

Town of Rich Square

FINANCIAL REPORT

June 30, 2021

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June 30, 2021**

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"A Professional Association of Certified Public Accountants and Management Consultants"

Independent Auditor's Report

To the Honorable Mayor and
Members of the Board of Aldermen
Town of Rich Square, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Rich Square, 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 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 from 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 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, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Rich Square, North Carolina, as of June 30, 2021, and the respective changes in financial position and, where applicable, cash flows 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, the Local Governmental Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Asset (Liability) and Contributions, and the Law Enforcement Officers' Special Separation Allowance Schedules of Changes in Total Pension Liability and Total Pension Liability as a Percentage of Covered Payroll, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. 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 Town of Rich Square's basic financial statements. The individual and combining fund financial 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 individual and combining 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 relate directly to, the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the individual and combining 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 September 29, 2023 on our consideration of the Town of Rich Square's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town of Rich Square's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Rich Square's internal control over financial reporting and compliance.

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
Hickory, North Carolina
September 29, 2023

Town of Rich Square
Town Board of Commissioners and Key Staff

Mayor and Town Board of Commissioners

Reginald White – Mayor

Linwood Bryant - Commissioner

Charles Eason - Commissioner

Larry Godwin - Commissioner

Marcia Majett - Commissioner

Raymond Joyner - Commissioner

Administrative and Financial Staff

Marcenda Rogers – Town Clerk

Chiquita Howard – Finance Officer

Town of Rich Square

Management's Discussion and Analysis

As management of the Town of Rich Square (the "Town"), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town 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

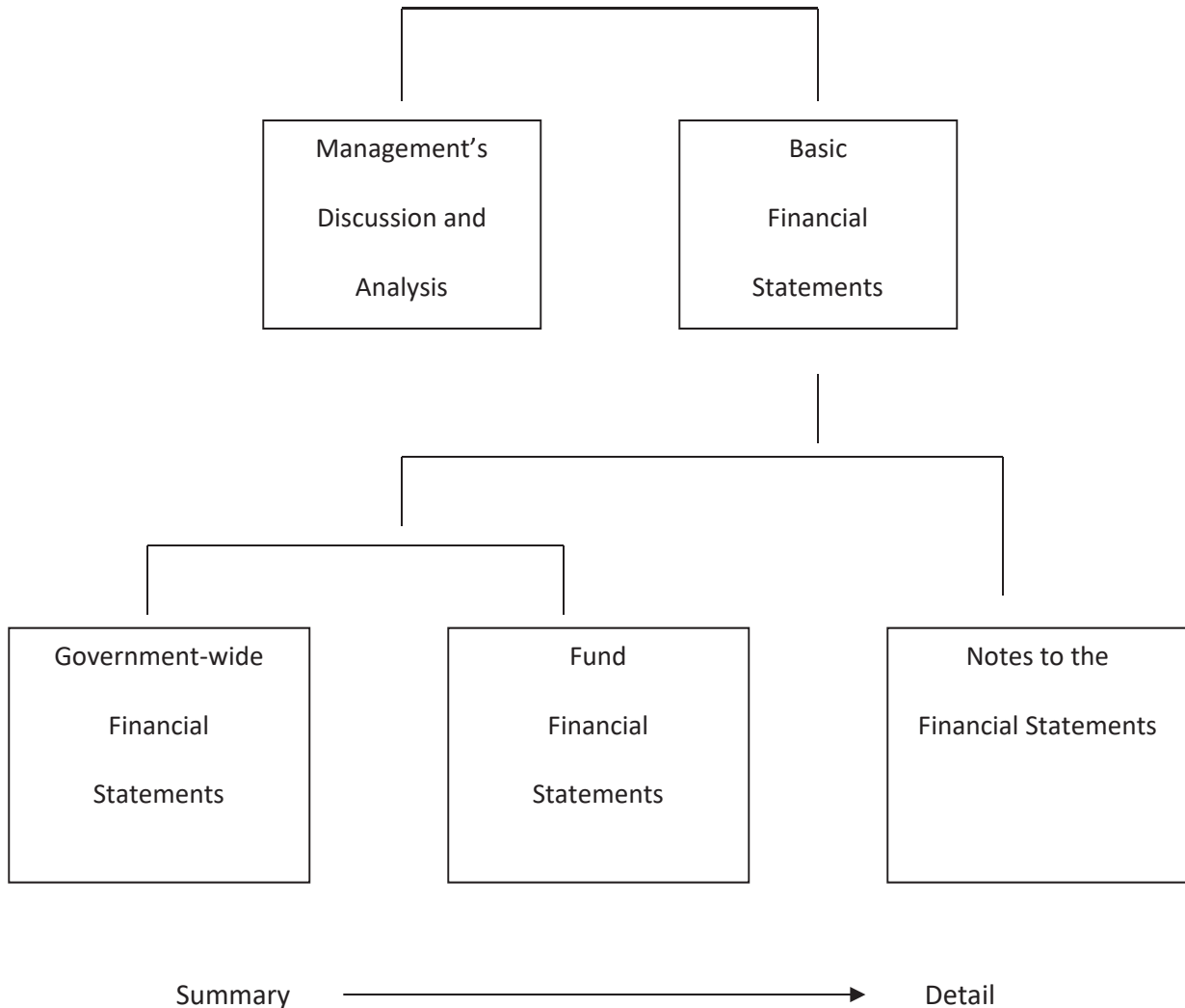
- The assets and deferred outflows of resources of the Town exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$9,195,657 (net position).
- The government's total net position increased by \$1,761,176, primarily due to increases in business-type activities net position.
- As of the close of the current fiscal year, the Town's governmental funds reported an ending fund balance of \$1,321,681, an increase of \$97,182 in comparison with the prior year. Approximately 24.87% percent of this total amount, or \$328,667, is non-spendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$1,002,203 or 167.65% percent of total general fund expenditures for the fiscal year.

Overview of the Financial Statements

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

Town of Rich Square Management's Discussion and Analysis

Required Components of Annual Financial Report



Basic Financial Statements

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

The next statements (*Exhibits 3 through 8*) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the Town's government. These statements provide more detail than the government-wide statements. There are three parts to the fund financial statements: 1) the governmental fund statements; 2) the budgetary comparison statements; and 3) the proprietary fund statements.

Town of Rich Square Management's Discussion and Analysis

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, the **required supplemental information** provides information about participation in the Local Government Employee Retirement system and **supplemental information** is provided to show details about the Town's individual funds and tax related information. Budgetary information required by the 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, 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 two categories: 1) governmental activities; and 2) business-type activities. The governmental activities include most of the Town's basic services such as public safety, transportation, environmental protection, and general administration. 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. These include the water and sewer services offered by the Town.

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, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (*or non-compliance*) with finance-related legal requirements, such as the General Statutes of the Town's budget ordinance. All of the funds of 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 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

Town of Rich Square Management's Discussion and Analysis

governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the Town's programs. The relationship between 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 adopts an annual budget for its General Fund and Cemetery 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.

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

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 23 of this report.

Other Information – In addition to basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the Town's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 49 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 Rich Square Management's Discussion and Analysis

Town of Rich Square's Net Position

	Governmental Activities		Business-type Activities		Total	
	2021	2020	2021	2020	2021	2020
Current and other assets	\$ 1,195,933	\$ 1,302,290	\$ 671,661	\$ 462,025	\$ 1,867,594	\$ 1,764,315
Restricted assets	226,383	8,163	37,257	37,057	263,640	45,220
Capital assets	692,034	705,644	6,929,518	5,146,510	7,621,552	5,852,154
Deferred outflows of resources	36,968	21,255	7,497	6,349	44,465	27,604
Total assets and deferred outflows of resources	2,151,318	2,037,352	7,645,933	5,651,941	9,797,251	7,689,293
Current liabilities	19,753	1,121	344,097	41,751	363,850	42,872
Long-term liabilities	53,349	29,062	178,124	173,786	231,473	202,848
Deferred inflows of resources	5,058	7,282	1,213	1,810	6,271	9,092
Total liabilities and deferred inflows of resources	78,160	37,465	523,434	217,347	601,594	254,812
Net investment in capital assets	692,034	705,644	6,765,542	4,979,501	7,457,576	5,685,145
Restricted net position	328,667	314,686	-	-	328,667	314,686
Unrestricted net position	1,052,457	979,557	356,957	455,093	1,409,414	1,434,650
Total net position	\$ 2,073,158	\$ 1,999,887	\$ 7,122,499	\$ 5,434,594	\$ 9,195,657	\$ 7,434,481

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 resources of the Town exceeded liabilities and deferred inflows of resources by \$9,195,657 as of June 30, 2021. The Town's net position increased by \$1,761,176 for the fiscal year ended June 30, 2021. However, the largest portion (81.10%) reflects the Town's net investment in capital assets (e.g. land, buildings, machinery, and equipment). The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's net investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Town's net position, \$328,667 represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$1,409,414 is unrestricted.

Town of Rich Square Management's Discussion and Analysis

Town of Rich Square's Changes in Net Position

	Governmental Activities		Business-type Activities		Total	
	2021	2020	2021	2020	2021	2020
Revenues:						
Program revenues:						
Charges for services	\$ 2,837	\$ 5,425	\$ 318,558	\$ 348,526	\$ 321,395	\$ 353,951
Operating grants	63,507	29,941	-	-	63,507	29,941
Capital grants	-	-	1,749,584	211,416	1,749,584	211,416
General revenues:						
Property taxes	294,263	286,195	-	-	294,263	286,195
Other taxes	323,897	296,232	-	-	323,897	296,232
Other revenues	13,157	6,309	23	606	13,180	6,915
Total revenues	697,661	624,102	2,068,165	560,548	2,765,826	1,184,650
Expenses:						
General government	246,531	178,301	-	-	246,531	178,301
Public safety	63,133	115,886	-	-	63,133	115,886
Transportation	298,704	248,565	-	-	298,704	248,565
Environmental protection	16,022	7,715	-	-	16,022	7,715
Water and sewer	-	-	380,260	433,512	380,260	433,512
Total expenses	624,390	550,467	380,260	433,512	1,004,650	983,979
Increase (decreases) in net position	73,271	73,635	1,687,905	127,036	1,761,176	200,671
Net position, beginning	1,999,887	1,926,252	5,434,594	5,307,558	7,434,481	7,233,810
Net position, June 30	\$ 2,073,158	\$ 1,999,887	\$ 7,122,499	\$ 5,434,594	\$ 9,195,657	\$ 7,434,481

Governmental Activities: Governmental activities increased the Town's net position by \$73,271.

Business-type Activities: Business-type activities increased the Town's net position by \$1,687,905.

Financial Analysis of the Town's Funds

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

Governmental Funds. The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the Town's financing requirements. Specifically, 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 chief operating fund of the Town. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$1,002,203, while total fund balance reached \$1,112,541. 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. The Town currently has an available fund balance of 168.74% of total General Fund expenditures, and total fund balance represents 186.10% of the same amount.

Town of Rich Square Management's Discussion and Analysis

General Fund Budgetary Highlights. During the fiscal year, the Town may revise the budget if needed. 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; and 3) increases in appropriations that become necessary to maintain services.

The Town did not amend the budget for the year ending June 30, 2021.

Proprietary Funds. The Town's proprietary funds provide the same type of information found in the government-wide financial statements but in more detail. Unrestricted net position of the Water and Sewer Fund at the end of the fiscal year amounted to \$356,957. The total increase in net position was \$1,687,905. Primarily due to capital grants received.

Capital Assets. As of June 30, 2021, the Town's investment in capital assets for its governmental and business-type activities totals \$7,621,552. These assets included buildings, infrastructure, land, machinery and equipment.

Town of Rich Square's Capital Assets (net of depreciation)							
	Governmental Activities		Business-type Activities		Total		
	2021	2020	2021	2020	2021	2020	
Land	\$ 72,930	\$ 72,930	\$ 5,421	\$ 5,421	\$ 78,351	\$ 78,351	
Construction in progress	-	-	-	250,416	-	250,416	
Buildings and improvements	551,536	574,583	-	-	551,536	574,583	
Equipment	42,130	44,111	46,492	57,207	88,622	101,318	
Vehicles	25,438	14,020	-	933	25,438	14,953	
Plant and distribution system	-	-	6,877,605	4,832,533	6,877,605	4,832,533	
Total assets	\$ 692,034	\$ 705,644	\$ 6,929,518	\$ 5,146,510	\$ 7,621,552	\$ 5,852,154	

Additional information on the Town's capital assets can be found in Note 3 of the basic financial statements.

Long-term Debt. As of June 30, 2021, the Town had total debt outstanding of \$163,976, which is backed by the full faith and credit of the Town.

Town of Rich Square's Outstanding Debt			
	Business-type Activities		
	2021	2020	
Installment purchase - direct placement	\$ 163,976	\$ 167,009	

The Town's total debt decreased by \$3,033 during the past fiscal year, due to principal payments made on outstanding debt.

Town of Rich Square Management's Discussion and Analysis

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8% of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for Town of Rich Square is \$3,537,640.

Additional information on the Town's long-term debt can be found in Note 3 of the basic financial statements.

Economic Factors and Next Year's Budgets and Rates

The following key economic indicators reflect the growth and prosperity of the Town.

- The Town of Rich Square currently does not have any major industry.
- The Town of Rich Square has a population of 780 citizens.
- The majority of retired citizens receive their sole income through social security benefits.

Budget Highlights for the Fiscal Year Ending June 30, 2022

Governmental Activities: The Town's ad valorem rate will remain stable for the fiscal year ending June 30, 2022.

The Town expects governmental activities to remain stable. There were no significant rate increase included in the FY22 budget.

Business – type Activities: Water and sewer revenues and expenses are expected to remain stable. There were no significant rate increase included in the FY22 budget.

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 Town Clerk, Town of Rich Square, Post Office Box 336, Rich Square, NC 27922. One may also call (252)359-2315.

Town of Rich Square
Statement of Net Position
June 30, 2021
Exhibit 1

	Primary Government		
	Governmental	Business-type	Total
	Activities	Activities	
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 1,021,446	\$ 336,165	\$ 1,357,611
Taxes receivable (net)	81,392	-	81,392
Accounts receivable (net)	80,551	49,736	130,287
Due from other governments	-	298,304	298,304
Internal balances	12,544	(12,544)	-
Restricted cash and cash equivalents	226,383	37,257	263,640
Total current assets	1,422,316	708,918	2,131,234
Noncurrent assets:			
Capital assets:			
Land and construction in progress	72,930	5,421	78,351
Capital assets, net of depreciation	619,104	6,924,097	7,543,201
Total capital assets	692,034	6,929,518	7,621,552
Total assets	2,114,350	7,638,436	9,752,786
DEFERRED OUTFLOWS OF RESOURCES			
Pension deferrals	36,968	7,497	44,465
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities	19,243	303,243	322,486
Customer deposits	-	37,257	37,257
Current portion of long-term liabilities	510	3,597	4,107
Total current liabilities	19,753	344,097	363,850
Long-term liabilities:			
Net pension liability	53,349	16,333	69,682
Due in more than one year	-	161,791	161,791
Total liabilities	73,102	522,221	595,323
DEFERRED INFLOWS OF RESOURCES			
Pension deferrals	5,058	1,213	6,271
NET POSITION			
Net investment in capital assets	692,034	6,765,542	7,457,576
Restricted for:			
Stabilization by State Statute	103,813	-	103,813
Streets - Powell Bill	6,525	-	6,525
Cemetery Perpetual Care	218,329	-	218,329
Unrestricted	1,052,457	356,957	1,409,414
Total net position	\$ 2,073,158	\$ 7,122,499	\$ 9,195,657

The accompanying notes are an integral part of these financial statements.

Town of Rich Square
Statement of Activities
For the Year Ended June 30, 2021
Exhibit 2

		Program Revenues				Net (Expense) Revenue and Changes in Net Position		
Functions/ Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total	
					Governmental Activiites	Business-type Activities		
Primary government:								
Governmental activities:								
General government	\$ 246,531	\$ -	\$ -	\$ -	\$ (246,531)	\$ -	\$ (246,531)	
Public safety	63,133	27	35,675	-	(27,431)	-	(27,431)	
Transportation	298,704	-	27,832	-	(270,872)	-	(270,872)	
Environmental protection	16,022	2,810	-	-	(13,212)	-	(13,212)	
Total governmental activities	624,390	2,837	63,507	-	(558,046)	-	(558,046)	
Business-type activities:								
Water and Sewer Fund	380,260	318,558	-	1,749,584	-	1,687,882	1,687,882	
Total primary government	\$ 1,004,650	\$ 321,395	\$ 63,507	\$ 1,749,584	(558,046)	1,687,882	1,129,836	
General revenues:								
Taxes:								
Property taxes, levied for general purposes					294,263	-	294,263	
Other taxes					323,897	-	323,897	
Investment earnings					733	23	756	
Miscellaneous					12,424	-	12,424	
Total general revenues					631,317	23	631,340	
Change in net position					73,271	1,687,905	1,761,176	
Net position, beginning					1,999,887	5,434,594	7,434,481	
Net position - ending					\$ 2,073,158	\$ 7,122,499	\$ 9,195,657	

The accompanying notes are an integral part of these financial statements.

Town of Rich Square
Balance Sheet – Governmental Funds
June 30, 2021
Exhibit 3

	<u>Major Fund</u>		
	General	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 1,021,446	\$ -	\$ 1,021,446
Restricted cash and cash equivalents	6,525	219,858	226,383
Ad valorem taxes receivable (net)	81,392	-	81,392
Due from other funds	23,262	-	23,262
Accounts receivable (net)	80,551	-	80,551
Total assets	\$ 1,213,176	\$ 219,858	\$ 1,433,034
LIABILITIES			
Accounts payable and accrued liabilities	\$ 19,243	\$ -	\$ 19,243
Due to other funds	-	10,718	10,718
Total liabilities	19,243	10,718	29,961
DEFERRED INFLOWS OF RESOURCES			
Property tax receivable	81,392	-	81,392
FUND BALANCES			
Non Spendable			
Perpetual maintenance	-	218,329	218,329
Restricted			
Stabilization by State Statute	103,813	-	103,813
Streets - Powell Bill	6,525	-	6,525
Unassigned	1,002,203	(9,189)	993,014
Total fund balances	1,112,541	209,140	1,321,681
Total liabilities, deferred inflows of resources and fund balances	\$ 1,213,176	\$ 219,858	\$ 1,433,034

The accompanying notes are an integral part of these financial statements.

Town of Rich Square
Reconciliation of the Governmental Fund Balance
Sheet to the Statement of Net Position
June 30, 2021
Exhibit 3

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

Total fund balances - governmental funds		\$ 1,321,681
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Gross capital assets at historical cost	1,143,749	
Accumulated depreciation	<u>(451,715)</u>	692,034
Deferred outflows of resources related to pensions are not reported in the funds		36,968
Earned revenues considered deferred inflows of resources in the fund statements		81,392
Deferred inflows of resources related to pensions are not reported in the funds		(5,058)
Long-term liabilities used in governmental activities are not financial uses and therefore are not reported in the funds		
Net pension liability		(53,349)
Other long-term liabilities are not due and payable in the current period and therefore are not reported in the funds		(510)
Net position of governmental funds		<u>\$ 2,073,158</u>

The accompanying notes are an integral part of these financial statements.

Town of Rich Square
Statement of Revenues, Expenditures, and Changes
in Fund Balance –Governmental Funds
For the Year Ended June 30, 2021
Exhibit 4

	<u>Major Fund</u>		Nonmajor Governmental Funds	Total Governmental Funds
	General			
REVENUES				
Ad valorem taxes	\$ 298,214	\$	-	\$ 298,214
Other taxes and licenses	725		-	725
Unrestricted intergovernmental	323,172		-	323,172
Restricted intergovernmental	63,507		-	63,507
Permits and fees	27		-	27
Sales and services	-		2,810	2,810
Investment earnings	92		641	733
Miscellaneous	12,424		-	12,424
Total revenues	698,161		3,451	701,612
EXPENDITURES				
Current:				
General government	208,614		-	208,614
Public safety	69,574		-	69,574
Transportation	319,617		-	319,617
Environmental protection	-		6,625	6,625
Total expenditures	597,805		6,625	604,430
Net change in fund balance	100,356		(3,174)	97,182
Fund balances - beginning	1,012,185		212,314	1,224,499
Fund balances - ending	\$ 1,112,541	\$	209,140	\$ 1,321,681

The accompanying footnotes are an integral part of these financial statements.

Town of Rich Square
Reconciliation of the Statement of Revenues, Expenditures, and Changes in
Fund Balance of the Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2021
Exhibit 4

Reconciliation of the Statement of Revenues, Expenditures and Change in Fund Balances to the Statement of Activities:

Net change in fund balances - governmental funds	\$	97,182
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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 depreciation exceeded capital outlay in the current period.

Capital outlay expenditures which were capitalized	24,167	
Depreciation expense for governmental assets	(37,777)	(13,610)

Contributions to the pension plan in the current fiscal year		12,091
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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 revenue		(3,951)
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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.

Pension expense		(18,441)
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Total changes in net position of governmental activities	\$	73,271
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The accompanying footnotes are an integral part of these financial statements.

Town of Rich Square
Statement of Revenues, Expenditures, and Changes
in Fund Balance –Budget to Actual
General Fund
For the Year Ended June 30, 2021
Exhibit 5

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
REVENUES				
Ad valorem taxes	\$ 247,000	\$ 247,000	\$ 298,214	\$ 51,214
Other taxes and licenses	1,000	1,000	725	(275)
Unrestricted intergovernmental	224,500	224,500	323,172	98,672
Restricted intergovernmental	32,000	32,000	63,507	31,507
Permits and fees	100	100	27	(73)
Investment earnings	100	100	92	(8)
Miscellaneous	2,300	2,300	12,424	10,124
Total revenues	507,000	507,000	698,161	191,161
EXPENDITURES				
Current:				
General government	190,000	190,000	208,614	(18,614)
Public safety	113,000	113,000	69,574	43,426
Transportation	204,000	204,000	319,617	(115,617)
Total expenditures	507,000	507,000	597,805	(90,805)
Net change in fund balance	\$ -	\$ -	100,356	\$ 100,356
Fund balances - beginning			1,012,185	
Fund balance - ending			\$ 1,112,541	

The accompanying footnotes are an integral part of these financial statements.

Town of Rich Square
Statement of Net Position
Proprietary Fund
June 30, 2021
Exhibit 6

Water and Sewer
Fund

ASSETS	
Current assets:	
Cash and cash equivalents	\$ 336,165
Accounts receivable (net)	49,736
Due from other governments	298,304
Restricted cash and cash equivalents	37,257
Total current assets	721,462
Noncurrent assets:	
Capital assets:	
Land and construction in progress	5,421
Capital assets, net of depreciation	6,924,097
Total capital assets	6,929,518
Total noncurrent assets	6,929,518
Total assets	7,650,980
DEFERRED OUTFLOWS OF RESOURCES	
Pension deferrals	7,497
LIABILITIES	
Current liabilities:	
Accounts payable and accrued liabilities	303,243
Compensated absences	480
Customer deposits	37,257
Due to other funds	12,544
Current portion of long-term liabilities	3,117
Total current liabilities	356,641
Noncurrent liabilities:	
Net pension liability	16,333
Compensated absences	932
Long-term debt	160,859
Total liabilities	534,765
DEFERRED INFLOWS OF RESOURCES	
Pension deferrals	1,213
NET POSITION	
Net investment in capital assets	6,765,542
Unrestricted	356,957
Total net position	\$ 7,122,499

The accompanying footnotes are an integral part of these financial statements.

Town of Rich Square
Statement of Revenues, Expenses, and Changes
in Net Position - Proprietary Fund
For the Year Ended June 30, 2021
Exhibit 7

	Water and Sewer Fund
OPERATING REVENUES	
Charges for services	\$ 316,771
Other operating revenues	1,787
Total operating revenues	318,558
OPERATING EXPENSES	
Administration	29,618
Water treatment and distribution	191,583
Depreciation	154,466
Total operating expenses	375,667
Operating income (loss)	(57,109)
NONOPERATING REVENUES (EXPENSES)	
Investment earnings	23
Interest and other charges	(4,593)
Total nonoperating revenues (expenses)	(4,570)
Income (loss) before contributions	(61,679)
Capital contributions	1,749,584
Change in net position	1,687,905
Total net position, beginning	5,434,594
Total net position, ending	\$ 7,122,499

The accompanying footnotes are an integral part of these financial statements.

Town of Rich Square
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2021
Exhibit 8

	Water and Sewer Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 306,986
Cash paid for goods and services	(198,979)
Cash paid to or on behalf of employees	(12,754)
Customer deposits received	1,349
Customer deposits returned	(1,149)
Other operating revenues	1,787
Net cash provided by operating activities	97,240
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment earnings	23
Total cash flow provided by investing activities	23
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES	
Increase in due to other funds	12,544
Total cash flow provided by noncapital and related financing activities	12,544
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of capital assets	(1,639,170)
Capital contributions	1,451,280
Principal paid on long-term debt	(3,033)
Interest paid on long-term debt	(4,593)
Net cash used by capital and financing activities	(195,516)
Net decrease in cash and cash equivalents	(85,709)
Balances, beginning of year	459,131
Balances, ending of year	\$ 373,422
Reconciliation of operating income to net cash provided by operating activities:	
Operating income (loss)	\$ (57,109)
Adjustments to reconcile income to cash provided by operations:	
Depreciation	154,466
(Increase) decrease in accounts receivable	(9,785)
(Increase) decrease in deferred outflows of resources	(1,148)
Increase (decrease) in accounts payable	3,778
Increase (decrease) in customer deposits	200
Increase (decrease) in net pension liability	7,435
Increase (decrease) in deferred inflows of resources	(597)
Total adjustments	154,349
Net cash provided by operating activities	\$ 97,240

The accompanying footnotes are an integral part of these financial statements.

Town of Rich Square
Notes to Financial Statements
For the Year Ended June 30, 2021

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Town of Rich Square (the “Town”) conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant accounting policies:

A. Reporting Entity

The Town is a municipal corporation that is governed by an elected mayor and a five-member Council.

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. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the Town. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

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

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

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

Town of Rich Square
Notes to Financial Statements
For the Year Ended June 30, 2021

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 general government, public safety, street maintenance and construction, and sanitation services.

The Town reports the following nonmajor governmental funds:

Grant Project Fund. This fund is used to account for the renovation of a building to be later used for economic development purposes.

Cemetery Fund. This fund is used to account for perpetual care of the municipal cemetery.

The Town reports the following major enterprise fund:

Water and Sewer Fund. This fund is used to account for the Town's water and sewer operations.

C. Measurement Focus and Basis of Accounting

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

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

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

Town of Rich Square
Notes to Financial Statements
For the Year Ended June 30, 2021

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

The Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable 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 beer and wine tax, collected and held by the State at year-end on behalf of the Town are recognized as revenue. Sales taxes are considered a shared revenue for the Town because the tax is levied by Northampton County and then remitted to and distributed by the State. Most intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. 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

Town of Rich Square
Notes to Financial Statements
For the Year Ended June 30, 2021

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 Fund, Cemetery Fund and the Enterprise Funds. All annual appropriations lapse at the fiscal year-end. Project ordinances are adopted for the Grant Project Fund and the enterprise capital project fund. The enterprise capital project fund is consolidated with the 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 functional 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. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

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

1. Deposits and Investments

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

State law [G.S. 159-30(c)] authorizes the Town to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; 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).

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.

Town of Rich Square
Notes to Financial Statements
For the Year Ended June 30, 2021

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3. Restricted Assets

Customer deposits held by the Town before any services are supplied are restricted to the service for which the deposit was collected. Unexpended grant revenues held in the Grant Project Fund are classified as restricted assets because their use is restricted to the intended purpose of the grant. Also, Powell Bill and Cemetery funds are classified as restricted cash because it can only for the purposes outlined in G.S. 136-41.1 through 136-41.4.

Governmental activities:

General fund	
Powell Bill	\$ 6,525
Cemetery Fund	
Donor contributions	218,329
Grant Project Fund	
Unexpended grants	1,529
Total governmental activities	226,383

Business-type Activities

Customer deposits	37,257
Total Business-type activities	37,257

Total Restricted Cash	\$ 263,640
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4. Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad valorem taxes on property other than motor vehicles on July 1st, the beginning of the fiscal year. The taxes are due on September 1st (lien date); however, interest does not accrue until the following January 6th. These taxes are based on the assessed values as of January 1, 2020.

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.

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.

Town of Rich Square
Notes to Financial Statements
For the Year Ended June 30, 2021

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

6. Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. Minimum capitalization costs are as follows: land, \$1,000; buildings, improvements, substations, lines, and other plant and distribution systems, \$1,000; furniture and equipment, \$1,000; and vehicles, \$1,000. 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. All other purchased or constructed capital assets are reported at cost or estimated historical cost. General infrastructure assets acquired prior to July 1, 2003, consist of the road network and water and sewer system assets that were acquired or that received substantial improvements subsequent to July 1, 1980, and are reported at estimated historical cost using deflated replacement 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:

Asset Class	Estimated Useful Lives
Buildings	30
Furniture and equipment	10
Improvements	20
Infrastructure	50
Vehicles	10

7. Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net assets 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, pension deferrals for the 2021 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 assets that applies to a future period and so will not be recognized as revenue until then.

The Town has two items that meet the criterion for this category – property taxes receivable and pension deferrals.

Town of Rich Square
Notes to Financial Statements
For the Year Ended June 30, 2021

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

8. Long-Term Obligations

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

9. Compensated Absences

The vacation policy of the Town provides for the accumulation of up to thirty (30) days earned vacation leave with such leave being fully vested when earned. For the Town's government-wide and proprietary funds, an expense and a liability for compensated absences and the salary-related payments are recorded as the leave is earned. The Town has assumed a first-in, first-out method of using accumulated compensated time. The portion of that time that is estimated to be used in the next fiscal year has been designated as a current liability in the government-wide financial statements.

The Town's sick leave policy provides for an unlimited accumulation of earned sick leave. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since the Town has no obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

Town of Rich Square
Notes to Financial Statements
For the Year Ended June 30, 2021

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

10. Net Position/Fund Balances

Net Position

Net position in government-wide and proprietary fund financial statements are classified as net investment in capital assets, restricted, and unrestricted. Restricted net position represent 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 three classifications designed to disclose the hierarchy of constraints placed on how fund balance can be spent.

The governmental fund types classify fund balance 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.

Perpetual Maintenance – Cemetery resources which are required to be retained in perpetuity for maintenance of the Cemetery in the Town of Rich Square.

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 nonspendable. RSS is included as a component of Restricted Net Position and Restricted Fund Balance on the face of the balance sheet.

Town of Rich Square
Notes to Financial Statements
For the Year Ended June 30, 2021

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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

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

11. Defined Benefit Cost-Sharing Plans

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

12. Use of Estimates

The presentation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Town of Rich Square
Notes to Financial Statements
For the Year Ended June 30, 2021

NOTE II – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Deficit in Fund Balance of Individual Fund

The Town's Grant Project Fund had a deficit fund balance of \$9,189 as of June 30, 2021. The deficit fund balance will be eliminated with a transfer from the General Fund to properly close out the capital project fund in fiscal year 2024.

B. Excess of Expenditures over Appropriations

For the fiscal year ended June 30, 2021, expenditures in the Cemetery Fund exceeded the authorized appropriations made by the governing board for environmental protection activities by \$625. Expenditures in the General Fund exceeded the authorized appropriations made by the governing board for general government activities by \$18,614 and \$115,617 for transportation activities. Expenditures in the Water Fund exceeded the authorized appropriations made by the governing board by \$109,027. These over-expenditures occurred due to unplanned expenditures related to supplies, maintenance, and capital projects. Management and the Board will more closely review the budget reports to ensure compliance in future years.

NOTE III – DETAIL NOTES ON ALL FUNDS

A. Assets

1. Deposits

All the deposits of the Town are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the Town's agents in the unit's name. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town, these deposits are considered to be held by the Town's agents in 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 or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Town under the Pooling Method, the potential exists for under-collateralization. This risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method.

Town of Rich Square
Notes to Financial Statements
For the Year Ended June 30, 2021

NOTE III – DETAIL NOTES ON ALL FUNDS (continued)

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 provision of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2021, the Town's deposits had a carrying amount of \$1,621,201 and a bank balance of \$1,630,538. Of the bank balances, \$250,000 was covered by federal depository insurance and the remainder was covered by collateral held under the Pooling Method. At June 30, 2021, the Town's petty cash fund totaled \$50.

2. Receivables – Allowances for Doubtful Accounts

The amounts presented in the Balance Sheet and the Statement of Net Position for the year ended June 30, 2021 are net of the following allowances for doubtful accounts:

General Fund:

Taxes receivable	\$ 34,883
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Enterprise Fund:

Water and sewer accounts receivable	12,228
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Total	\$ 47,111
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Town of Rich Square
Notes to Financial Statements
For the Year Ended June 30, 2021

NOTE III – DETAIL NOTES ON ALL FUNDS (continued)

3. Capital Assets

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

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities				
Capital assets not being depreciated:				
Land	\$ 72,930	\$ -	\$ -	\$ 72,930
Total capital assets not being depreciated	72,930	-	-	72,930
Capital assets being depreciated:				
Buildings	608,643	-	-	608,643
Other improvements	159,692	-	-	159,692
Equipment	219,260	8,917	-	228,177
Vehicles	59,057	15,250	-	74,307
Total capital assets being depreciated	1,046,652	24,167	-	1,070,819
Less accumulated depreciation for:				
Buildings	118,420	17,580	-	136,000
Other improvements	75,332	5,467	-	80,799
Equipment	175,149	10,898	-	186,047
Vehicles	45,037	3,832	-	48,869
Total accumulated depreciation	413,938	37,777	-	451,715
Total capital assets being depreciated, net	<u>632,714</u>			<u>619,104</u>
Governmental activities capital assets net	<u>\$ 705,644</u>			<u>\$ 692,034</u>

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

General government	\$ 24,401
Transportation	3,979
Cultural and recreational	9,397
Total	<u>\$ 37,777</u>

Town of Rich Square
Notes to Financial Statements
For the Year Ended June 30, 2021

NOTE III – DETAIL NOTES ON ALL FUNDS (continued)

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 5,421	\$ -	\$ -	\$ 5,421
Construction in progress	250,416	1,749,584	2,000,000	-
Total capital assets not being depreciated	255,837	1,749,584	2,000,000	5,421
Capital assets being depreciated:				
Buildings	1,663	-	-	1,663
Plant and distribution system	6,953,199	2,187,890	-	9,141,089
Machinery and equipment	124,398	-	-	124,398
Office equipment	20,311	-	-	20,311
Vehicles	6,500	-	-	6,500
Total capital assets being depreciated	7,106,071	2,187,890	-	9,293,961
Less accumulated depreciation for:				
Buildings	1,663	-	-	1,663
Plant and distribution system	2,120,666	142,818	-	2,263,484
Machinery and equipment	72,567	7,401	-	79,968
Office equipment	14,235	4,014	-	18,249
Vehicles	6,267	233	-	6,500
Total accumulated depreciation	2,215,398	154,466	-	2,369,864
Total capital assets being depreciated, net	<u>4,890,673</u>			<u>6,924,097</u>
Business-type activities capital assets net	<u>\$ 5,146,510</u>			<u>\$ 6,929,518</u>

**Town of Rich Square
Notes to Financial Statements
For the Year Ended June 30, 2021**

NOTE III – DETAIL NOTES ON ALL FUNDS (continued)

B. Liabilities

1. Pension Plan Obligations

a. Local Governmental Employees' Retirement System

Plan Description. The Town of Rich Square 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 government entities. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the State Senate, one appointed by the State House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. The Local Governmental Employees' Retirement System is included in the Annual Comprehensive Financial Report (ACFR) for the State of North Carolina. The State's ACFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454, or at www.osc.nc.gov.

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

Town of Rich Square
Notes to Financial Statements
For the Year Ended June 30, 2021

NOTE III – DETAIL NOTES ON ALL FUNDS (continued)

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 Rich Square 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 Rich Square's contractually required contribution rate for the year ended June 30, 2021, was 10.15% 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 Rich Square were \$12,091 for the year ended June 30, 2021.

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, 2021, the Town reported a liability of \$69,682 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2019. The total pension liability was then rolled forward to the measurement date of June 30, 2020 utilizing update procedures incorporating the actuarial assumptions. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined.

Town of Rich Square
Notes to Financial Statements
For the Year Ended June 30, 2021

NOTE III – DETAIL NOTES ON ALL FUNDS (continued)

At June 30, 2020 (measurement date), the Town's proportion was 0.00195% which was an increase of 0.00056% from its proportion as of June 30, 2019.

For the year ended June 30, 2021, the Town recognized pension expense of \$24,283. At June 30, 2021, 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	\$ 8,800	\$ -
Changes of assumptions	5,186	-
Net difference between projected and actual earnings on pension plan investments	9,806	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	8,187	5,177
Town contributions subsequent to the measurement date	12,091	-
Total	\$ 44,070	\$ 5,177

\$12,091 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2021. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:		
2022	\$	6,894
2023		10,080
2024		6,924
2025		2,904
2026		-
Thereafter		-
Total	\$	26,802

Town of Rich Square
Notes to Financial Statements
For the Year Ended June 30, 2021

NOTE III – DETAIL NOTES ON ALL FUNDS (continued)

Actuarial Assumptions. The total pension liability in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00 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, 2019 valuation, with the exception of the discount rate, 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, 2020 are summarized in the following table:

Town of Rich Square
Notes to Financial Statements
For the Year Ended June 30, 2021

NOTE III – DETAIL NOTES ON ALL FUNDS (continued)

Asset Class	Target Allocation	Long-Term Expected Rate of Return
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	<u>100.0%</u>	

The information above is based on 30 year expectations developed with the consulting actuary for the 2020 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)	\$ 141,377	\$ 69,682	\$ 10,098

**Town of Rich Square
Notes to Financial Statements
For the Year Ended June 30, 2021**

NOTE III – DETAIL NOTES ON ALL FUNDS (continued)

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

b. Law Enforcement Officers Special Separation Allowance

1. *Plan Description.* The Town of Rich Square 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 .85% 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. A separate report was not issued for the plan.

The Town had no full-time law enforcement officers for the entire fiscal year. As such, an actuarial valuation was not performed and there were no retirees receiving benefits, terminated plan members entitled to but not yet receiving benefits, or active plan members.

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 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 meet the criteria which are outlined in GASB Statement 73.

3. Contributions

The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the benefit payments on a pay as you go basis through appropriations made in the General Fund operating budget. The Town's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. There were no contributions made by employees. There were no contributions made or required by the Town during the fiscal year.

Town of Rich Square
Notes to Financial Statements
For the Year Ended June 30, 2021

NOTE III – DETAIL NOTES ON ALL FUNDS (continued)

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

At June 30, 2021, the Town reported a total pension liability of \$0. The total pension liability was measured as of December 31, 2020 based on a December 31, 2019 valuation date. An actuarial valuation was not performed as of December 31, 2019 since the Town had no active law enforcement officers as of December 31, 2019 or during the year. For the year ended June 30, 2021, the Town recognized pension expense (benefit) of (\$152).

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 872
Changes of assumptions and other inputs	395	222
Benefit payments and administrative expenses subsequent to the measurement date.	-	-
Total	\$ 395	\$ 1,094

None of the benefits or expenses have been paid subsequent to the measurement date. Other amounts reported as deferred outflow of resources will be recognized in pension expense as follows:

Year ended June 30:		
2022	\$	(153)
2023		(153)
2024		(153)
2025		(240)
2026		-
Thereafter		-
Total	\$	(699)

Town of Rich Square
Notes to Financial Statements
For the Year Ended June 30, 2021

NOTE III – DETAIL NOTES ON ALL FUNDS (continued)

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

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

	LGERS	LEOSSA	Total
Pension Expense (Benefit)	\$ 24,283	\$ (152)	\$ 24,131
Pension Liability	69,682	-	69,682
Proportionate share of the net pension liability	0.00195%	n/a	
Deferred Outflows of Resources			
Differences between expected and actual experience	\$ 8,800	\$ -	\$ 8,800
Changes of assumptions	5,186	395	5,581
Net difference between projected and actual earnings on pension plan investments	9,806	-	9,806
Changes in proportion and differences between Town contributions and proportionate share of contributions	8,187	-	8,187
Town contributions subsequent to the measurement date	12,091	-	12,091
Total	<u>\$ 44,070</u>	<u>\$ 395</u>	<u>\$ 44,465</u>
Deferred Inflows of Resources			
Differences between expected and actual experience	\$ -	\$ 872	\$ 872
Changes of assumptions	-	222	222
Changes in proportion and differences between Town contributions and proportionate share of contributions	5,177	-	5,177
Total	<u>\$ 5,177</u>	<u>\$ 1,094</u>	<u>\$ 6,271</u>

c. Other Employment Benefits

The Town has elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, State-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest months' salary in a row during the 24 months prior to the employee's death, but the benefit may not exceed \$50,000 or be less than \$25,000. 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 Rich Square
Notes to Financial Statements
For the Year Ended June 30, 2021

NOTE III – DETAIL NOTES ON ALL FUNDS (continued)

2. Deferred Outflows and Inflows of Resources

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

Differences between expected and actual experience	\$ 8,800
Changes of assumptions	5,581
Net difference between projected and actual earnings on pension plan investments	9,806
Changes in proportion and differences between Town contributions and proportionate share of contributions	8,187
Town contributions subsequent to the measurement date	12,091
Total	\$ 44,465

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

Source	Statement of Net Position	General Fund Balance Sheet
Differences between expected and actual experience	\$ 872	\$ -
Changes of assumptions	222	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	5,177	-
Taxes receivable, less penalties (General Fund)	-	81,392
Total	\$ 6,271	\$ 81,392

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 two self-funded risk-financing pools administered by the North Carolina League of Municipalities. Through these pools, the Town obtains workers' compensation coverage up to the statutory limits, and employee health coverage up to \$1 million lifetime limit. The pools are audited annually by certified public accountants, and the audited financial statements are available to the Town upon request. The pools are reinsured through commercial companies for single occurrence claims in excess of \$250,000 up to \$5 million for workers' compensation. The pools are reinsured for annual employee health claims in excess of \$150,000.

Town of Rich Square
Notes to Financial Statements
For the Year Ended June 30, 2021

NOTE III – DETAIL NOTES ON ALL FUNDS (continued)

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.

In accordance with G.S. 159-29, the Town's employees who 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 \$50,000; the Town Clerk is bonded for \$25,000.

The Town does not carry flood insurance.

3. Claims, Judgments and Contingent Liabilities

At June 30, 2021, the Town had no pending lawsuits.

4. Long-Term Obligations

a. Installment Purchase – Direct Placement

In July 2014, the Town entered into a \$181,000 direct placement installment purchase agreement with United States Department of Agriculture to finance the construction of water and sewer improvements. The property is pledged as collateral for the debt while the debt is outstanding. The financing contract requires annual principal payments of \$7,626, including interest of 2.75% paid annually.

Year Ending June 30	Business-type activities	
	Principal	Interest
2022	\$ 3,117	\$ 4,509
2023	3,202	4,424
2024	3,290	4,336
2025	3,381	4,245
2026	3,474	4,152
2027-2031	18,856	19,274
2032-2036	21,595	16,535
2037-2041	24,733	13,397
2042-2046	28,326	9,804
2047-2051	32,441	5,689
2052-2054	21,561	1,317
Total	\$ 163,976	\$ 87,682

Town of Rich Square
Notes to Financial Statements
For the Year Ended June 30, 2021

NOTE III – DETAIL NOTES ON ALL FUNDS (continued)

Installment purchase obligations from direct borrowings in the amount of \$163,976 include a provision that if the Town is determined to be in default, the full amount of the obligations could become due immediately, at the discretion of the lender.

c. Changes in Long-Term Liabilities

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion of Balance
Governmental activities:					
Net pension liability (LGERS)	\$ 29,062	\$ 24,287	\$ -	\$ 53,349	\$ -
Compensated absences	510	-	-	510	510
Governmental long-term liabilities	\$ 29,572	\$ 24,287	\$ -	\$ 53,859	\$ 510
Business-type activities:					
Installment purchase - direct placement	\$ 167,009	\$ -	\$ 3,033	\$ 163,976	\$ 3,117
Compensated absences	1,412	-	-	1,412	480
Net pension liability (LGERS)	8,898	7,435	-	16,333	-
Business-type long-term liabilities	\$ 175,907	\$ 7,435	\$ 3,033	\$ 181,721	\$ 3,597

D. Fund Balance

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

Total Fund Balance - General Fund	\$ 1,112,541
Less:	
Stabilization by State Statute	103,813
Streets - Powell Bill	6,525
Remaining Fund Balance	\$ 1,002,203

Town of Rich Square
Notes to Financial Statements
For the Year Ended June 30, 2021

NOTE III – DETAIL NOTES ON ALL FUNDS (continued)

E. Interfund Balances and Activity

Balances due to/from other funds at June 30, 2021 consist of the following:

Due to the General Fund from the Grant Project Fund	\$ 10,718
Due to the General Fund from the Water and Sewer Fund	<u>\$ 12,544</u>
	<u>\$ 23,262</u>

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

NOTE IV – SUMMARY OF 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 moneys 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 moneys.

NOTE V - SUBSEQUENT EVENTS

In March 2020, the World Health Organization made the assessment that the outbreak of a novel coronavirus (COVID-19) can be characterized as a pandemic. As a result, certain operations of the Town have been affected. The ability of some residents to make utility and tax payments has and may at times be impacted by the effects of the pandemic, as well as, state shared revenues, local, state and federal grant funding. In response to this event, the Town, through Executive Order of the Governor, suspended its cut-off policies for non-payment of utilities and/or extended due dates and payment options of utilities for residents. Continued effects of the pandemic may result in uncertainties and a negative impact on operating activities and results of the Town. The occurrence and extent of such an impact will depend on future developments, including (i) the duration and spread of the virus, (ii) government quarantine measures, (iii) voluntary and precautionary restrictions on travel or meetings, (iv) the effects on the financial markets, and (v) the effects on the economy overall, all of which are uncertain.

Subsequent to June 30, 2021, the Town received their first allocation of the American Rescue Plan fund in the amount of \$134,490 from the United States Department of the Treasury. The Town has received an equal additional grant in fiscal year 2023.

Town of Rich Square
Notes to Financial Statements
For the Year Ended June 30, 2021

NOTE V - SUBSEQUENT EVENTS (continued)

American Rescue Plan grant funds must be obligated by December 31, 2024 and expended by December 31, 2026. Grant funds can be expended for the following purposes:

- Support public health expenditures, by funding COVID-19 mitigation efforts, medical expenses, behavioral healthcare, and certain public health and safety staff;
- Address negative economic impacts caused by the public health emergency, including economic harms to workers, households, small businesses, impacted industries, and the public sector;
- Replace lost public sector revenue, using this funding to provide government services to the extent of the reduction in revenue experienced due to the pandemic;
- Provide premium pay for essential workers, offering additional support to those who have borne and will bear the greatest health risks because of their service in critical infrastructure sectors; and ,
- Invest in water, sewer, and broadband infrastructure, making necessary investments to improve access to clean drinking water, support vital wastewater and stormwater infrastructure, and to expand access to broadband internet.

In March 2023, the Town was awarded \$1 million in state grant allocation for wastewater treatment plant improvements.

Town of Rich Square
Town's Proportionate Share of Net Pension Liability
Local Government Employees' Retirement System
Required Supplementary Information
Last Eight Years*

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Rich Square's proportion of the net pension liability (asset) (%)	0.00195%	0.00139%	0.00241%	0.00283%	0.00329%	0.00295%	0.00299%	0.0024%
Rich Square's proportion of the net pension liability (asset) (\$)	\$ 69,682	\$ 37,960	\$ 57,173	\$ 43,235	\$ 69,825	\$ 13,239	\$ (17,634)	\$ 28,929
Rich Square's covered payroll	\$ 146,661	\$ 163,236	\$ 177,991	\$ 171,369	\$ 174,892	\$ 225,502	\$ 226,940	\$ 214,184
Rich Square's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	47.51%	23.25%	32.12%	25.23%	39.92%	5.87%	-7.77%	13.51%
Plan fiduciary net position as a percentage of the total pension liability **	88.61%	90.86%	91.63%	94.18%	91.47%	98.09%	102.64%	94.35%

* The amounts presented for each fiscal year were determined as of the prior fiscal year ending June 30. All information available for reporting under current GASB codification is presented. As information becomes available, it will be included in the above table.

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

**Town of Rich Square
Schedule of Contributions
Local Government Employees' Retirement System
Required Supplementary Information
Last Eight Fiscal Years***

	2021	2020	2019	2018	2017	2016	2015	2014
Contractually required contributions	\$ 12,091	\$ 13,351	\$ 13,029	\$ 12,997	\$ 12,109	\$ 12,021	\$ 15,877	\$ 15,910
Contributions in relation to the contractually required required contributions	<u>12,091</u>	<u>13,351</u>	<u>13,029</u>	<u>12,997</u>	<u>12,109</u>	<u>12,021</u>	<u>15,877</u>	<u>15,910</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Rich Square's covered payroll	\$ 119,123	\$ 146,611	\$ 163,236	\$ 177,991	\$ 171,369	\$ 174,892	\$ 225,502	\$ 226,940
Contributions as a percentage of covered payroll	10.15%	9.11%	7.98%	7.30%	7.07%	6.87%	7.04%	7.01%

* All information available for reporting under current GASB codification is presented. As information becomes available, it will be included in the above table.

Town of Rich Square
Schedule of Changes in Total Pension Liability
Law Enforcement Officers' Special Separation Allowance
June 30, 2021

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Beginning balance	\$ -	\$ 11,250	\$ 11,759	\$ 9,449
Service Cost	-	-	1,041	1,058
Interest on the total pension liability	-	410	372	365
Changes of benefit terms	-	-	-	-
Differences between expected and actual experience in the measurement of the total pension liability	-	(11,660)	(1,532)	-
Changes of assumptions or other inputs	-	-	(390)	887
Benefit payments	-	-	-	-
Other changes	-	-	-	-
Ending balance of the total pension liability	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,250</u>	<u>\$ 11,759</u>

Town of Rich Square
Schedule of Changes in Total Pension Liability as a Percentage of Covered Payroll
Law Enforcement Officers' Special Separation Allowance
June 30, 2021

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total pension liability	\$ -	\$ -	\$ 11,250	\$ 11,759
Covered payroll	-	-	54,821	62,023
Total pension liability as a percentage of covered payroll	0.00%	0.00%	20.52%	18.96%

Notes to the schedule:

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

Town of Rich Square
Schedules of Revenues, Expenditures, and Changes
in Fund Balances – Budget and Actual
General Fund
For the Year Ended June 30, 2021

	Budget	Actual	Variance Positive (Negative)
REVENUES			
Ad valorem taxes			
Taxes		\$ 290,082	
Penalties and interest		8,132	
Total	\$ 247,000	298,214	\$ 51,214
Other taxes and licenses			
Privilege licenses	1,000	725	(275)
Unrestricted intergovernmental			
Local option sales tax		258,011	
Utility franchise tax		59,416	
Beer and wine tax		4,359	
Tax refunds		1,386	
Total	224,500	323,172	98,672
Restricted intergovernmental			
CARES funds		35,675	
Powell Bill allocation		27,832	
Total	32,000	63,507	31,507
Permits and fees			
Court costs and fees	100	27	(73)
Investment earnings	100	92	(8)
Miscellaneous			
Sale of surplus property		5,125	
Miscellaneous		7,299	
Total	2,300	12,424	10,124
Total revenues	507,000	698,161	191,161

Town of Rich Square
Schedules of Revenues, Expenditures, and Changes
in Fund Balances – Budget and Actual
General Fund
For the Year Ended June 30, 2021

	Budget	Actual	Variance Positive (Negative)
EXPENDITURES			
General government			
Administration			
Salaries and benefits		113,267	
Telephone and postage		4,132	
Supplies and printing		4,033	
Dues		2,600	
Repairs and maintenance		11,851	
Collection fees		5,830	
Professional fees		28,915	
Public health		35,675	
Other expenditures		2,311	
Total general government	190,000	208,614	(18,614)
Public safety			
Police			
Salaries and benefits		1,544	
Repairs and maintenance		566	
Computer support		1,638	
Departmental supplies		3,734	
Telephone and utilities		548	
Contract services		57,875	
Other expenditures		319	
Total	110,000	66,224	43,776
Fire department			
Annual allocation	3,000	3,350	(350)
Total public safety	113,000	69,574	43,426

Town of Rich Square
Schedules of Revenues, Expenditures, and Changes
in Fund Balances – Budget and Actual
General Fund
For the Year Ended June 30, 2021

	Budget	Actual	Variance Positive (Negative)
Transportation			
Salaries and benefits		148,949	
Utilities		48,451	
Repairs and maintenance		10,924	
Departmental supplies		16,098	
Solid waste fees		4,234	
Insurance		34,720	
Uniforms		4,134	
Powell Bill		27,940	
Capital outlay		24,167	
Total transportation	204,000	319,617	(115,617)
Total expenditures	507,000	597,805	(90,805)
Net change in fund balance	\$ -	100,356	\$ 100,356
Fund balance, beginning		1,012,185	
Fund balance, ending		\$ 1,112,541	

Town of Rich Square
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2021

	Nonmajor Funds		
	Grant Project Fund	Cemetery Fund	Total Nonmajor Governmental Funds
ASSETS			
Restricted cash and cash equivalents	\$ 1,529	\$ 218,329	\$ 219,858
Total assets	\$ 1,529	\$ 218,329	\$ 219,858
LIABILITIES			
Due to other funds	10,718	-	10,718
Total liabilities	10,718	-	10,718
FUND BALANCES			
Non Spendable			
Perpetual maintenance	-	218,329	218,329
Unassigned	(9,189)	-	(9,189)
Total fund balances	(9,189)	218,329	209,140
Total liabilities, deferred inflows of resources and fund balances	\$ 1,529	\$ 218,329	\$ 219,858

Town of Rich Square
Combining Statement of Revenues, Expenditures and
Changes in Fund Balance - Nonmajor Governmental Funds
For the Year Ended June 30, 2021

	<u>Nonmajor Funds</u>		
	Grant Project Fund	Cemetery Fund	Total Nonmajor Governmental Funds
REVENUES			
Sales and services	\$ -	\$ 2,810	\$ 2,810
Investment earnings	-	641	641
Total revenues	-	3,451	3,451
EXPENDITURES			
Current:			
Environmental protection	-	6,625	6,625
Total expenditures	-	6,625	6,625
Net change in fund balance	-	(3,174)	(3,174)
Fund balances - beginning	(9,189)	221,503	212,314
Fund balances - ending	\$ (9,189)	\$ 218,329	\$ 209,140

Town of Rich Square
Schedules of Revenues, Expenditures, and Changes
in Fund Balances – Budget and Actual
Cemetery Fund
For the Year Ended June 30, 2021

	Budget	Actual	Variance Positive (Negative)
REVENUES			
Sales and service			
Cemetery plot sales	\$ 6,000	\$ 2,810	\$ (3,190)
Investment earnings	-	641	641
Total revenues	6,000	3,451	(2,549)
EXPENDITURES			
Environmental protection			
Maintenance	6,000	6,625	(625)
Total expenditures	6,000	6,625	(625)
Net change in fund balance	\$ -	(3,174)	\$ (3,174)
Fund balance, beginning		221,503	
Fund balance, ending		\$ 218,329	

Town of Rich Square
Schedules of Revenues, Expenditures, and Changes
in Fund Balances – Budget and Actual
Grant Project Fund
From Inception and For the Year Ended June 30, 2021

	Project Authorization	Prior Year	Current Year	Total to Date	Variance Positive (Negative)
REVENUES					
Restricted intergovernmental:					
Grant revenue	\$ -	\$ -	\$ -	\$ -	-
Total revenues	-	-	-	-	-
EXPENDITURES					
Economic development					
Construction	210,718	210,718	-	210,718	-
Total expenditures	210,718	210,718	-	210,718	-
Revenues under expendtiures	(210,718)	(210,718)	-	(210,718)	-
OTHER FINANCING SOURCES					
Transfer from General Fund	210,718	201,529	-	201,529	(9,189)
Net change in fund balance	\$ -	\$ (9,189)	-	\$ (9,189)	\$ (9,189)
Fund balance, beginning			(9,189)		
Fund balance, ending			\$ (9,189)		

Town of Rich Square
Schedules of Revenues and Expenditures
Budget and Actual (Non-GAAP)
Water and Sewer Fund
For the Year Ended June 30, 2021

	Budget	Actual	Variance Positive (Negative)
REVENUES			
Operating revenues			
Charges for services		\$ 316,771	
Other operating revenues		1,787	
Total	\$ 302,000	318,558	\$ 16,558
Nonoperating revenues			
Investment earnings		23	
Total		23	23
Total revenues	302,000	318,581	16,581
EXPENDITURES			
Administration			
Salaries and benefits		12,754	
Postage and telephone		6,330	
Computer support		4,844	
Total	106,000	23,928	82,072
Water and sewer treatment and distribution			
Water and sewer test		18,513	
Utilities		39,132	
Supplies and materials		46,757	
Repairs and maintenance		60,543	
Solid waste disposal		2,859	
Permits		1,770	
Miscellaneous		22,009	
Total	168,000	191,583	(23,583)
Capital outlay	20,000	187,890	(167,890)

Town of Rich Square
Schedules of Revenues and Expenditures
Budget and Actual (Non-GAAP)
Water and Sewer Fund
For the Year Ended June 30, 2021

	Budget	Actual	Variance Positive (Negative)
Debt service			
Principal		3,033	
Interest		4,593	
Total	8,000	7,626	374
Total expenditures	302,000	411,027	(109,027)
Revenues over (under) expenditures	-	(92,446)	(92,446)
Other Financing Sources			
Fund balance appropriated	-	-	-
Revenues over (under) expenditures and other financing sources	\$ -	\$ (92,446)	\$ (92,446)

Reconciliation from budgetary basis to
full accrual:

Reconciling items:

Capital contributions from capital project fund	1,749,584
Capital outlay	187,890
Debt principal	3,033
Increase in deferred outflows of resources - pensions	1,148
Increase in net pension liability	(7,435)
Decrease in deferred inflows of resources - pensions	597
Depreciation	(154,466)
Total reconciling items	1,780,351
Change in net position	\$ 1,687,905

Town of Rich Square
Schedules of Revenues and Expenditures
Budget and Actual (Non-GAAP)
Water and Sewer Capital Project Fund
From Inception and For the Year Ended June 30, 2021

	Project Authorization	Prior Year	Current Year	Total to Date	Variance Positive (Negative)
REVENUES					
Restricted intergovernmental:					
Grant revenue	\$ 2,000,000	\$ 250,416	\$ 1,749,584	\$ 2,000,000	\$ -
Total revenues	2,000,000	250,416	1,749,584	2,000,000	-
EXPENDITURES					
Administration	260,427	39,000	221,427	260,427	-
Engineering	105,250	-	105,250	105,250	-
Surveying	81,400	-	81,400	81,400	-
Construction	1,552,923	211,416	1,341,507	1,552,923	-
Total expenditures	2,000,000	250,416	1,749,584	2,000,000	-
Revenues over expenditures	\$ -	\$ -	\$ -	\$ -	\$ -

Town of Rich Square
Schedule of Ad Valorem Taxes Receivable
June 30, 2021

Fiscal Year	Uncollected Balance June 30, 2020	Additions	Collections and Credits	Uncollected Balance June 30, 2021
2020-2021	\$ -	\$ 287,433	\$ 264,765	\$ 22,668
2019-2020	26,275	-	9,076	17,199
2018-2019	20,069	-	4,349	15,720
2017-2018	16,432	-	3,015	13,417
2016-2017	12,967	-	2,509	10,458
2015-2016	10,367	-	2,159	8,208
2014-2015	9,659	-	916	8,743
2013-2014	8,553	-	878	7,675
2012-2013	6,806	-	170	6,636
2011-2012	6,122	-	571	5,551
2010-2011	4,668	-	4,668	-
	<u>\$ 121,918</u>	<u>\$ 287,433</u>	<u>\$ 293,076</u>	<u>116,275</u>
Less: allowance for uncollectible amounts				<u>(34,883)</u>
Ad valorem taxes receivable - net				<u><u>\$ 81,392</u></u>
<u>Reconciliation with revenues:</u>				
Ad valorem taxes - General Fund				\$ 298,214
Penalties and interest				(8,132)
Taxes written off				<u>2,994</u>
Total collections and credits				<u><u>\$ 293,076</u></u>

**Town of Rich Square
Analysis of Current Tax Levy
Town-wide Levy
For the Year Ended June 30, 2021**

	Property Valuation	Rate	Total Levy	Total Levy	
				Property excluding Registered Motor Vehicles	Registered Motor Vehicles
Property taxed at current	\$ 44,220,498	0.65	\$ 296,484	\$ 254,456	42,028
Penalties	-		85	85	-
Abatements	-		-	(9,136)	-
Total property valuation	<u>\$ 44,220,498</u>				
Net levy			287,433	245,405	42,028
Uncollected taxes at June 30, 2021			22,668	22,668	-
Current year's tax collected			<u>\$ 264,765</u>	<u>222,737</u>	<u>\$ 42,028</u>
Current levy collection percentage			<u>92.11%</u>	<u>90.76%</u>	<u>100.00%</u>

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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 Aldermen
Town of Rich Square, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Rich Square, 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, and have issued our report thereon dated September 29, 2023.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, Responses and Questioned Costs, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying Schedule of Findings, Responses, and Questioned Costs as items 2021-001, 2021-003, and 2021-004 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings, Responses, and Questioned Costs as items 2021-002 and 2021-005 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Rich Square's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings, Responses, and Questioned Costs as items 2021-002, 2021-003, 2021-004, and 2021-005.

Town of Rich Square's Responses to Findings

The Town of Rich Square's responses to the findings identified in our audit are described in the accompanying Schedule of Findings, Responses, and Questioned Costs. The Town's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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.

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P. A.
Hickory, North Carolina
September 29, 2023

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

Independent Auditor's Report

To the Honorable Mayor and
Members of the Board of Aldermen
Town of Rich Square, North Carolina

Report on Compliance for Each Major Federal Program

We have audited the Town of Rich Square, North Carolina's 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 Rich Square's major federal programs for the year ended June 30, 2021. The Town of Rich Square's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings, Responses, and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the federal 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 Rich Square's 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 non-compliance 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 Rich Square's 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 the Town of Rich Square's compliance.

Opinion on Each Major Federal Program

In our opinion, the Town of Rich Square complied, in all material respects, with the 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, 2021.

Report on Internal Control Over Compliance

Management of the Town of Rich Square 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 Rich Square's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine our auditing procedures that are appropriate in the circumstances for the purpose of expressing our 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 the Town of Rich Square's 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, non-compliance 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 reasonable possibility that material non-compliance 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P. A.
Hickory, North Carolina
September 29, 2023

TOWN OF RICH SQUARE, NORTH CAROLINA

SCHEDULE OF FINDINGS, RESPONSES, AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2021

1. Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

• Material weakness(es) identified? Yes

• Significant deficiency(s) identified? Yes

Non-compliance material to financial statements noted? Yes

Federal Awards

Internal control over major federal programs:

• Material weakness(es) identified? No

• Significant deficiency(s) identified? None reported

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)? No

Identification of major federal programs:

<u>Program Name</u>	<u>AL #</u>
Community Development Block Grants/ State's program and Non-Entitlement Grants in Hawaii	14.228

TOWN OF RICH SQUARE, NORTH CAROLINA

SCHEDULE OF FINDINGS, RESPONSES, AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2021

2. Financial Statements Findings

Finding 2021-001:

Material Weakness

Criteria: Duties should be segregated to provide reasonable assurance that transactions are handled appropriately.

Condition: Due to staff turnover and limited number of personnel in the Town office, there are inherent limitations to segregation of duties among Town personnel. During the year ended June 30, 2021, a single individual prepared checks, reconciled bank accounts, performed all payroll duties, and maintained the general ledger. The Finance Officer had full access to make adjustments in the general ledger system with limited oversight; therefore, there were not sufficient checks and balances in place. Turnover in the small staff of the Town required some duties to shift and consolidate. The Town's Mayor provides some review and oversight. A consultant was hired in June 2021 to take over some Finance Officer functions.

Effect: Adjustments could be made without oversight. Assets of the Town could be misappropriated. Errors could occur that are not detected and corrected in a timely manner.

Cause: There are a limited number of personnel for certain functions.

Recommendation: Access to the books and records of the Town should be separated from access to the assets of the Town as much as possible. Alternative controls should be used to compensate for any lack of segregation of duties.

Views of Responsible Officials and Corrective Action Plan: Management concurs with this finding and will adhere to the Corrective Action Plan in this audit report.

TOWN OF RICH SQUARE, NORTH CAROLINA

SCHEDULE OF FINDINGS, RESPONSES, AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2021

Finding 2021-002:

Significant Deficiency, Non-Compliance

Criteria: N.C. General Statute 159-34 requires those within the Town with responsibility for keeping records of public financial or fiscal affairs to produce all books and records requested by the auditor and divulge such information relating to fiscal affairs as he may request.

Condition: Personnel records requested by the auditor were unavailable. The requested personnel files of two employees were missing.

Effect: Employee information submitted to the ORBIT system for the retirement plan could not be verified.

Cause: Controls over record-keeping were not in place. Personnel files were possibly misplaced during a change in location.

Recommendation: The Town's management should have procedures in place to ensure records are retained according to federal and state records retention guidance. Personnel records should only be disposed of securely due to the sensitive nature of the information in the files. Also, all records for the fiscal year that have not yet been audited should be retained in case they are requested during the audit process.

Views of Responsible Officials and Corrective Action Plan: Management concurs with this finding and will adhere to the Corrective Action Plan in this audit report.

TOWN OF RICH SQUARE, NORTH CAROLINA

SCHEDULE OF FINDINGS, RESPONSES, AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2021

Finding 2021-003:

Material Weakness, Non-Compliance

Criteria: N.C. General Statute 159-28(a) requires that all money received and expended by a local government should be included in the budget ordinance. The statutes require that funds be appropriated before incurring the obligation for funds. These requirements imply that the Town has a responsibility to design a system to monitor its compliance with the budget ordinance and the General Statutes pertaining to local government finance.

Condition: There is over expenditure in three of the Town's funds. A detailed note of the excess of expenditures over appropriations is found in the notes to the financial statements of the Town's audit report.

Effect: Expenditures exceed budget amounts.

Cause: There was a lack of budgetary monitoring controls. There were no amendments to the original budget during the year.

Identification of a Repeat Finding: This is a repeat finding from the immediate previous audit, 2020-4.

Recommendation: Management and the Board should review the budget reports to ensure compliance in future years.

Views of Responsible Officials and Planned Corrective Action: The Town agrees with this finding and will adhere to the Corrective Action Plan in this audit report.

TOWN OF RICH SQUARE, NORTH CAROLINA

SCHEDULE OF FINDINGS, RESPONSES, AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2021

Finding 2021-004:

Material Weakness, Non-Compliance

Criteria: N.C. General Statute 159-34 requires the Town to have an audit as soon as possible after the close of each fiscal year.

Condition: The Town's audit was submitted significantly after the close of the fiscal year.

Effect: The conditions below caused a delay in the issuance of the Town's audit report.

Cause: The Town's prior year audit was significantly delayed due to restrictions in place related to COVID-19, so the current year audit was also delayed as a result. The Town then experienced turnover in the finance officer position, which caused further delays.

Identification of a Repeat Finding: This is a repeat finding from the immediate previous audit, 2020-1.

Recommendation: Establish a timeline for audit preparation so that the required information and financial statements drafted by the third-party consultant can be provided within the agree-upon timeframe for timely audit completion.

Views of Responsible Officials and Planned Corrective Action: The Town agrees with this finding and will adhere to the Corrective Action Plan in this audit report.

TOWN OF RICH SQUARE, NORTH CAROLINA

SCHEDULE OF FINDINGS, RESPONSES, AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2021

Finding 2021-005:

Significant Deficiency, Non-Compliance

Criteria: Per N.C. General Statute 159-13, the full amount of any deficit in each fund shall be appropriated in the budgeting process.

Condition: The Grant Project Fund continues to carry a deficit fund balance. A detailed note of the deficit fund balance, or net positions, is found in the notes to the financial statements of the Town's audit report.

Effect: The Town is not in compliance with general statutes.

Cause: The Town did not appropriate the full amount of the deficit in the Grant Project Fund in the budget process for the fiscal year ended June 30, 2022.

Identification of a Repeat Finding: This is a repeat finding from the immediate previous audit, 2020-3.

Recommendation: The Town should budget to correct any deficits annually.

Views of Responsible Officials and Planned Corrective Action: The Town agrees with this finding and will adhere to the Corrective Action Plan in this audit report.

TOWN OF RICH SQUARE, NORTH CAROLINA
SCHEDULE OF FINDINGS, RESPONSES, AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2021

3. Federal Award Findings and Questioned Costs

None reported.

TOWN OF RICH SQUARE

PO BOX 366

Rich Square, NC 27869

CORRECTIVE ACTION PLAN

Financial Statement Findings

Material Weakness

Finding 2021-001 – Segregation of duties

Name of Contract Person: Reginald White - Mayor

Corrective Action: The Town employs less than 10 people on a full-time basis to cover the police department, water and sewer department as well as the administrative staff. The Town's ability to segregate duties in the Finance Department is limited by staffing levels; however, the following action will be taken in the future to further establish strong internal controls. Increase credentialed staffing for core financial and administrative functions. Enhance staff cross-training in the finance area. The Town will continue to have issues in this area until everyone can be trained and staffing levels increased.

Proposed Completion Date: The Town will implement the above procedure immediately

Significant Deficiency, Non-Compliance

Finding 2021-002 – Missing requested personnel files

Name of Contract Person: Reginald White - Mayor

Corrective Action: To address the missing records, Management has initiated a new personnel policy for all new staff and new hires. They are diligently working on compiling all the missing documents and are keeping them in a safe and secure place.

Proposed Completion Date: The Town will implement the above procedure immediately

Material Weakness, Non-Compliance

Finding 2021-003 – Excess of expenditures over appropriations

Name of Contract Person: Reginald White - Mayor

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

Proposed Completion Date: The Town will implement the above procedure immediately

Material Weakness, Non-Compliance

Finding 2021-004 – Delayed audit completion

Name of Contract Person: Reginald White - Mayor

Corrective Action: Management and the Board are aware of the problem regarding the late audit report. Management will exercise additional oversight going forward to ensure future audits are submitted in a timely manner. Significant changes have occurred since the last audit submission and management believes this changes will resolve these problems.

Proposed Completion Date: The Town will implement the above procedure immediately

Financial Statement Findings (continued)

Material Weakness, Non-Compliance

Finding 2021-005 – Deficit fund balance in The Grant Project Fund

Name of Contract Person: Reginald White - Mayor

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

Proposed Completion Date: The Town will implement the above procedure immediately

TOWN OF RICH SQUARE, NORTH CAROLINA

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2021

Finding: 2020-1

Status: Not corrected. Repeated as Finding 2021-004.

Finding: 2020-2

Status: Corrected.

Finding: 2020-3

Status: Not corrected. Repeated as Finding 2021-005.

Finding: 2020-4

Status: Partially corrected. Repeated as Finding 2021-003.

Town of Rich Square
Schedule of Expenditures of Federal and State Awards
For the Year Ended June 30, 2021

Federal Agency Pass-through Grantor Program Title	Assistance Listing Number	Contract/ Grant Number	Federal (Direct and Pass-through) Expenditures	State Expenditures	Provided to Subrecipients
Federal Awards					
Department of Housing and Urban Development					
Passed through NC Department of Environmental Quality					
Division of Water Infrastructure					
Community Development Block Grant/State's Program and Non-Entitlement Grants in Hawaii	14.228	14-I-3041	\$ 1,080,556	\$ -	\$ -
Community Development Block Grant/State's Program and Non-Entitlement Grants in Hawaii	14.228	17-I-2969	669,028	-	-
Total Department of Housing and Urban Development			1,749,584	-	-
Department of the Treasury					
Passed through NC Office of Management and Budget					
NC Pandemic Recovery Office					
COVID-19 - Coronavirus Relief Fund	21.019	XXXX	35,675	-	-
Total Department of the Treasury			35,675	-	-
State Programs					
N.C. Department of Transportation					
Powell Bill	N/A	DOT-4 4000036033	-	27,940	-
Total N.C. Department of Transportation			-	27,940	-
Total Expenditures of Federal and State Awards			\$ 1,785,259	\$ 27,940	\$ -

Town of Rich Square
Notes to the Schedule of Expenditures of Federal and State Awards
For the Year Ended June 30, 2021

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 Rich Square under the program of the federal government and the State of North Carolina for the year ended June 30, 2021. The information in the 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, it is not intended to and does not present the financial position, changes in net position or cash flows of the Town.

Note2: Summary of Significant Accounting Policies

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

Note 3: Indirect Cost Rate

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

Note 4: Noncash Assistance

The Town did not receive any noncash assistance, federally funded insurance, free rent, etc.

Note 5: Loans and Loan Guarantees

The Town did not have any loans or loan guarantee programs required to be reported on the SEFSA.