

**Town of Harmony
Harmony, North Carolina
For the year ended
June 30, 2019**

**Independent Auditor's Reports
Basic Financial Statements
And
Information Accompanying the
Basic Financial Statements**

Governance

Town Aldermen Members

D. Lee Matney, Mayor

**Julia Clanton
John Ray Campbell
Scotty Harris
Douglas Galliher**

Administrative Staff

Wanda Edwards, Finance Officer

Town of Harmony
Table of Contents
June 30, 2019

Independent Auditor's Report	1-2	
Management's Discussion and Analysis	3-11	
Basic Financial Statements:		
Government-wide Financial Statements:		
Exhibit 1	Statement of Net Position	12
Exhibit 2	Statement of Activities	13
Fund Financial Statements		
Exhibit 3	Balance Sheet – Governmental Funds	14
Exhibit 4	Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	15-16
Exhibit 5	Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund	17
Exhibit 6	Statement of Fund Net Position – Proprietary Fund	18
Exhibit 7	Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Fund	19
Exhibit 8	Statement of Cash Flows – Proprietary Fund	20
	Notes to the Financial Statements	21-34
Individual Funds Statements and Schedules:		
	Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund	35-36
	Schedule of Revenues and Expenditures – Budget and Actual – (Non – GAAP) Proprietary Fund Type – Enterprise Fund	37-38
Other Schedules:		
	Schedule of Ad Valorem Taxes Receivable	39
	Analysis of Current Tax Levy	40

EDDIE CARRICK, CPA, PC
Certified Public Accountant

INDEPENDENT AUDITOR'S REPORT

To Honorable Mayor and Town Council
Town of Harmony
Harmony, North Carolina

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Harmony, North Carolina, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

Opinion

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Town of Harmony, North Carolina, as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison of the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 11 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

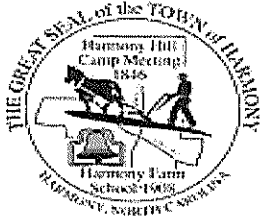
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Harmony, North Carolina's basic financial statements. The individual fund statements, budgetary schedules and other schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Eddie Carrick CPA, PC



Lexington, North Carolina
September 30, 2019



TOWN OF HARMONY

PO BOX 118
HARMONY, NC
28634

Phone: 704-546-2339
Fax: 704-546-5061
Email:
harmonync@yadtel.net

Mayor

D. Lee Matney

Finance Officer

Wanda Edwards

Councilman

Julia Clanton
Scotty Harris
Douglas Galliher
John Ray
Campbell

Management's Discussion and Analysis

As management of the Town of Harmony, we offer the readers of the Town of Harmony's financial statements this narrative overview and analysis of the financial activities of the Town of Harmony for the fiscal year ended June 30, 2019. 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.

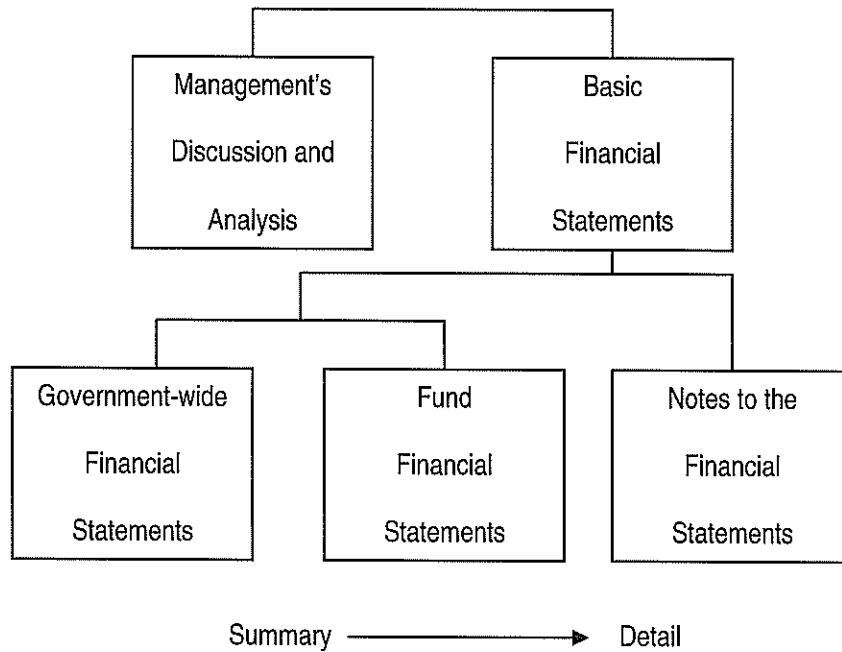
Financial highlights

- The assets of the Town of Harmony exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$5,423,550 (*net position*).
- The Town's total net position decreased by \$105,309 primarily due to decreases in the business-type activities net position.
- As of the close of the current fiscal year, the Town of Harmony's governmental fund reported combined ending fund balance of \$1,160,335 with a net increase of \$28,904 in fund balance. Approximately 4 percent of this total amount, or \$45,556, is non-spendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$1,114,780, or 452 percent of total General Fund expenditures for the fiscal year.
- The Town's total debt decreased by \$4,000 due to principal payments on a USDA loan for sewer improvements.

Overview of the Financial Statements

This discussion and analysis is intended to serve as introduction to the Town of Harmony'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 Harmony.

Required Components of Annual Financial Report
Figure 1



Basic Financial Statements

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

The next statements (Exhibit 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 two parts to the Fund Financial Statements: 1) the governmental fund statements; and 2) the proprietary fund statements.

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

Government-Wide Financial Statements

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

The two government-wide statements report the Town's net position and how they have 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, parks and recreation, and general administration. Property taxes finance most of these activities. The business-type activities are those that municipalities generally charge fees for.

The government-wide financial statements are on 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 group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Harmony, 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 General Statutes or the Town's budget ordinance. All of the funds of the Town of Harmony are reported under governmental funds. All of the funds of the Town of Harmony 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* which provides a short term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him determine if there are more or less financial resources available to finance the Town's programs. The relationship between governmental activities (reported in the Statement of Net position and the Statement of Activities) and governmental funds is described in a reconciliation that is part of the fund financial statements.

The Town of Harmony adopts an annual budget for the General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the Town, the management of the Town, and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the Town to obtain funds from identified sources to finance the current period activities.

Management Discussion and Analysis
Town of Harmony

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 in 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 differences or variance between the final budget and 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 reporting activities is shown at the end of the budgetary statement.

Proprietary Funds – The Town of Harmony has only 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 of Harmony uses enterprise funds to account for its sewer activity and operations. These funds are 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 the full understanding of data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 21 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 government and other holders of publicly held U.S. Treasury Securities.

Management Discussion and Analysis
Town of Harmony

Town of Harmony's Net Position (Figure 2)

June 30, 2019 and June 30, 2018

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>	
	<i>2019</i>	<i>2018</i>	<i>2019</i>	<i>2018</i>	<i>2019</i>	<i>2018</i>
Current and other assets	\$ 1,194,481	\$ 1,150,003	\$ 530,891	\$ 517,961	\$ 1,725,372	\$ 1,667,964
Capital assets	701,517	731,186	3,224,513	3,365,955	3,926,030	4,097,141
Total assets	<u>1,895,998</u>	<u>1,881,189</u>	<u>3,755,404</u>	<u>3,883,915</u>	<u>5,651,402</u>	<u>5,765,105</u>
Current liabilities	3,027	6,576	13,822	13,667	16,849	20,243
Long-term Liabilities	-	-	211,004	216,004	211,004	216,004
Total liabilities	<u>3,027</u>	<u>6,576</u>	<u>224,826</u>	<u>229,671</u>	<u>227,853</u>	<u>236,247</u>
Net position:						
Net investment in						
capital assets	721,002	731,186	3,009,509	3,146,951	3,730,511	3,878,137
Restricted for:						
Stabilization by State Statute	35,614	33,980	-	-	35,614	33,980
Streets	-	-	-	-	-	-
Debt service	-	-	13,406	13,581	13,406	13,581
Unrestricted	1,136,355	1,109,447	507,664	493,713	1,644,018	1,603,160
Total net position	<u>\$ 1,892,971</u>	<u>\$ 1,874,613</u>	<u>\$ 3,530,579</u>	<u>\$ 3,654,245</u>	<u>\$ 5,423,550</u>	<u>\$ 5,528,858</u>

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets of the Town of Harmony exceeded liabilities and deferred inflows by \$5,423,550 as of June 30, 2019. The Town's net position decreased by \$105,309 for the fiscal year ended June 30, 2019. However, the largest portion (69%) reflects the Town's net investment in capital assets (e.g. land, buildings, machinery, and equipment). The Town of Harmony uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Harmony's net investment in 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 of Harmony's net position, \$49,020, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$1,644,018 is unrestricted.

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

- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 98.49%.

Management Discussion and Analysis
Town of Harmony

Town of Harmony's Changes in Net Position (Figure 3)

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>	
	<i>2019</i>	<i>2018</i>	<i>2019</i>	<i>2018</i>	<i>2019</i>	<i>2018</i>
Revenues						
Program revenues:						
Charges for services	\$ 8,800	\$ 6,550	\$ 153,251	\$ 160,436	\$ 162,051	\$ 166,986
Operating grants and revenues	14,999	15,196	-	-	14,999	15,196
General revenues:						
Property taxes	32,670	32,205	-	-	32,670	32,205
Other taxes	154,118	147,724	-	-	154,118	147,724
Unrestricted intergovernmental revenues	33,351	33,381	-	-	33,351	33,381
Restricted intergovernmental revenues	-	-	-	-	-	-
Sales & services	-	-	-	-	-	-
Investment earnings	7,177	8,972	87	116	7,264	9,088
Miscellaneous income	5,843	33,531	1,583	1,805	7,426	35,336
Total revenues	<u>256,958</u>	<u>277,559</u>	<u>154,921</u>	<u>162,357</u>	<u>411,879</u>	<u>439,916</u>
Expenses:						
General government	203,620	198,585	-	-	203,620	198,585
Transportation	14,824	54,218	-	-	14,824	54,218
Environmental protection	20,156	19,073	-	-	20,156	19,073
Sewer	-	-	278,586	271,581	278,586	271,581
Total expenses	<u>238,600</u>	<u>271,876</u>	<u>278,586</u>	<u>271,581</u>	<u>517,186</u>	<u>543,457</u>
Increase (decrease)	18,358	5,683	(123,666)	(109,224)	(105,309)	(103,541)
Other sources (uses)	-	-	-	-	-	-
Net position July 1	1,874,613	1,868,929	3,654,245	3,654,245	5,528,858	5,523,174
Net position June 30	<u>\$ 1,892,971</u>	<u>\$ 1,874,613</u>	<u>\$ 3,530,579</u>	<u>\$ 3,545,022</u>	<u>\$ 5,423,550</u>	<u>\$ 5,419,635</u>

Governmental activities – Governmental activities increased the Town's net position by \$18,358, thereby accounting for 100% of the total increase in the net position of the Town of Harmony. The increase in net position was the result of a concerted effort to control costs and manage expenditures to minimize the impact of the recession on its citizens. Town management reduced non-essential programs to a minimum and implemented cost saving strategies across Town departments. Certain nonrecurring expenses were either postponed or renegotiated in an attempt to maintain a healthy net position. Increased efforts to maximize tax collections also contributed to the favorable net position. Town management acknowledges that 2019 was a successful year and plans on improving upon these approaches as a long-term strategy to realize continued fiscal health.

Governmental activities (continued)

Key elements of this increase are as follows:

- Increase in local option sales tax revenue of approximately \$7,000.

Business-type activities – Business-type activities decreased the Town's net position by \$123,666, accounting for 100% of the total decrease in the Town's net position. Key elements of this decrease are as follows:

- Although the Town is achieving a positive cash flow in the Enterprise fund, rates are currently not covering the cost of depreciation on assets.

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, the Town of Harmony's fund balance available in the General Fund was \$1,114,780, while total fund balance reached \$1,160,335. The Town currently has an available fund balance of 452% of general fund expenditures, while total fund balance represents 471% of the same amount.

At June 30, 2019, the governmental funds of the Town of Harmony reported a combined fund balance of \$1,160,335, a 3% percent increase from last year. The General Fund is included in this combined amount.

General Fund Budgetary Highlights: Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and 3) increases in appropriations that become necessary to maintain services.

The Town incurred various expenditures that was not originally anticipated in the original budget that required various amendments throughout the year. Other expenditures were held in check to comply with its budgetary requirements.

Proprietary Funds. The Town of Harmony's proprietary fund provides the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the Sewer Fund at the end of the fiscal year amounted to \$507,664. The total change in net position for the Sewer fund decreased net position by \$123,666. The change in net position in the Sewer Fund is a result of actual expenses, which includes depreciation, exceeding revenues.

Management Discussion and Analysis
Town of Harmony

Capital Asset and Debt Administration

Capital Assets. The Town's investment in capital assets for its governmental activities and business-type activities as of June 30, 2019, totals \$3,926,030 (net of accumulated depreciation). These assets include buildings, land, equipment, and sewer system.

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

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>	
	<i>2019</i>	<i>2018</i>	<i>2019</i>	<i>2018</i>	<i>2019</i>	<i>2018</i>
	Land	\$ 254,493	\$ 254,493	\$ 130,000	\$ 130,000	\$ 384,493
Buildings and system	371,346	350,067	-	-	371,346	350,067
Improvements other than buildings	61,791	67,854	-	-	61,791	67,854
Machinery and equipment	13,887	20,923	2,716	3,622	16,603	24,545
Plant & distribution systems	-	-	3,091,797	3,232,333	3,091,797	3,232,333
	<u>\$ 701,517</u>	<u>\$ 693,337</u>	<u>\$ 3,224,513</u>	<u>\$ 3,365,955</u>	<u>\$ 3,926,030</u>	<u>\$ 4,059,292</u>

Additional information regarding the Town of Harmony's capital assets can be found in Note III.A.4 of this report.

Long-term Debt

During the year ended June 30, 2010, the Town borrowed \$240,004 from USDA for the construction of a sewer system. The interest rate is 4.375%. Upon completion of the project, the debt was transferred to the Sewer Fund.

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>	
	<i>2019</i>	<i>2018</i>	<i>2019</i>	<i>2018</i>	<i>2019</i>	<i>2018</i>
	General Obligation Bonds - USDA	\$ -	\$ -	\$ 215,004	\$ 219,004	\$ 215,004
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 215,004</u>	<u>\$ 219,004</u>	<u>\$ 215,004</u>	<u>\$ 219,004</u>

Town of Harmony's Outstanding Debt

The Town's total debt decreased by \$4,000 due to principal payments on a USDA loan for sewer improvements. The Town incurred no new debt during 2019.

Town of Harmony's Outstanding Debt (continued)

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for the Town of Harmony is \$2,610,080.

Additional information regarding the Town of Harmony's long-term debt can be found in Note III.B.5 of this report.

Economic Factors and Next Year's Budgets and Rates

- Harmony's population growth has continued to be moderate. Harmony is continuing to see small business growth with the addition of several new businesses.

Budget Highlights for the Fiscal Year Ending June 30, 2020

Governmental Activities: Property tax revenue is expected to remain steady this year. The Town will use these revenues to finance programs currently in place.

Budgeted expenditures in the General Fund are not expected to rise significantly.

The Town has chosen not to appropriate fund balance for the 2019-20 budget. Management believes that increased revenues and continued restrictions on spending will maintain the Town's financial position. As the Town considers future revenue sources, it has determined that a \$0.01 increase in the property tax rate will result in additional revenues of approximately \$3,212 at current values and collection rate. Though management believes current growth will generate enough revenue to support Town operations, a careful analysis of property tax revenue will be considered in future years' budgets.

Business-type Activities: The sewer rates in the Town will remain constant for 2019-20.

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 Harmony, P.O. Box 118, Harmony, NC 28634 or (704) 546-2339. You can also visit our website at townofharmony.org or send an email to harmonync@yadtel.net for more information.

Town of Harmony, North Carolina
Statement of Net Position
June 30, 2019

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash & cash equivalents - unrestricted	\$ 1,117,806	\$ 494,755	\$ 1,612,561
Receivables (net):			
Property tax	1,609	-	1,609
Other taxes	35,094	-	35,094
Refund	520	1,050	1,570
Accounts	-	15,689	15,689
Prepaid expenses	9,942	-	9,942
Long-term receivable - current	10,024	-	10,024
Restricted cash & cash equivalents	-	19,398	19,398
	<u>1,174,996</u>	<u>530,891</u>	<u>1,705,887</u>
Non-Current assets:			
Long-term receivable	19,485	-	19,485
Capital assets:			
Land	254,493	130,000	384,493
Capital assets, net of depreciation	447,024	3,094,513	3,541,537
	<u>721,002</u>	<u>3,224,513</u>	<u>3,945,515</u>
Total assets	<u>1,895,998</u>	<u>3,755,404</u>	<u>5,651,402</u>
LIABILITIES			
Current liabilities:			
Accounts payable	3,027	3,829	6,857
Current portion of long-term liabilities	-	4,000	4,000
Payable from restricted assets	-	5,992	5,992
	<u>3,027</u>	<u>13,822</u>	<u>16,849</u>
Long-term liabilities:			
Due in more than one year	-	211,004	211,004
Total liabilities	<u>3,027</u>	<u>224,826</u>	<u>227,853</u>
DEFERRED INFLOWS OF RESOURCES			
None	-	-	-
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>
NET POSITION			
Net investment in capital assets	721,002	3,009,509	3,730,511
Restricted for:			
Stabilization by State Statute	35,614	-	35,614
Streets	-	-	-
Debt service	-	13,406	13,406
Unrestricted net position	1,136,355	507,664	1,644,018
Total net position	<u>\$ 1,892,971</u>	<u>\$ 3,530,579</u>	<u>\$ 5,423,550</u>

The accompanying notes are an integral part of the financial statements

Town of Harmony, North Carolina
Statement of Activities
For the Year Ended June 30, 2019

Programs Activities	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
General government and administration	\$ 203,620	\$ 8,800	\$ -	\$ -	\$ (194,820)	\$ -	\$ (194,820)
Transportation	14,824	-	14,999	-	175	-	175
Environmental protection	20,156	-	-	-	(20,156)	-	(20,156)
Total governmental activities	238,600	8,800	14,999	-	(214,801)	-	(214,801)
Business-type activities:							
Sewer	278,586	153,251	-	-	-	(125,335)	(125,335)
Total business-type activities	278,586	153,251	-	-	-	(125,335)	(125,335)
Total Government	\$ 517,186	\$ 162,051	\$ 14,999	\$ -	(214,801)	(125,335)	(340,136)
General revenues:							
Taxes:							
Ad valorem							
					32,670		32,670
Other							
					154,118		154,118
Unreserved intergovernmental revenues							
					33,351		33,351
Investment earnings							
					7,177	87	7,263
Miscellaneous							
					5,843	1,583	7,426
Total general revenues and transfers							
					233,159	1,669	234,828
Change in net position							
					18,358	(123,666)	(105,309)
Net position beginning							
					1,874,613	3,654,245	5,528,858
Net position ending							
					\$ 1,892,971	\$ 3,530,579	\$ 5,423,550

The accompanying notes are an integral part of the financial statements

Town of Harmony, North Carolina
Balance Sheet
Governmental Funds
June 30, 2019

	<u>Major Fund</u>	<u>Total</u>
	<u>General</u>	<u>Governmental</u>
		<u>Fund</u>
Assets		
Cash & investments - unrestricted	\$ 1,117,806	\$ 1,117,806
Restricted cash	-	-
Property taxes receivable	1,609	1,609
Other taxes receivable	35,094	35,094
Refund receivable	520	520
Prepays	9,942	9,942
Total assets	\$ 1,164,972	\$ 1,164,972
 LIABILITIES AND FUND BALANCE		
Liabilities:		
Accounts payable	\$ 3,027	\$ 3,027
Total liabilities	3,027	3,027
 DEFERRED INFLOWS OF RESOURCES		
Property taxes receivable	1,609	1,609
Total deferred inflows of resources	1,609	1,609
 Fund balance:		
Non Spendable:		
Prepaid expenses	9,942	9,942
Restricted:		
Stabilization by State Statute	35,614	35,614
Streets	-	-
Assigned:		
None	-	-
Unassigned	1,114,780	1,114,780
Total fund balance	1,160,335	1,160,335
Total liabilities and fund balance	\$ 1,164,972	
 Amounts reported for governmental activities in the statement of net position (Exhibit 1) are different because:		
Long-term receivables used in governmental activities are not financial resources and therefore are not reported in the funds.		\$ 29,509
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Governmental capital assets	\$ 988,927	
Less accumulated depreciation	(287,409)	701,518
Liabilities for earned revenues considered deferred inflows of resources in fund statements		1,609
Net position of governmental activities		\$ 1,892,971

The accompanying notes are an integral part of the financial statements

Town of Harmony, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2019

	<u>Major Fund</u>	<u>Total Governmental Funds</u>
	<u>General</u>	
Revenues:		
Ad valorem taxes	\$ 33,318	\$ 33,318
Other taxes	154,118	154,118
Unrestricted intergovernmental revenues	33,351	33,351
Restricted intergovernmental revenues	14,999	14,999
Sales and services	8,800	8,800
Investment earnings	7,177	7,177
Miscellaneous	5,843	5,843
Total revenues	<u>257,606</u>	<u>257,606</u>
Expenditures:		
General government	184,185	184,185
Transportation	9,758	9,758
Capital outlay	32,682	32,682
Environmental protection	20,156	20,156
Total expenditures	<u>246,781</u>	<u>246,781</u>
Excess of revenues over (under) expenditures	10,825	10,825
Other sources (uses):		
Long-term receivable principal payment	18,079	18,079
Total other sources (uses)	<u>18,079</u>	<u>18,079</u>
Net change in fund balance	28,904	28,904
Fund balance - beginning of year	<u>1,131,431</u>	<u>1,131,431</u>
Fund balance - end of year	<u>\$ 1,160,335</u>	<u>\$ 1,160,335</u>

The accompanying notes are an integral part of the financial statements

**Town of Harmony, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2019**

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

Net changes in fund balances - total governmental funds	\$	28,904
---	----	--------

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of these 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	\$	32,682	
Depreciation		<u>(24,501)</u>	8,181

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds

Long-term receivable principal payment		(18,079)
Change in unavailable revenue for tax revenues		<u>(648)</u>

Total changes in net position of governmental activities	\$	<u><u>18,358</u></u>
--	----	----------------------

Town of Harmony, North Carolina
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the Year Ended June 30, 2019

	Original	Final	Actual	Variance Positive (Negative)
Revenues:				
Ad valorem taxes	\$ 31,120	\$ 31,120	\$ 33,318	\$ 2,198
Other taxes	135,000	135,000	154,118	19,118
Unrestricted intergovernmental revenues	32,800	32,800	33,351	551
Restricted intergovernmental revenues	17,000	17,000	14,999	(2,001)
Sales and services	11,500	11,500	8,800	(2,700)
Investment earnings	2,500	2,500	7,177	4,677
Miscellaneous	8,000	8,000	5,843	(2,157)
Total revenues	<u>237,920</u>	<u>237,920</u>	<u>257,606</u>	<u>19,686</u>
Expenditures:				
General government	228,820	231,660	216,866	14,794
Transportation and utilities	20,000	15,200	9,758	5,442
Environmental protection	19,100	21,060	20,156	904
Total expenditures	<u>267,920</u>	<u>267,920</u>	<u>246,781</u>	<u>21,139</u>
Revenues over (under) expenditures	<u>(30,000)</u>	<u>(30,000)</u>	<u>10,825</u>	<u>40,825</u>
Other sources (uses):				
Long-term receivable principal payment			18,079	18,079
Appropriated fund balance	30,000	30,000	-	(30,000)
	<u>30,000</u>	<u>30,000</u>	<u>18,079</u>	<u>(11,921)</u>
Revenues and other financing sources over (under) expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>28,904</u>	<u>\$ 28,904</u>
Fund balance, beginning of year			<u>1,131,431</u>	
Fund balance, end of year			<u>\$ 1,160,335</u>	

The accompanying notes are an integral part of the financial statements

Town of Harmony, North Carolina
Statement of Fund Net Position
Proprietary Fund
June 30, 2019

	Sewer Fund
ASSETS	
Current assets:	
Cash & cash equivalents - unrestricted	\$ 494,755
Restricted cash & cash equivalents	19,398
Accounts receivable (net)	15,689
Refund receivable (net)	1,050
	530,891
Capital assets:	
Land and improvements	130,000
Other capital assets, net of accumulated depreciation	3,094,513
Net capital assets	3,224,513
Total assets	3,755,404
LIABILITIES	
Current liabilities:	
Accounts payable & accrued expenses	3,829
Current portion of long-term debt	4,000
Liabilities payable from restricted assets:	
Customer deposits	5,992
	13,822
Long-term liabilities:	
Long-term debt - USDA	
Due in more than one year	211,004
Total long-term liabilities	211,004
Total liabilities	224,826
NET POSITION	
Net investment in capital assets	3,009,509
Restricted for debt service	13,406
Unrestricted net position	507,664
Total net position	\$ 3,530,579

Town of Harmony, North Carolina
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Fund
For the Year Ended June 30, 2019

	<u>Sewer Fund</u>
Operating revenues:	
Charges for services	\$ 151,559
Other operating charges	1,692
Total operating revenue	<u>153,251</u>
Operating expenses:	
Waste collection & treatment	127,563
Depreciation	141,442
Total operating expenses	<u>269,004</u>
Operating income (loss)	<u>(115,754)</u>
Nonoperating revenues(expenses):	
Investment earnings	87
Miscellaneous income	1,583
Interest expense	(9,581)
Total nonoperating revenues (expenses)	<u>(7,912)</u>
Income (loss) before other sources (uses)	(123,665)
Other sources (uses):	
None	<u>-</u>
Change in net position	(123,666)
Net position beginning of year	<u>3,654,245</u>
Net position end of year	<u>\$ 3,530,579</u>

The accompanying notes are an integral part of the financial statements

Town of Harmony, North Carolina
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2019

	<u>Sewer Fund</u>
Cash flows from operating activities:	
Cash received from customers	\$ 162,027
Cash paid for goods and services	(100,300)
Cash paid for salaries and benefits	(29,284)
	<u>32,443</u>
Net Cash Used By Operating Activities	<u>32,443</u>
Cash flows from non-capital financing activities:	
Other revenues received	-
	<u>-</u>
Net Cash Provided By Non-Capital and Related Financing Activities	<u>-</u>
Cash flows from capital and related financing activities:	
Interest paid	(9,581)
Purchase of capital assets	-
Payments on notes payable	(4,000)
	<u>(13,581)</u>
Net Cash Used By Capital and Related Financing Activities	<u>(13,581)</u>
Cash flows from investing activities:	
Interest earnings	87
	<u>87</u>
Net Cash Provided by Investing Activities	<u>87</u>
Net Increase (Decrease) In Cash	18,949
Cash - Beginning of Year, July 1	<u>495,204</u>
Cash - End of Year, June 30	<u><u>\$ 514,153</u></u>
Adjustments to Reconcile Net Operating Income to Net Cash Provided by Operating Activities:	
Net Operating Income (Loss)	<u>\$ (115,754)</u>
Adjustments to reconcile net operating income to net cash used by operating activities:	
Depreciation & amortization	141,442
Changes in Current Assets and Liabilities:	
Other income	1,583
(Increase) decrease in accounts receivable	6,018
Increase (Decrease) in accounts payable	(2,021)
Increase (Decrease) in customer deposits	1,175
Total adjustments	<u>148,197</u>
Net Cash Used By Operating Activities	<u><u>\$ 32,443</u></u>
Interest paid	<u><u>\$ (9,581)</u></u>

The accompanying notes are an integral part of the financial statements

Town of Harmony, North Carolina

NOTES TO FINANCIAL STATEMENTS
As of or for the Year Ended June 30, 2019

I. Summary of Significant Accounting Policies

The accounting policies of the Town of Harmony 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 Harmony is a municipal corporation governed by an elected mayor and a four-member council. As required by generally accepted accounting principles, these financial statements present the Town and its component unit, a legally separate entity for which the Town is financially accountable. For the year ended June 30, 2019, the Town had no component unit.

B. Basis of presentation

Government-wide Statements: The statement of net position and the statement of activities display the information about the government. These statements include the activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. The 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 part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the Town and for each function of the Town's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees and charges paid by the recipients of goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational and 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 aggregated and 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 the same values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

Notes to the Financial Statements (continued)

B. Basis of presentation (continued)

The Town reports the following major governmental funds:

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

The Town reports the following major enterprise funds:

Sewer Fund - The Town maintains an Enterprise Fund, the Sewer Fund, to account for its sewer services. This fund is financed and operated in the same manner as a private business enterprise.

It is the intent of the governing body that costs (expenses, including depreciation) of providing these services to the public on a continuing basis be financed or recovered primarily through user charges. Therefore, periodic accounting is necessary for determination of net income and rate control.

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 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 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, including property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Town enterprise fund 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 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.

Notes to the Financial Statements (continued)

C. Measurement Focus and Basis of Accounting (continued)

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

Sales taxes and certain intergovernmental revenues, such as the 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 shared revenue for the Town because the tax is levied by Iredell County and then remitted to and distributed by the State. Most intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. All taxes, including those dedicated for specific purposes are reported as general revenues rather than program revenues. Under the terms of grant agreements, the Town funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there is both restricted and unrestricted net position available to finance the program. It is the Town's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then general revenues.

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 and the Enterprise 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 departmental level for all annually budgeted funds. The Town Manager is authorized by the budget ordinance to transfer appropriations between functional areas within a fund up to \$2,500; however, any revisions that alter total expenditures of any fund or that change functional appropriations by more than \$2,500 must be approved by the governing board.

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

1. Deposits and Investments

All deposits of the Town are made in board-designated official depositories and are secured as required by State law (G.S. 159-31). The 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.

Notes to the Financial Statements (continued)

1. Deposits and Investments (continued)

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 nonguaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances, and the North Carolina Capital Management Trust (NCCMT). The Town's investments are reported at fair value. Non-participating interest earning investment contracts are accounted for at cost. The NCCMT Government Portfolio, a SEC-registered (2a-7) external investment pool, is measured at fair value. The NCCMT- Term Portfolio is bond fund, has no rating and is measured at fair value. As of June 30, 2019, The Term portfolio has a duration of 11 years. Because the NCCMT Government and Term Portfolios have a weighted average maturity of less than 90 days, they are presented as an investment with a maturity of less than 6 months.

2. Cash and Cash Equivalents

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

3. Restricted Assets

Debt service money is classified as restricted cash because its use is restricted for USDA escrow. Customer deposits held by the Town before any services are supplied are restricted to the service for which the deposit was collected. Powell Bill funds are classified as restricted cash because it can be expended only for the purposes of maintaining, repairing, constructing, reconstructing or widening of local streets per G.S. 136-41.1 through 136-41.4.

Town of Harmony Restricted Cash

Governmental Activities			
General Fund	Streets	\$	-
Total governmental activities			-
 Business-type Activities			
Water and Sewer Fund	Customer deposits	5,992	
	Debt service	13,406	
Total Business-type Activities		19,398	
Total Restricted Cash		\$ 19,398	

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 July 1, the beginning of the fiscal year. The taxes are due on September 1; however, interest does not accrue until the following January 6. These taxes are based on the assessed values as of January 1, 2018. As allowed by State law, the Town has established a schedule of discounts that apply to taxes which are paid prior to the due date. In the Town's General Fund, ad valorem tax revenues are reported net of such discounts.

Notes to the Financial Statements (continued)

5. Allowances for Doubtful Accounts

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

6. Inventory and Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements and expensed as the items are used.

7. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets are recorded in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewal and betterments are capitalized.

Assets capitalized, not including infrastructure assets, have original costs of \$5,000 or more and have over a three year useful life. Infrastructure assets capitalized have an original cost of \$25,000 or more.

Each class of capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Life - Years</u>
Buildings	20-50
Infrastructure	20-35
Machinery and Equipment	5-10
Improvements	20

8. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Town has no item that meets this criterion. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Town has only one item that meet the criterion for this category –property taxes receivable.

9. Long-Term Obligations

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

Notes to the Financial Statements (continued)

9. Long-Term Obligations (continued)

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 net proceeds received, are reported as debt service expenditures.

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, net of related debt; 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 five classifications designed to disclose the hierarchy of constraints placed on how fund balance can be spent.

The governmental fund types classify fund balances as follows:

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

Prepaid Expenses – portion of fund balance that represents resources that are not in spendable form.

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. Outstanding Encumbrances are included within RSS. RSS is included as a component of Restricted Net position and Restricted fund balance on the face of the balance sheet.

Notes to the Financial Statements (continued)

10. Net Position/ Fund Balances (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.

Restricted for Debt Service - portion of fund balance that is restricted USDA loan agreement. This amount represents one annual payment of principal and interest.

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

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

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

The Town of Harmony 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 by 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.

II. Stewardship, Compliance, and Accountability:

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

- 1. Noncompliance with North Carolina General Statutes: None*
- 2. Contractual Violations: None*

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 considered to be held by the Town's agents in their names. The amount of the pledged collateral is based on an approval averaging method for non-interest bearing

Notes to the Financial Statements (continued)

1. Deposits (continued)

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 to undercollateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Town has no formal policy regarding custodial credit risk for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The Town complies with provisions of GS 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2019, the Town's deposits had a carrying amount of \$1,631,759 and a bank balance of \$1,648,792. Of the bank balance, \$898,792 was covered by collateral held under the Pooling Method and \$750,000 was covered by federal depository insurance. At June 30, 2019, the Town's petty cash totaled \$200.

At June 30, 2019, the Town held no investments. The Town has no policy regarding credit risk.

2. Receivable - Allowances for Doubtful Accounts

The amounts presented in the Balance Sheet and the Statement of Net Position for the year ended June 30, 2019 is net of the following allowances for doubtful accounts:

<u>Fund</u>	<u>Amount</u>
General Fund	\$ -
Enterprise Fund	1,971
Total	<u>\$ 1,971</u>

3. Receivables – Long Term

On March 1, 2018, the Town issued a promissory note to a local not for profit corporation in the amount of \$50,000. The Town agreed to receive \$865 per month, including interest at 1.5% per annum, beginning April 1, 2019 with the final payment of all sums due March 1, 2023. The balance at June 30, 2019 was \$29,509. The note is secured by a deed of trust on property.

Notes to the Financial Statements (continued)

4 Capital assets

Primary Government

Capital asset activity for the Primary Government for the year ended June 30, 2019:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 254,493	\$ -	\$ -	\$ 254,493
Total capital assets not being depreciated:	<u>254,493</u>	<u>-</u>	<u>-</u>	<u>254,493</u>
Capital assets being depreciated:				
Buildings	497,695	32,682	-	530,377
Equipment	113,112	-	-	113,112
Paving and improvements	90,943	-	-	90,943
Total capital assets being depreciated:	<u>701,750</u>	<u>32,682</u>	<u>-</u>	<u>734,432</u>
Less, accumulated depreciation for:				
Buildings	146,581	11,402	-	157,983
Equipment	93,235	7,036	-	100,271
Paving and improvements	23,092	6,063	-	29,155
Total accumulated depreciation	<u>262,908</u>	<u>24,501</u>	<u>-</u>	<u>287,409</u>
Total capital assets being depreciated, net	<u>438,842</u>			<u>447,023</u>
Governmental activity capital assets, net	<u>\$ 693,337</u>			<u>\$ 701,517</u>

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

Transportation	\$ 5,066
General government	<u>19,435</u>
	<u>\$ 24,501</u>

Notes to the Financial Statements (continued)

4 Capital assets (continued)

Capital assets activity for the Business-type Activities for the year ending June 30, 2019:

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 130,000	\$ -	\$ -	\$ 130,000
Capital assets being depreciated:				
Plant and distribution system	4,216,086	-	-	4,216,086
Equipment and vehicles	6,338	-	-	6,338
Total capital assets being depreciated:	4,222,424	-	-	4,222,424
Less, accumulated depreciation for:				
Plant and distribution system	983,755	140,536	-	1,124,291
Equipment and vehicles	2,716	905	-	3,621
Total accumulated depreciation	986,470	141,441	-	1,127,911
Total capital assets being depreciated, net	3,235,954			3,094,513
Business-type activity capital assets, net	\$ 3,365,955			\$ 3,224,513

B. Liabilities:

1. Pension Plan Obligations:

The Town of Harmony has no full-time employees and does not participate in any type pension plan or retirement system.

2. Deferred Outflows and Inflows of Resources

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

	Unavailable Revenues	Unearned Revenues
Taxes Receivable, net	\$ 1,609	\$ -
	<u>\$ 1,609</u>	<u>\$ -</u>

Notes to the Financial Statements (continued)

3. Risk Management

The town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town's insurance coverage in effect at year-end was:

Type of Coverage	Amount	Limit		
General liability	\$ 1,000,000	Per occurrence		
Property coverage	\$ 1,000,000	Building		
	\$ 1,000,000	Personal property		
Worker's compensation		Statutory limits		
			Amount	Limit
			Aggregate	Deductable
Public officials and employees professional liability	\$ 1,000,000	Limit	\$ 3,000,000	\$ 2,500

The Town carries no flood insurance because the Town of Harmony is not considered to be in a flood area; therefore, the cost of this type of insurance would outweigh the benefit

In accordance with GS 159-29, the Town's employees that have access to \$100 or more at any given time are performance bonded through a commercial surety bond. The Town's Finance Officer is individually bonded for \$50,000.

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

4. Claims and Judgments

At June 30, 2019, the Town was unaware of any pending or threatened litigation, claims or assessments which could have a material adverse effect on the Town's financial position.

5. Long-Term Obligations:

During the year ended June 30, 2010, the Town borrowed \$240,004 from USDA for the construction of a sewer system. These general obligation bonds were issued to finance the construction of facilities utilized in the operations of the sewer system and which are being retired by its resources are reported as long-term debt in the Sewer Fund. All general obligation bonds are collateralized by the full faith, credit, and taxing power of the Town. Principal and interest requirements are appropriated when due. This was originally recorded as part of the General Fund Capital Project for the construction of a sewer system. Upon completion of the project, the debt was transferred to the Sewer Fund.

Notes to the Financial Statements (continued)

5. Long-Term Obligations (continued):

Bonds payable at June 30, 2019 are comprised of the following individual issues:

a. General Obligation Bonds

Serviced by the Sewer fund

\$240,004, 2009 Sanitary Sewer Bonds due annually on June 1 in installments of principal plus interest through June 1, 2049; interest at 4.375% \$215,004

Annual debt service requirements to maturity for long-term obligation, including \$172,507 of interest, are as follows:

Year Ending June 30	Sewer Fund	
	Principal	Interest
2020	\$ 4,000	9,406
2021	4,000	9,231
2022	4,000	9,056
2023	4,000	8,881
2024	4,000	8,706
2023-27	25,000	40,469
2028-32	31,000	34,563
2033-37	38,000	27,213
2038-42	47,000	18,113
2043-47	54,000	6,869
	\$ 215,000	\$ 172,507

At June 30, 2019, the Town of Harmony had bonds authorized but un-issued of \$-0- and a legal debt margin of \$2,610,080.

b. Changes in Long-term Liabilities

For the year ended June 30, 2019, the Town's changes in debt consisted of the following:

	Balance June 30, 2018	Increases	(Decreases)	Balance June 30, 2019	Current Portion of Balance
Proprietary activities:					
General Obligation Bonds	\$ 219,004	\$ -	\$ (4,000)	\$ 215,004	\$ 4,000

Notes to the Financial Statements (continued)

6. Interfund Receivables and Payables

At June 30, 2019, the following Interfund receivables / payable were outstanding:

To:	General Fund	\$ 0
From:	Sewer Fund	\$ 0

C. Net Investment in Capital Assets

	Governmental	Business-type
Capital Assets	\$ 721,002	\$ 3,224,513
less: long-term debt	-	215,004
add: unexpended debt proceeds	-	-
Net investment in capital assets	<u>\$ 721,002</u>	<u>\$ 3,009,509</u>

D. Fund Balance

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

<u>Total fund balance - General Fund</u>	<u>\$ 1,160,335</u>
Less:	
Prepaid expenses	9,942
Stabilization by State Statute	35,614
Subsequent year's expenditures	-
Streets - Powell Bill	-
Remaining Fund Balance	<u>\$ 1,114,780</u>

The outstanding encumbrances are amounts needed to pay any commitments related to purchase orders and contracts that remain unperformed at year-end.

Encumbrances	General Fund	Non-Major Funds
	\$0	

IV. Jointly Governed Organization

The Town, in conjunction with eight counties and forty-nine other municipalities established the Centralina Council of Government (Council). The participating governments established the Council to coordinate various funding received from Federal and State agencies. Each participating government appoints one member to the Council's governing body.

Notes to the Financial Statements (continued)

V. Summary Disclosure of Significant Contingencies

Federal and State Assisted Programs

In prior years, the Town has received proceeds from various 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 grant monies.

VI. Significant Effects of Subsequent Events

Subsequent events occurring after the statement of financial position date have been evaluated through September 30, 2019, which is the date the financial statements were available to be issued. There were no subsequent events that came to our attention after the audit that would have a significant effect on the Town.

Town of Harmony, North Carolina

General Fund

Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual

For the Year Ended June 30, 2019

(With Comparative Actual Amounts for the Year Ended June 30, 2018)

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>Actual Year ended June 30, 2018</u>
REVENUES:				
Ad valorem taxes				
Current year		\$ 29,402		\$ 28,820
Prior year		-		119
Vehicle taxes		3,916		3,596
	<u>\$ 31,120</u>	<u>33,318</u>	<u>\$ 2,198</u>	<u>32,534</u>
Other taxes & licenses				
Local option sales tax		154,118		147,724
	<u>135,000</u>	<u>154,118</u>	<u>19,118</u>	<u>147,724</u>
Unrestricted intergovernmental				
Utility franchise tax		30,982		31,011
Beer & wine tax		2,369		2,370
	<u>32,800</u>	<u>33,351</u>	<u>551</u>	<u>33,381</u>
Restricted intergovernmental				
Investment earnings - Powell Bill		2		2
Powell Bill allocation		14,997		15,194
	<u>17,000</u>	<u>14,999</u>	<u>(2,001)</u>	<u>15,196</u>
Sales and services				
Cemetery lots		2,500		1,000
Rental income		6,300		5,550
	<u>11,500</u>	<u>8,800</u>	<u>(2,700)</u>	<u>6,550</u>
Investment earnings	<u>2,500</u>	<u>7,177</u>	<u>4,677</u>	<u>8,972</u>
Miscellaneous				
Donations		220		2,405
Interest earnings		576		184
Sale of assets		-		29,585
Other		5,047		1,356
	<u>8,000</u>	<u>5,843</u>	<u>(2,157)</u>	<u>33,531</u>
Total revenues	<u>237,920</u>	<u>257,606</u>	<u>19,686</u>	<u>277,888</u>

Town of Harmony, North Carolina

General Fund

Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual

For the Year Ended June 30, 2019

(With Comparative Actual Amounts for the Year Ended June 30, 2018)

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>Actual Year ended June 30, 2018</u>
EXPENDITURES:				
General Government:				
Salaries and employee benefits		\$ 35,718		\$ 44,012
Other operating expenditures		100,691		84,237
Professional services		11,278		9,948
Donations		1,500		1,775
Cemetery maintenance		9,909		8,621
Repairs and maintenance		10,424		15,216
Utilities		14,666		13,777
Advance to nonprofit		-		50,000
Capital outlay		32,682		139,071
	<u>\$ 231,660</u>	<u>216,866</u>	<u>\$ 14,794</u>	<u>366,657</u>
Transportation and Utilities				
Street & sidewalk maintenance :				
Sidewalk repairs		-		1,800
Repairs and maintenance		(5,241)		27,771
Powell Bill - expense		14,999		19,580
- capital outlay		-		-
	<u>15,200</u>	<u>9,758</u>	<u>5,442</u>	<u>49,151</u>
Environmental Protection				
Solid waste disposal	<u>21,060</u>	<u>20,156</u>	<u>904</u>	<u>19,073</u>
 Total expenditures	<u>267,920</u>	<u>246,781</u>	<u>21,139</u>	<u>434,881</u>
Revenues over (under) expenditures	<u>(30,000)</u>	<u>10,825</u>	<u>40,825</u>	<u>(156,993)</u>
Other sources (uses) of funds				
Long-term receivable payment	-	18,079	18,079	2,412
Appropriated fund balance	30,000	-	(30,000)	-
	<u>30,000</u>	<u>18,079</u>	<u>(11,921)</u>	<u>2,412</u>
Net change in fund balance	<u>\$ -</u>	<u>28,904</u>	<u>\$ 28,904</u>	<u>(154,581)</u>
 Fund balances - beginning of year		<u>1,131,431</u>		<u>1,286,012</u>
Fund balances - end of year		<u>\$ 1,160,335</u>		<u>\$ 1,131,431</u>

Town of Harmony, North Carolina
Proprietary Fund Type - Enterprise Fund
Schedule of Revenue and Expenditures - Budget and Actual (Non-GAAP)
For the Year Ended June 30, 2019
(With Comparative Actual Amounts for the Year Ended June 30, 2018)

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>Actual Year ended June 30, 2018</u>
Revenues:				
Operating revenues:				
Sewer charges, net of bad debts		\$ 123,968		\$ 108,509
Sewer charges - other		27,591		50,281
Other charges		1,692		1,646
	<u>\$ 142,000</u>	<u>153,251</u>	<u>\$ 11,251</u>	<u>160,436</u>
Non-operating Revenues:				
Investment earnings		87		116
Miscellaneous income		1,583		1,805
	<u>100</u>	<u>1,669</u>	<u>1,569</u>	<u>1,921</u>
Total revenues	<u>142,100</u>	<u>154,920</u>	<u>12,820</u>	<u>162,357</u>
Expenditures:				
Sewer Operations:				
Salaries & benefits - operations		29,284		28,747
Utilities		28,649		29,615
Chemicals		3,362		4,567
Testing		6,433		6,140
Permits & licenses		960		960
Repairs and maintenance		52,672		47,240
Miscellaneous		6,202		3,159
Capital outlays		-		-
	<u>129,387</u>	<u>127,563</u>	<u>1,824</u>	<u>120,427</u>
Other budgetary appropriations:				
Debt service:				
Principal		4,000		3,000
Interest		9,581		9,713
	<u>12,713</u>	<u>13,581</u>	<u>(868)</u>	<u>12,713</u>
Total expenditures	<u>142,100</u>	<u>141,144</u>	<u>956</u>	<u>133,140</u>
Other sources (uses) of funds				
None		-	-	-
Revenues and other sources over (under) expenditures and other sources	<u>\$ -</u>	<u>\$ 13,776</u>	<u>\$ 13,776</u>	<u>\$ 29,218</u>

Town of Harmony, North Carolina
Proprietary Fund Type - Enterprise Fund
Schedule of Revenue and Expenditures - Budget and Actual (Non-GAAP)
For the Year Ended June 30, 2019
(With Comparative Actual Amounts for the Year Ended June 30, 2018)

	2019	2018
Reconciliation from budgetary basis (modified accrual) to full accrual basis:		
Excess Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ 13,776	\$ 29,218
Budgetary appropriations:		
Capital outlay	-	-
Debt service - principal portion	4,000	3,000
Depreciation & amortization	(141,442)	(141,442)
Change in net position	\$ (123,666)	\$ (109,224)

Town of Harmony, North Carolina
Schedule of Ad Valorem Taxes Receivable
For the Year Ended June 30, 2019

Fiscal Year	Uncollected Balance June 30, 2018	Additions	Collections and Credits	Uncollected Balance June 30, 2019
2018-19		\$ 32,777	\$ 32,282	\$ 495
2017-18	\$ 570		303	267
2016-17	428		241	187
2015-16	297		161	136
2014-15	192		126	66
2013-14	143		65	78
2012-13	174		71	103
2011-12	162		69	93
2010-11	128		-	128
2009-10	56		-	56
2008-09	107		107	-
	<u>\$ 2,257</u>	<u>\$ 32,777</u>	<u>\$ 33,425</u>	1,609
				-
				<u>\$ 1,609</u>
Reconciliation with revenues:				
				\$ 33,318
				107
				-
				<u>\$ 33,425</u>

Town of Harmony, North Carolina
Analysis of Current Tax Levy
Town-Wide Levy
For the Year Ended June 30, 2019

	Town-Wide			Total Levy	
	Total Property Valuation	Rate	Amount of Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Real property	\$ 32,494,000	0.10	\$ 32,494	\$ 28,700	\$ 3,794
Penalties	151,000		151	151	-
Total levy	32,645,000		32,645	28,851	3,794
Discoveries	132,000	0.10	132	132	-
Abatements	-	0.10	-	-	-
 Total Property Valuation	 <u>\$ 32,777,000</u>				
 Net Levy			 32,777	 28,983	 3,794
Less: Uncollected Tax at June 30, 2019			 <u>495</u>	 <u>495</u>	 <u>-</u>
 Current Year Tax Collected			 <u>\$ 32,282</u>	 <u>\$ 28,488</u>	 <u>\$ 3,794</u>
Percent current year collected			 <u>98.49%</u>	 <u>98.29%</u>	 <u>100.00%</u>