312	\$ 56,379	\$ -	\$ (507,933)
Public Safety	74,223	-	-	(74,223)
Cultural and Recreation	122,495	1,460	61,900	(59,135)
 Total Governmental Activities	<u>\$ 761,030</u>	<u>\$ 57,839</u>	<u>\$ 61,900</u>	<u>\$ (641,291)</u>
 General Revenues:				
Grants and Contributions not restricted to specific programs				\$ 1,107,503
Investment earnings, unrestricted				26,414
Miscellaneous				10,067
 Total General Revenues				<u>\$ 1,143,984</u>
 Change in Net Position				\$ 502,693
 Net Position, beginning				11,292,508
 Net Position, ending				<u>\$ 11,795,201</u>

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

Town of Red Oak, North Carolina
Balance Sheet
Governmental Funds
June 30, 2021

		Exhibit 3
		Major Funds
		General
Assets		
Cash and cash equivalents		\$ 7,607,748
Account Receivable		-
Intergovernmental receivables		203,664
Prepaid insurance		9,898
Total Assets		<u>\$ 7,821,310</u>
Current Liabilities		
Accounts payable		\$ 14,627
Total Liabilities		<u>\$ 14,627</u>
Fund Balances		
Non Spendable:		
Prepays		\$ 9,898
Restricted:		
Stabilization by State Statute		203,664
Committed:		
Public works		1,000,000
Unassigned		6,593,121
Total Fund Balances		<u>\$ 7,806,683</u>
Total Liabilities and Fund Balances		<u>\$ 7,821,310</u>
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position:		
Amounts Reported for Governmental Activities in the Statement of Net Position (Exhibit 1) are different because:		
Total Fund Balance, Governmental Funds		\$ 7,806,683
Capital assets used in governmental activities are not financial resources and therefore not reported in the funds:		
Gross capital assets at historical cost	\$ 5,780,875	
Accumulated depreciation	<u>(1,732,357)</u>	4,048,518
Long-term liabilities used in governmental activities are not financial uses and therefore not reported in the funds		
Accrued Longevity pay		(60,000)
Net Position of Governmental Activities		<u>\$ 11,795,201</u>

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

Town of Red Oak, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2021

Exhibit 4

**General
Fund**

Revenues:

Unrestricted intergovernmental	\$ 1,107,503
Restricted intergovernmental	\$ 61,900
Investment earnings	26,414
Sales and services	57,839
Miscellaneous	10,067
Total Revenues	<u>\$ 1,263,723</u>

Expenditures

General Government	\$ 504,857
Public Safety	74,223
Cultural and Recreational	499,071
Total Expenditures	<u>\$ 1,078,151</u>

Revenues Over (Under) Expenditures \$ 185,572

Other Financing Sources (Uses) -

Net Change in Fund Balance \$ 185,572

Fund Balance

Beginning of Year	7,621,111
End of Year	<u><u>\$ 7,806,683</u></u>

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities:

Amounts Reported for Governmental Activities in the Statement of Activities are different because:

Net changes in fund balance - total governmental funds \$ 185,572

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 outlay exceeded depreciation in the

Capital outlay expenditures which were capitalized	\$ 566,963	
Depreciation expense for governmental assets	<u>(189,842)</u>	377,121

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:

Longevity pay (60,000)

Total Change in Net Position of Governmental Activities \$ 502,693

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

Town of Red Oak, North Carolina
Statement of Revenues, Expenditures, and Changes in
Fund Balance - Annual Budget and Actual
General Fund
For the Year Ended June 30, 2021

Exhibit 5

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues:				
Unrestricted intergovernmental	\$ 1,002,800	\$ 1,002,800	\$ 1,107,503	\$ 104,703
Restricted intergovernmental	\$ -	\$ -	\$ 61,900	\$ 61,900
Investment earnings	16,000	16,000	26,414	10,414
Miscellaneous	10,700	10,700	67,906	57,206
Total Revenues	<u>\$ 1,029,500</u>	<u>\$ 1,029,500</u>	<u>\$ 1,263,723</u>	<u>\$ 234,223</u>
Expenditures:				
General Government	\$ 520,000	\$ 520,000	\$ 504,857	\$ 15,143
Public Safety	100,000	100,000	74,223	25,777
Cultural and Recreational	580,000	580,000	499,071	80,929
Total Expenditures	<u>\$ 1,200,000</u>	<u>\$ 1,200,000</u>	<u>\$ 1,078,151</u>	<u>\$ 121,849</u>
Revenues Over (Under) Expenditures	<u>\$ (170,500)</u>	<u>\$ (170,500)</u>	<u>\$ 185,572</u>	<u>\$ 356,072</u>
Other Financing Sources		\$ -	\$ -	\$ -
Fund balance appropriated	170,500	170,500	-	\$ (170,500)
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 185,572</u>	<u>\$ 185,572</u>
Fund Balance:				
Beginning of year			7,621,111	
End of year			<u>\$ 7,806,683</u>	

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

Town of Red Oak, North Carolina
Notes to the Financial Statements
For the Year Ended June 30, 2021

1. Summary of Significant Accounting Policies

The accounting policies of the Town of Red Oak 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 Oak is a municipal corporation, which is governed by an elected mayor and four-member Council.

The Town has no component units (legally separate entities for which the Town is financially accountable).

B. Basis of Presentation

Government-wide Statements

The statement of net position and the statement of activities display information about the primary government. These statements include the financial activities of the overall government. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. The Town of Red Oak has only governmental activities. The Town assesses no property taxes on its citizens.

The Statement of Activities presents a comparison between direct expenses and program revenues 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 made have been reversed for the statement of activities. Program revenues include fees and charges paid by the recipients of goods or services offered by the programs. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements

Fund financial statements provide information about a Town's funds. Separate fund statements for each fund category – *governmental and proprietary* – are presented as applicable. The Town has no fiduciary funds to report. The emphasis of fund financial statements is on major governmental and enterprise funds with any remaining governmental and enterprise funds aggregated and reported as nonmajor funds.

The Town of Red Oak has only a Governmental Fund and no Proprietary Fund.

General Fund. The General Fund is the general operating fund of the Town. It is used to account for all financial resources except those required to be accounted for in another fund. The primary revenues are State-shared revenues and interest. The primary expenditures are for public safety, cultural and recreation, and general government service.

Town of Red Oak, North Carolina
Notes to the Financial Statements
For the Year Ended June 30, 2021

C. Measurement Focus and Basis of Accounting

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

Government-wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the Town gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants and donations. 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 any 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including any special assessments. Likewise, general revenues include all taxes and grants not restricted to specific programs.

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 any principal and interest on general long-term debt, claims and judgments, and any compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Any 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 60 days after year-end. 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.

D. Budgetary Data

The Town's budget is adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund. All annual appropriations lapse at the fiscal-year end. The budget is prepared using the modified accrual basis of accounting, which is consistent with the accounting system used to record transactions. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds. Any revisions that alter total expenditures of any fund must be approved by the governing board. During the year, no amendments to the original budget were necessary. The budget ordinance must be adopted by July 1 of the fiscal year, or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

Town of Red Oak, North Carolina
Notes to the Financial Statements
For the Year Ended June 30, 2021

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

Deposits and Investments

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

State law [G.S. 159-30(c)] authorizes the Town to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high-quality issues of commercial paper and bankers' acceptances; and the North Carolina Capital Management Trust (NCCMT). The Town has no such investments at June 30, 2021.

Cash and Cash Equivalents

Cash and investments consist of checking, money market, and certificates of deposit. Therefore, all cash and investments are essentially demand deposits and considered cash and cash equivalents.

Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. Minimum capitalization cost is \$5,000 for all classes. 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. Any donated capital assets received after June 30, 2015 are recorded at acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	25-50
Improvements	25-30
Furniture and equipment	10
Infrastructure – Sewer lines	30

Town of Red Oak, North Carolina
Notes to the Financial Statements
For the Year Ended June 30, 2021

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 had no items that meet this criterion. In addition to liabilities, the Statement of Financial Position will sometimes report a separate section for deferred inflows of resource. 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 had no items that meet the criterion for this category.

Compensated Absences

The Town has no vacation or sick leave policy.

Net Position/Fund Balances

Net Position

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

Fund Balances

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

The governmental fund types classify fund balances as follows:

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

Town of Red Oak, North Carolina
Notes to the Financial Statements
For the Year Ended June 30, 2021

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.

Committed Fund Balance - The Town Board has agreed to assist in the funding of the Northern Nash County Water Systems Improvement Project. The commitment is for 10 years with a maximum Contribution of \$100,000 per year. These funds can be decommitted at the Board's discretion.

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

The Town of Red Oak has no formal revenue spending policy. Management has the authority to use resources in the order it feels is in the best interest of the Town. For the purpose of fund balance classification, expenditures are considered spent from restricted fund balance first.

2. Stewardship, Compliance, and Accountability

Significant Violations of Finance-Related Legal and Contractual Provisions

There were no significant violations of Finance-Related Legal and Contractual Provisions.

3. Detail Notes on all Funds

A. Assets

Deposits

All the deposits of the Town are insured or collateralized by using the Pooling Method. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town, these deposits are considered to be held by the Town's agent in the Town's name. The amount of the pledged collateral is based on an approved averaging method for non-interest-bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Town or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Town under the Pooling Method, the potential exists for under-collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Town has no 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.

Town of Red Oak, North Carolina
Notes to the Financial Statements
For the Year Ended June 30, 2021

At June 30, 2021, the Town's deposits had a carrying amount of \$7,607,748 and a bank balance of \$7,639,925. Of the bank balance, \$250,000 was covered by federal depository insurance and the remainder was covered by collateral held under the Pooling Method.

Capital Assets

Capital asset activity for the Primary Government for the year ended June 30, 2021, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental Activities:				
Capital Assets not Being Depreciated:				
Land	\$ 294,878	\$ -	\$ -	\$ 294,878
 Capital Assets Being Depreciated:				
Buildings	\$ 283,708	\$ 5,229	\$ -	\$ 288,937
Other improvements - Parks	2,685,515	484,379	-	3,169,894
Equipment and furniture	69,641	60,596	-	130,237
Sewer lines	1,880,170	16,759	-	1,896,929
Total	<u>\$ 4,919,034</u>	<u>\$ 566,963</u>	<u>\$ -</u>	<u>\$ 5,485,997</u>
 Less Accumulated Depreciation for:				
Buildings	\$ 84,530	\$ 9,289	\$ -	\$ 93,819
Other improvements	882,638	110,916	-	993,554
Equipment and furniture	14,688	6,965	-	21,653
Sewer lines	560,659	62,672	-	623,331
Total	<u>\$ 1,542,515</u>	<u>\$ 189,842</u>	<u>\$ -</u>	<u>\$ 1,732,357</u>
 Total Capital Assets Being Depreciated, Net	<u>\$ 3,376,519</u>			<u>\$ 3,753,640</u>
 Governmental Activities Capital Assets, Net	<u>\$ 3,671,397</u>			<u>\$ 4,048,518</u>

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

General Government	\$ 82,039
Cultural and Recreational	<u>107,803</u>
Total Depreciation Expense	<u>\$ 189,842</u>

**Town of Red Oak, North Carolina
Notes to the Financial Statements
For the Year Ended June 30, 2021**

B. Liabilities

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; and natural disasters. The Town carries commercial insurance for risks of loss. General liability coverage and auto liability coverage are \$1 million per occurrence with a \$3 million total limit on general liability. The Town maintains property coverage up to the total insurance values of the property and worker's compensation coverage. There have been no significant reductions in insurance coverage in the prior year, and settled claims, if any, have not exceeded coverage in any of the past three fiscal years. The Town currently does not carry any flood insurance.

The Town employs a part-time Town Clerk who is individually bonded for \$100,000 in accordance with G.S. 159-29 (a).

Other Postemployment Benefit

The Town offers no postemployment benefits.

Other Employment Benefits

Longevity Pay

The Board has elected to compensate all full-time and elected officials a longevity payout at the time of separation from the Town. Eligibility begins after the completion of five full years of employment, appointment, or elected term of office. Compensation will be at a rate of \$1500 per year served.

C. Fund Balance

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

Total Fund Balance - General Fund	\$ 7,806,683
Less:	
Non spendable	9,898
Stabilization by State Statute	203,664
Committed – Public Works	<u>1,000,000</u>
Remaining Fund Balance	<u>\$ 6,593,121</u>

The Town has not established a minimum fund balance policy but monitors annually the fund balance position.

**Town of Red Oak, North Carolina
Notes to the Financial Statements
For the Year Ended June 30, 2021**

4. Miscellaneous Revenue

Nash County operates and maintains a section of sewer lines within the Town limits of Red Oak. These sewer lines are owned by the Town and established for the benefit of two schools within the Town limits. Currently the sewer system serves ten customers including the Town Hall and seven non-profits. The County collects and submits to the Town (net of fees) collections semi-annually.

Since the sewer operations were established to benefit the Town without profit potential or motive, all operations are reported in the General Fund and related expenses are included in General Government operations.

5. Capital Commitments

The Town has committed to support funding of the Northern Nash Water District Project for 10 years at a maximum of \$100,000 per year beginning in fiscal year ended June 30, 2022. These contributions will be included in the Town's budget annually.

6. Significant Effect of Subsequent Events

There were no significant subsequent events through the date this report was available to be issued which is the date of the independent auditor's report.

Town of Red Oak, North Carolina
General Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
For the Fiscal Year Ended June 30, 2021

Exhibit A-1

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Unrestricted Intergovernmental:			
Local option sales tax	\$ 883,000	\$ 984,445	\$ 101,445
Beer and wine tax	15,000	15,119	119
Utility sales tax	104,800	107,939	3,139
Total Unrestricted Intergovernmental	<u>\$ 1,002,800</u>	<u>\$ 1,107,503</u>	<u>\$ 104,703</u>
Restricted Intergovernmental:			
Coronavirus Relief Fund	<u>\$ -</u>	<u>\$ 61,900</u>	<u>\$ 61,900</u>
Investment earnings	<u>\$ 16,000</u>	<u>\$ 26,414</u>	<u>\$ 10,414</u>
Miscellaneous:			
Clubhouse fee	\$ 4,700	\$ 1,460	\$ (3,240)
Nash County Sewer	-	54,919	54,919
Sales	-	2,149	2,149
Other	6,000	9,378	3,378
Total Miscellaneous	<u>\$ 10,700</u>	<u>\$ 67,906</u>	<u>\$ 57,206</u>
Total Revenues	<u>\$ 1,029,500</u>	<u>\$ 1,263,723</u>	<u>\$ 234,223</u>
Expenditures:			
General Government:			
Governing Body & Administration:			
Salaries and employee benefits		\$ 140,074	
Operating expenses		146,445	
Capital outlay		65,824	
Total Administration		<u>\$ 352,343</u>	

(continued)

Town of Red Oak, North Carolina
General Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
For the Fiscal Year Ended June 30, 2021

Exhibit A-1

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Expenditures: (continued)			
General Government: (continued)			
Public Works:			
Operating expenses		\$ 135,755	
Capital outlay		16,759	
Total Public Works		<u>\$ 152,514</u>	
Total General Government	<u>\$ 520,000</u>	<u>\$ 504,857</u>	<u>\$ 15,143</u>
Public Safety:			
Operating expenses		223	
Donation to volunteer fire department		<u>\$ 74,000</u>	
Total Public Safety	<u>\$ 100,000</u>	<u>\$ 74,223</u>	<u>\$ 25,777</u>
Cultural and Recreational:			
Operating expenses		\$ 14,692	
Capital Outlay		484,379	
Total Cultural and Recreational	<u>\$ 580,000</u>	<u>\$ 499,071</u>	<u>\$ 80,929</u>
Total Expenditures	<u>\$ 1,200,000</u>	<u>\$ 1,078,151</u>	<u>\$ 121,849</u>
Revenues Over (Under) Expenditures	<u>\$ (170,500)</u>	<u>\$ 185,572</u>	<u>\$ 356,072</u>
Other Financing Sources			
Fund balance appropriated	170,500	-	(170,500)
Net Change in Fund Balance	<u><u>\$ -</u></u>	<u><u>\$ 185,572</u></u>	<u><u>\$ 185,572</u></u>
Fund Balance:			
Beginning of year		7,621,111	
End of year		<u><u>\$ 7,806,683</u></u>	