

TOWN OF RED CROSS
AUDIT OF FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010

TOWN OF RED CROSS
2010

Ray Quick
Mayor

Jerry Jordan
Council Member

Larry Wayne Smith
Mayor Pro-Tem

Kelly Brattain
Council Member

Heath Hahn
Council Member
Finance Officer

**TOWN OF RED CROSS
JUNE 30, 2010**

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Gerrelene M. Walker

CPA, CFF, CFE

INDEPENDENT AUDITORS' REPORT

To the Town Board
Town of Red Cross
Red Cross, North Carolina

I have audited the accompanying financial statements of the governmental activities (the only major fund), budget to actual comparisons for the general fund on the Town of Red Cross, North Carolina, as of and for the year ended June 30, 2010, which collectively comprise the Town of Red Cross's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Red Cross, North Carolina's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, based on my audit, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities (the only major fund) on the Town of Red Cross, North Carolina, as of June 30, 2010, and the respective changes in financial position and cash flows, were applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by Governmental Accounting Standards Board. I have applied certain limited procedure, which consisted principally of inquiries of management

regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit this information and express no opinion on it.

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Town of Red Cross, North Carolina basic financial statements. The individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated, in all respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Gerrelene M. Walker". The signature is written in a cursive, flowing style.

Gerrelene M. Walker, CPA/CFF, CFE
October 31, 2010

**TOWN OF RED CROSS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010**

As management of the Town of Red Cross, we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town of Red Cross for the fiscal year ended June 30, 2010. 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.

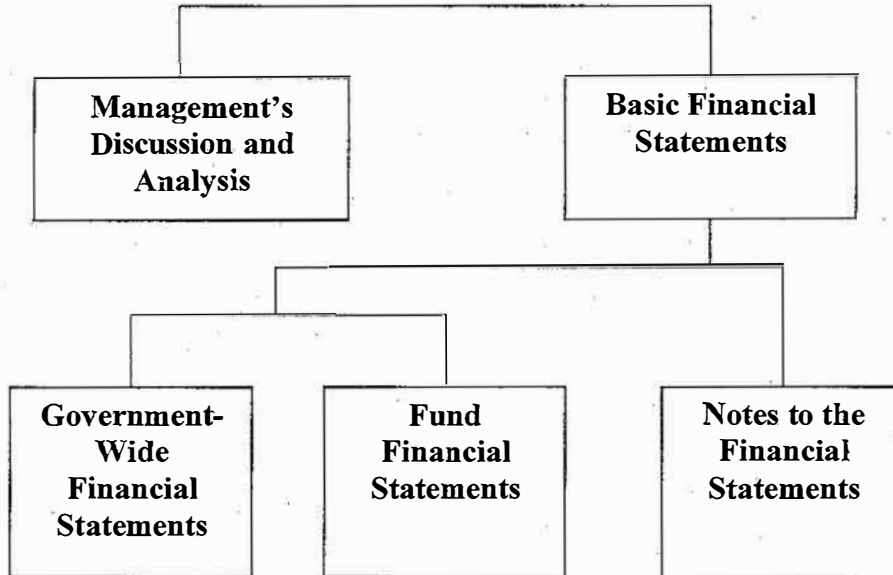
Financial Highlights

- The assets of the Town of Red Cross exceeded its liabilities at the close of the fiscal year by \$983,868 (net assets).
- As of the close of the current fiscal year, the Town of Red Cross' governmental funds reported ending fund balance of \$983,868 a increase of \$108,229 in comparison to the prior year. Approximately 51.4 percent of this total amount is available for spending at the government's discretion (unreserved fund balance).
- At the end of the current fiscal year, unreserved fund was \$506,101, or 351 percent of total general fund expenditures for the fiscal year.

Overview of the Financial Statements

This discussion and analysis are 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 of Red Cross

Required Components of Annual Financial Report
Figure 1



Summary----->Detail

Basic Financial Statements

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

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

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

Government-wide Financial Statements

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

The two government-wide statements report the town net assets and how they have changed. Net assets are the difference between the town's total assets and total liabilities. Measuring net assets is one way to gauge the town's financial condition.

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 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 Assets and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The Town of Red Cross adopts an annual budget for its funds, although it is not required to do so 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.

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 are behind Exhibit 4 of this report.

Government-wide Financial Analysis

The government-wide financial statements are designed to provide the reader with a broad overview of the Town's finances, similar in format to the financial statement of 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 on the Town's net assets and how they have changed. Net assets are the difference between the Town's total assets and total liabilities. Measuring net assets is one way to gauge the Town's financial condition.

Management Discussion and Analysis
Town of Red Cross

The Town of Red Cross in the government-wide statement has only governmental activities at June 30, 2010. The governmental activities include basic services such as public safety, general administration, and sanitation. Property taxes and sales and franchise tax finance most of these activities.

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

	Governmental Activities		Total	
	2009	2010	2009	2010
Current and Other Assets	\$ 453,001	\$ 520,507	\$ 453,001	\$ 520,507
Capital Assets	912,896	912,527	912,896	912,527
Total Assets	<u>\$ 1,365,897</u>	<u>\$ 1,433,034</u>	<u>\$ 1,365,897</u>	<u>\$ 1,433,034</u>
Long Term Liabilities				
Outstanding	\$ 453,591	\$ 412,499	\$ 453,591	\$ 412,499
Other Liabilities	36,667	36,667	36,667	36,667
Total Liabilities	<u>\$ 490,258</u>	<u>\$ 449,166</u>	<u>\$ 490,258</u>	<u>\$ 449,166</u>
Net Assets:				
Invested in Capital Assets, net of				
Related Debt	\$ 427,063	\$ 463,361	\$ 427,063	\$ 463,361
Contributed capital	-	-	-	-
Restricted	-	14,406	-	14,406
Unrestricted	443,576	506,101	443,576	506,101
Total Net Assets	<u>\$ 875,639</u>	<u>\$ 983,868</u>	<u>\$ 875,639</u>	<u>\$ 983,868</u>

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition. The assets of the Town of Red Cross exceeded liabilities by \$983,868 as of June 30, 2010. The Town's net assets increased by \$108,229 for the fiscal year ended June 30, 2010.

Several Particular aspects of the Town's financial operations influence the total restricted and unrestricted governmental net assets:

- The Town has no other particular aspects to address for this fiscal year.

Management Discussion and Analysis
Town of Red Cross

Town of Red Cross Changes in Net Assets
Figure 3

	Governmental		Total	
	Activities			
	2010	2009	2010	2009
Revenue:				
General Revenue:				
Property Taxes	\$ 81,560	\$ 80,513	\$ 81,560	\$ 80,513
Other Taxes	145,894	173,054	145,894	173,054
Restricted Revenue	15,305		15,305	
Other	9,627	7,649	9,627	7,649
Total Revenue	\$ 252,386	\$ 261,216	\$ 252,386	\$ 261,216
Expenses:				
General Government	\$ 40,907	\$ 31,137	\$ 40,907	\$ 31,137
Public safety	40,577	41,386	40,577	41,386
Environmental Protection	43,365	43,260	43,365	43,260
Interest on Lt Debt	19,308	20,906	19,308	20,906
Total Expenses	\$ 144,157	\$ 136,689	\$ 144,157	\$ 136,689
Increase in net assets before Transfers	\$ 108,229	\$ 124,527	\$ 108,229	\$ 124,527
Transfers	\$ -	\$ -	\$ -	\$ -
Increase in Net Assets	\$ 108,229	\$ 124,527	\$ 108,229	\$ 124,527
Net Assets, July 1	875,639	750,452	875,639	750,452
Prior Period Adjustment of Net assets		660		660
Net Assets, June 30	\$ 983,868	\$ 875,639	\$ 983,868	\$ 875,639

Governmental activities. Governmental activities increased the Town's net assets by \$108,229. This is primarily due to tax revenues remaining steady.

Financial Analysis of the Town's Funds

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

Governmental Funds. The focus of the Town of Red Cross's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the Town of Red Cross'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 of Red Cross. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$478,107 and the total fund balance is \$517,136. The \$24,623 includes amounts designed by State Statute and Reserved for Powell was \$14,406.

Management Discussion and Analysis
Town of Red Cross

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 Finance Officer. Town of Red Cross, 176E Red Cross Road, Oakboro, NC 28129, Telephone 704-485-3887.

TOWN OF RED CROSS, NORTH CAROLINA
STATEMENT OF NET ASSETS
June 30, 2010

	Primary Government	
	Governmental Activities	Total
<u>ASSETS</u>		
Current Assets:		
Cash and Cash Equivalents	\$ 492,514	\$ 492,514
Taxes Receivable (Net)	3,371	3,371
Accounts Receivable (Net)	24,622	24,622
Total Current Assets	\$ 520,507	\$ 520,507
Non-current Assets:		
Capital assets		
Land - Non Depreciable	\$ 714,591	\$ 714,591
Other Capital Assets, Net of Depreciation	197,936	197,936
Total Capital Assets	\$ 912,527	\$ 912,527
Total Assets	\$ 1,433,034	\$ 1,433,034
<u>LIABILITIES</u>		
Current Liabilities		
Current portion of long-term liabilities	\$ 36,667	\$ 36,667
Long term liabilities:		
Due in more than one year	412,499	412,499
Total Liabilities	\$ 449,166	\$ 449,166
<u>NET ASSETS</u>		
Invested in Capital Assets, net of related debt	\$ 463,361	\$ 463,361
Restricted - Transportation	14,406	14,406
Unrestricted	506,101	506,101
Total Net Assets	\$ 983,868	\$ 983,868

See Auditor's Opinion

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

TOWN OF RED CROSS, NORTH CAROLINA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010

Functions / Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges For Services	Capital Grants And Contributions	Governmental Activities	Total
Primary government:					
Governmental Activities					
General Government	\$ 40,907	\$ -	\$ 15,305	\$ (25,602)	\$ (25,602)
Public safety	40,577	-	-	(40,577)	(40,577)
Environmental Protection	43,365	-	-	(43,365)	(43,365)
Interest of Lt. Debt	19,308	-	-	(19,308)	(19,308)
Total Governmental Activities	<u>144,157</u>	<u>-</u>	<u>15,305</u>	<u>(128,852)</u>	<u>(128,852)</u>
Total	<u>\$ 144,157</u>	<u>\$ -</u>	<u>\$ 15,305</u>	<u>(128,852)</u>	<u>(128,852)</u>
General Revenues:					
Taxes:					
Property taxes, levied for general purpose				81,560	81,560
Grants and taxes not restricted to a specific program				145,894	145,894
Investment earnings				8,696	8,696
Other				<u>931</u>	<u>931</u>
Total General Revenues				<u>237,081</u>	<u>237,081</u>
Change in Net Assets				108,229	108,229
Net Assets - beginning				<u>875,639</u>	<u>875,639</u>
Net Assets - ending				<u>\$ 983,868</u>	<u>\$ 983,868</u>

See Auditors Opinion

The Notes to Financial Statements are an integral part of these Statements.

TOWN OF RED CROSS, NORTH CAROLINA
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2010

	Major Fund General	Total Governmental Funds
<u>ASSETS</u>		
Cash and Cash Equivalents	\$ 492,514	\$ 492,514
Receivable, (Net):		
Taxes	3,371	3,371
Due from other governments	24,622	24,622
Total Assets	<u>\$ 520,507</u>	<u>\$ 520,507</u>
<u>LIABILITIES AND FUND BALANCES</u>		
Liabilities:		
Deferred Revenue	\$ 3,371	\$ 3,371
Total Liabilities	<u>\$ 3,371</u>	<u>\$ 3,371</u>
Fund Balances		
Reserved for		
State Statute	\$ 24,623	\$ 24,623
Streets - Powell	\$ 14,406	\$ 14,406
Unreserved	478,107	478,107
Total Fund Balance	<u>\$ 517,136</u>	517,136
Total Liabilities and Fund Balance	<u>\$ 517,136</u>	

Amounts reported for governmental activities in the Statement of Net Assets
(Exhibit 1) are different because:

Liabilities for earned but deferred revenues in fund statements		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the		
Gross capital assets at historical cost	931,599	
Accumulated depreciation	<u>(19,072)</u>	912,527
Long term liabilities are not due and payable in the current p and therefore, not reported in the current period		(449,166)
Liabilities for earned but deferred in fund statements		<u>\$ 3,371</u>
Net assets of governmental activities		<u>\$ 983,868</u>

See Auditor's Opinion

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

TOWN OF RED CROSS, NORTH CAROLINA
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES
IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	General Fund	Total Governmental Fund
<u>REVENUE:</u>		
Ad Valorem Taxes	\$ 78,189	\$ 78,189
Other Taxes and licenses	145,894	145,894
Restricted Intergovernmental	15,305	15,305
Investment Earnings	8,696	8,696
Miscellaneous	931	931
Total Revenue	<u>\$ 249,015</u>	<u>\$ 249,015</u>
<u>EXPENDITURES:</u>		
Current:		
General Government	\$ 40,538	\$ 40,538
Public Safety	40,577	40,577
Environmental protection	43,365	43,365
Debt Service	36,667	36,667
Principal Interest	19,308	19,308
Total Expenditures	<u>\$ 180,455</u>	<u>\$ 180,455</u>
Excess (deficiency) of revenues over expenditures	<u>\$ 68,560</u>	<u>\$ 68,560</u>
<u>Other Financing Sources (Uses)</u>		
None	<u>\$ -</u>	<u>\$ -</u>
Net Change in Fund Balance	\$ 68,560	\$ 68,560
Fund Balance - Beginning	<u>448,576</u>	<u>448,576</u>
Fund Balance - Ending	<u><u>\$ 517,136</u></u>	<u><u>\$ 517,136</u></u>

See Auditor's Opinion

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

TOWN OF RED CROSS, NORTH CAROLINA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010

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

Net changed in fund balances - total governmental funds	\$	68,560
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Governmental funds report capital outlay as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period,

Capital outlay expenditures which were capitalized	6,833	-	
Depreciation expense for governmental assets	(7,202)	(369)	

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term consumes the current financial resources to governmental funds. Neither transaction has any effect on net assets. Also, governmental funds report the effect of issuance cost, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Principal payments on long term debt	36,667	36,667	
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Revenues in the statement of activities that do not provide current financial resources and are not reported as revenues in the funds.

Change in deferred tax revenues		33,711	
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Total changes in net assets of governmental activities	\$	108,229	
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See Auditor's Opinion

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

TOWN OF RED CROSS, NORTH CAROLINA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	General Fund			
	Original	Final	Actual Amounts	Variance Final Budget- Positive (Negative)
Revenues:				
Ad Valorem taxes	\$ 75,000	\$ 75,000	\$ 78,189	\$ 3,189
Other taxes and licenses	130,800	130,800	145,894	15,094
Restricted Intergovernmental	-	-	15,305	15,305
Investments earnings	-	-	8,696	8,696
Miscellaneous	-	-	931	931
Total revenues	205,800	205,800	249,015	43,215
Expenditures:				
Current:				
General government	69,560	69,560	40,538	29,022
Public safety	42,240	42,240	40,577	1,663
Environmental protection	43,000	43,000	43,365	(365)
Debt Service	51,000	51,000	55,975	(4,975)
Total Expenditures	205,800	205,800	180,455	25,345
Revenue over (under) expenditures			68,560	68,560
Other financing sources (uses)	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Appropriated Fund Balance	-	-	-	-
Net change in fund balance	\$ -	\$ -	68,560	\$ 68,560
Fund balances, beginning			448,576	
Fund balances, ending			\$ 517,136	

TOWN OF RED CROSS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

I. Summary of Significant Accounting Policies

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

A. Reporting Entity

The Town of Red Cross is a municipal corporation which is governed by an elected mayor and a four-member council.

B. Basis of Presentation

Government – wide Statements: The statement of net assets 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 *governmental* and *business-type* activities (the town has no business type activities). Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the Town's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. The Town has no program revenues at this time. 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* (no proprietary fund at June 30, 2010) – are presented. The emphasis of fund financial statements is on major governmental funds.

The Town reports the following major governmental fund.

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

C. Measurement Focus and Basis of Accounting

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

TOWN OF RED CROSS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

Government-wide Financial Statements: The government -- wide financial statements are reported using the accrual basis for 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. Nonexchange 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.

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 and claims and judgments which are recognized as expenditures to the extent they have matured. General capital assets are reported as expenditures in governmental funds. Proceeds of general long-term debt is reported as other financing sources.

The Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as a revenue because the amount is not susceptible to accrual. At June 30, taxes receivable are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of January 1, 1993, 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, Stanly County is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts in the County, including the Town of Red Cross. For motor vehicles registered under the staggered system, property taxes are due the first day of the fourth month after the vehicles are registered. The billed taxes are applicable to the fiscal year in which they become due. Therefore, the Town's vehicle taxes for vehicles registered in Stanly County from March 2009 through February 2010 apply to fiscal year ended June 30, 2010. Uncollected taxes that were billed during this period are shown as a receivable in these financial statements and are offset by deferred revenues. For vehicles registered under the annual system, taxes are due on May 1 of each year. For those vehicles registered and billed under the annual system, uncollected taxes are reported as a receivable on the financial statements and are offset by deferred revenues because the due date and the date upon which interest begins to accrue passed prior to June 30. The taxes for vehicles registered annually that have already been collected as of year-end are also reflected as deferred revenues at

TOWN OF RED CROSS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

June 30, 2010, because they are intended to finance the Town operations during the 2010 fiscal year.

Sales taxes and certain intergovernmental revenues, such as the utilities franchise tax, collected and held by the State at year-end on behalf of the Town are recognized as revenue. Intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. The Town did receive its first funds from Powell Bill listed in the income statement as restricted intergovernmental. The Town had no grant revenue at June 30, 2010.

As permitted by generally accepted accounting principles, the Town has elected to apply only applicable FASB Statements and Interpretations issued on or before November 30, 1989 that do not contradict GASB pronouncements in its accounting and reporting practices for its proprietary operations.

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. All annual appropriations lapse at the fiscal-year end. 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 multi-year funds. Amendments are required for any revisions that alter total expenditures of any fund. All amendments must be approved by the governing board. During the year there were no amendments. 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, and Fund Equity

1. Deposits and Investments

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

State law [G.S. 159-30(c)] authorizes the Town to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-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

TOWN OF RED CROSS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

paper and bankers' acceptances and the North Carolina Capital Management Trust (NCCMT).

As of June 30, 2010, the Town has no investments in securities. The Town has no policy regarding custodial credit risk.

2. Cash and Cash Equivalents

All cash and investments are essentially demand deposits and are considered cash and cash equivalents.

3. Restricted Assets

The Town has no restricted assets as of June 30, 2010.

4. Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, interest does not accrue until the following January 6. These taxes are based on the assessed values as of January 1, 2000.

5. 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, buildings, improvements, infrastructure, equipment and furniture \$200. Purchased or constructed assets are reported at cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	40
Building Renovations	40
Improvements	15 – 20
Furniture & Fixtures	7
Computer Equipment & Software	7

6. Long-Term Obligations

In the government-wide financial statements, in the fund type financial statements, long-term debt is reported as liabilities in the applicable governmental activities in the fund type statement of net assets.

TOWN OF RED CROSS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

7. Compensated Absences
The Town has no Employees as of June 30, 2010.

8. Net assets/Fund Balances

Net assets in government-wide and proprietary fund financial statements are classified as invested in capital assets, net of related debt; restricted; and unrestricted. Restricted net assets 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.

State law [G.S. 159-13(b)(16)] restricts appropriation of fund balance for the subsequent year's budget to an amount not to exceed the sum of cash and investments minus the sum of liabilities, encumbrances, and deferred revenues arising from cash receipts as those amount stand at the close of the fiscal year preceding the budget year.

The governmental fund types classify fund balances as follows:

Reserved:

Reserved for inventories – portion of fund balance that is not available for appropriation because it represents the year-end fund balance of ending inventories, which are not expendable, available resources. The Town has no inventories as of June 30, 2010.

Reserved for encumbrances – portion of fund balance available to pay for commitments related to purchase orders or contracts which remain unperformed at year-end. The Town has no encumbrances as of Jun 30, 2010.

Reserved for State statute – portion of fund balance, in addition to reserves for encumbrances and reserves for inventories, which is not available for appropriation under State law [G.S. 159-8(a)]. This amount is usually comprised of accounts receivable and interfund receivables, which have not been offset by deferred revenues.

Reserved for streets – Powell Bill – portion of fund balance that is available for appropriation but legally segregated fore street construction and maintenance expenditures. This amount represents the balance of the total unexpended Powell Bill funds. The Town received the first Powell Bill Funds as of Jun 30, 2010.

Unreserved:

Designated for subsequent year's expenditures – portion of the total fund balance available for appropriation that has been designated for the adopted 2010-2011 budget ordinance.

TOWN OF RED CROSS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

Undesignated – portion of total fund balance available for appropriation that is uncommitted at year-end.

II. Stewardship, Compliance, and Accountability

A. Material Violations of Finance-Related Legal and Contractual Provisions

1. Noncompliance with North Carolina General Statutes
The Town has no known noncompliance issues.

B. Excess of Expenditures over Appropriations

General Fund:
Environmental Protection

Budget	43,000
Expenditures	<u>(43,365)</u>
Excess	<u><u>(365)</u></u>

Debt Service

Budget	51,000
Expenditures	<u>55,975</u>
Excess	<u><u>(4,975)</u></u>

Name of Contact: Heath Hahn

Corrective Action: The expenditures will be reviewed more closely. The debt service amount is known in advance so it should be on target. If needed, budget amendments will be introduced during the year.

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 these units' names. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town these deposits are

TOWN OF RED CROSS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

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 noninterest bearing deposits and the actual current balance for the interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their information with the Town or the escrow agent. Because of the inability to measure the exact amount of collateral pledged for the Town under the Pooling Method, the potential exists for under-collateralization, and this risk may increase in periods of high cash flows. However, the State treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method.

At June 30, 2010, the Town's deposits had a carrying amount of \$492,514 and a bank balance of \$492,549. Of the bank balance, \$250,000 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method.

2. Capital Assets

Capital assets for the Primary Government for the year ended for the year June 30, 2009 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental Activities:				
Capital assets not depreciated				
Land	\$ 714,591	\$ -	\$ -	\$ 714,591
Total not being depreciated	\$ 714,591	\$ -	\$ -	\$ 714,591
Capital assets begin depreciated				
Buildings	\$ 150,000	\$ -	\$ -	\$ 150,000
Renovations	45,096	6,833	-	51,929
Furniture and equipment	15,079	-	-	15,079
Total assets being depreciated	\$ 210,175	\$ 6,833	\$ -	\$ 217,008
Less accumulated depreciation				
Buildings	\$ 6,563	\$ 3,750	\$ -	\$ 10,313
Renovations	2,212	1,298	-	3,510
Furniture and equipment	3,095	2,154	-	5,249
Total accumulated depreciation	\$ 11,870	\$ 7,202	\$ -	\$ 19,072
Total capital assets bring depreciated, net	198,305			197,936
Governmental activity capital assets, net	<u>\$ 912,896</u>			<u>\$ 912,527</u>

TOWN OF RED CROSS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

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

General government \$ 7,202

B. Liabilities

1. Pension Plan Obligations

The Town has no employees as of June 30, 2010.

2. Deferred Revenues

Deferred Revenues at June 30, 2010 consist of the following:

Taxes receivable \$ 3,371

3. Long-Term Obligations

The Town has entered into a financing agreement with Branch Banking & Trust for the purchase of 28.79 acres and buildings. The financing agreement requires quarterly principal payments of \$9,166.67 plus annual interest at 4.09% on the unpaid principal. The first payment was due December 8, 2007.

Annual debt service requirements to maturity of this mortgage, including interest are as follows:

Year Ending June 30	Principal	Interest
2011	36,667	17,309
2012	36,667	16,309
2013	36,667	14,809
2014	36,667	13,310
2015	36,667	11,810
2016 - 2023	265,831	40,773
Total	449,166	114,320

	Balances			Balances		Current
Governmental activities	June 30, 2009	Increases	Decreases	June 30, 2010		Portion
Mortgage	\$ 485,833	\$ -	\$ 36,667	\$ 412,499		\$ 36,667
Governmental activity long-term liabilities	\$ 485,833	\$ -	\$ 36,667	\$ 412,499		\$ 36,667

Changes in Long-Term Liabilities

At June 30, 2010, the Town of Red Cross had a legal debt margin of \$ 3,982,701.

TOWN OF RED CROSS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

4. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town carries commercial insurance for all risks of loss.

The Town does not carry flood insurance because they are not in a flood zone and the extra expense is unnecessary.

The Town's finance officer is bonded under a \$ 50,000 bond.

TOWN OF RED CROSS, NORTH CAROLINA
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	2010		Variance Positive (Negative)
	Budget	Actual	
Revenues:			
Ad-valorem Taxes:			
Taxes	\$ -	\$ 78,189	\$ -
Total Taxes	\$ 75,000	\$ 78,189	\$ 3,189
 Unrestricted Intergovernmental:			
Local option sales tax	\$ -	\$ 121,978	\$ -
Telecommunications tax	-	5,419	-
Utility franchise tax	-	17,623	-
Video programming tax	-	333	-
Solid waste franchise tax	-	541	-
Total	\$ 130,800	\$ 145,894	\$ 15,094
Restricted Intergovernmental:			
Powell	\$ -	\$ 15,305	\$ 15,305
 Investment Earnings	\$ -	\$ 8,696	\$ 8,696
 Miscellaneous	\$ -	\$ 931	\$ 931
Total Revenues	\$ 205,800	\$ 249,015	\$ 43,215
 Expenditures:			
General Government:			
Professional services	\$ -	\$ 3,329	\$ -
Election Expense		\$ 2,054	
Other operating expenditures	-	2,258	-
Zoning and planning	-	8,569	-
Administrative expenses	-	3,590	-
Insurance	-	2,963	-
Maintenance	-	10,942	-
Capital Outlay		6,833	
Total General Government	\$ 69,560	\$ 40,538	\$ 29,022

TOWN OF RED CROSS, NORTH CAROLINA
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

Expenditures: (Continued)

Public Safety:

Police:

Contracted services	\$ -	\$ 13,338	\$ -
Total	\$ 15,000	\$ 13,338	\$ 1,662

Fire:

Contracted services	-	27,239	-
Total	\$ 27,240	\$ 27,239	\$ 1
Total public safety	\$ 42,240	\$ 40,577	\$ 1,663

Environmental protection:

Contracted services	\$ -	\$ 43,365	\$ -
Total	\$ 43,000	\$ 43,365	\$ (365)
Total environmental protection	\$ 43,000	\$ 43,365	\$ (365)

Debt service:

Principal	\$ 31,700	\$ 36,667	\$ (4,967)
Interest	19,300	19,308	(8)
Total debt service	\$ 51,000	\$ 55,975	\$ (4,975)
Total Expenditures	\$ 205,800	\$ 180,455	\$ 25,345

Revenues over (under) expenditures	\$ -	\$ 68,560	\$ 68,560
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Other Financing Sources (uses)

Transfer to Capital Project Fund	\$ -	\$ -	\$ -
Total	\$ -	\$ -	\$ -

Fund Balance Appropriated

Net Change in Fund Balance	\$ -	68,560	\$ 68,560
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Fund Balance, Beginning	448,576
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Fund Balance, Ending	<u>\$ 517,136</u>
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TOWN OF RED CROSS, NORTH CAROLINA
SCHEDULE OF AD VALOREM TAXES RECEIVABLE
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

Fiscal Year	Uncollected Balance June 30, 2009	Additions	Collections and Credits	Uncollected Balance June 30, 2010
2009 - 2010	\$ -	\$ 79,740	\$ 78,184	\$ 1,556
2008 - 2009	3,272	-	2,322	950
2007 - 2008	250	-	28	222
2006 - 2007	215	-	27	188
2005 - 2006	199	-	-	199
2004 - 2005	182	-	22	160
2002 - 2003	218	-	130	88
2001 - 2002	89	-	81	8
	<u>\$ 4,425</u>	<u>\$ 79,740</u>	<u>\$ 80,794</u>	<u>\$ 3,371</u>

Reconcilement with Revenues:

Ad valorem taxes - General Fund	\$ 78,189
Reconciling items:	
Collection fees	-
Interest collected	-
Discounts allowed	2,605
Subtotal	<u>2,605</u>
Total collections and credits	<u>\$ 80,794</u>

TOWN OF RED CROSS, NORTH CAROLINA
ANALYSIS OF CURRENT TAX LEVY
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

				Total Levy		
City-Wide				Property		Registered
Property				Excluding		Motor
Valuation		Rate	Total	Registered		Vehicles
				Motor Vehicles		Vehicles
Original Levy:						
Property Taxes at						
Current Year's Rate	\$	43,828,381	0.16%	\$	70,212	\$ -
Registered motor vehicles						
taxed at prior year's rate		5,955,386	0.16%		9,528	9,528
Total Property Valuation <u>\$ 49,783,767</u>						
Net Levy			\$ 79,740	\$ 70,212		\$ 9,528
Uncollected Taxed at June 30, 2009						
			1,556	890		666
Current Year's Taxes Collected						
			\$ 78,184	\$ 69,322		\$ 8,862
Current levy collection percentage						
			98%	98.70%		93.00%



Gerrelene M. Walker

CPA, CFF, CFE

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COMMUNICATION OF SIGNIFICANT DEFICIENCIES

To Town Council
and Heath Hahn of Town of Red Cross

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Town of Red Cross as of and for the year ended June 30, 2010, in accordance with auditing standards generally accepted in the United States of America, I considered Town of Red Cross's internal control over financial reporting (internal control) as a basis for designing my auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Red Cross's internal control. Accordingly, I do not express an opinion on the effectiveness of the Town of Red Cross's internal control.

My 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 significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. However, as discussed below, I identified certain deficiencies in internal control that I consider to be 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 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. I did not identify any deficiencies in internal control that I consider 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. I consider the following deficiencies in Town of Red Cross's internal control to be significant deficiencies:

- Segregation of Duties

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

Condition: There is a lack of segregation of duties among the Town personnel since the Town is so small.

Effect: Transactions could be mishandled and reporting would not be correct.

Cause: The Town is so small and the number of personnel is limited. The Town does not need additional personnel because tax collections is handled by the County of Stanley.

Recommendation: The duties should be separated as much as possible, and alternative controls should be used to compensate for the lack of separation.

Corrective action: The town administrator, and the Board will review all policies concerning segregation of duties and determine appropriate steps. The effective date is January 1, 2011.

This communication is intended solely for the information and use of management, Town Council, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.



Gerrelene M Walker, CPA/CFF, CFE

Tarboro, North Carolina

October 31, 2010



Gerrelene M. Walker

CPA, CFF, CFE

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COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

October 31, 2010

To the Town Council
Town of Red Cross

I have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Town of Red Cross for the year ended June 30, 2010. Professional standards require that I provide you with information about my responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and OMB Circular A-133), as well as certain information related to the planned scope and timing of my audit. I have communicated such information in my letter to you dated October 31, 2010. Professional standards also require that I communicate to you the following information related to my audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Town of Red Cross are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2009. I noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting the Town of Red Cross's financial statements was:

Management's estimate of the depreciation life is based on applicable useful life as established by the Internal Revenue. I evaluated the key factors and assumptions used to develop the depreciation life in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. There were no sensitive disclosure(s) affecting the financial statements.

Difficulties Encountered in Performing the Audit

I encountered no significant difficulties in dealing with management in performing and completing my audit.

Corrected and Uncorrected Misstatements

Professional standards require me to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. I am pleased to report that no such disagreements arose during the course of my audit.

Management Representations

I have requested certain representations from management that are included in the management representation letter dated October 31, 2010.

Management Consultations with Other Independent Accountants

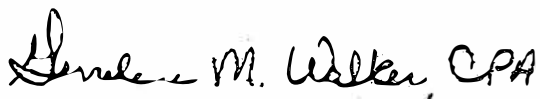
In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with me to determine that the consultant has all the relevant facts. To my knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

I generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditor. However, these discussions occurred in the normal course of my professional relationship and my responses were not a condition to my retention.

This information is intended solely for the use of Town Council and management of Town of Red Cross and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,



Gerrelene M Walker, CPA/CFF, CFE