



Darrell L. Keller, CPA, PA

TOWN OF FALLSTON, NORTH CAROLINA

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2020

(704) 739-0771

Town of Fallston, North Carolina
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June 30, 2020

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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

To the Mayor and
Members of the Town Council
Town of Fallston, North Carolina

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of Fallston Tourism Development Authority were not audited in accordance with *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Town of Fallston, North Carolina, as of June 30, 2020, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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.

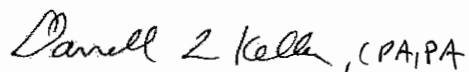
Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Fallston, North Carolina's basic financial statements. The combining and individual fund financial 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 Schedule of Expenditures of Federal and State Awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and is also not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 2021, on our consideration of the Town of Fallston, North Carolina's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Fallston, North Carolina's internal control over financial reporting and compliance.



Darrell L. Keller, CPA, PA
Kings Mountain, North Carolina

January 29, 2021

Town of Fallston
Management's Discussion and Analysis
June 30, 2020

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

Financial Highlights

- The assets and deferred outflows of resources of the Town of Fallston exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$3,677,573 (*net position*).
- The government's total net position increased by \$586,032, primarily due to increases in the business-type activities net position due to the USDA grant.
- As of the close of the current fiscal year, the Town of Fallston's governmental fund reported ending fund balance of \$626,428 a decrease of \$42,365 in comparison with the prior year. Approximately 74.3 percent of this total amount, or \$465,650, is available for spending at the government's discretion (*unassigned fund balance*).
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$465,650 or 332.38 percent of total general fund expenditures for the fiscal year.

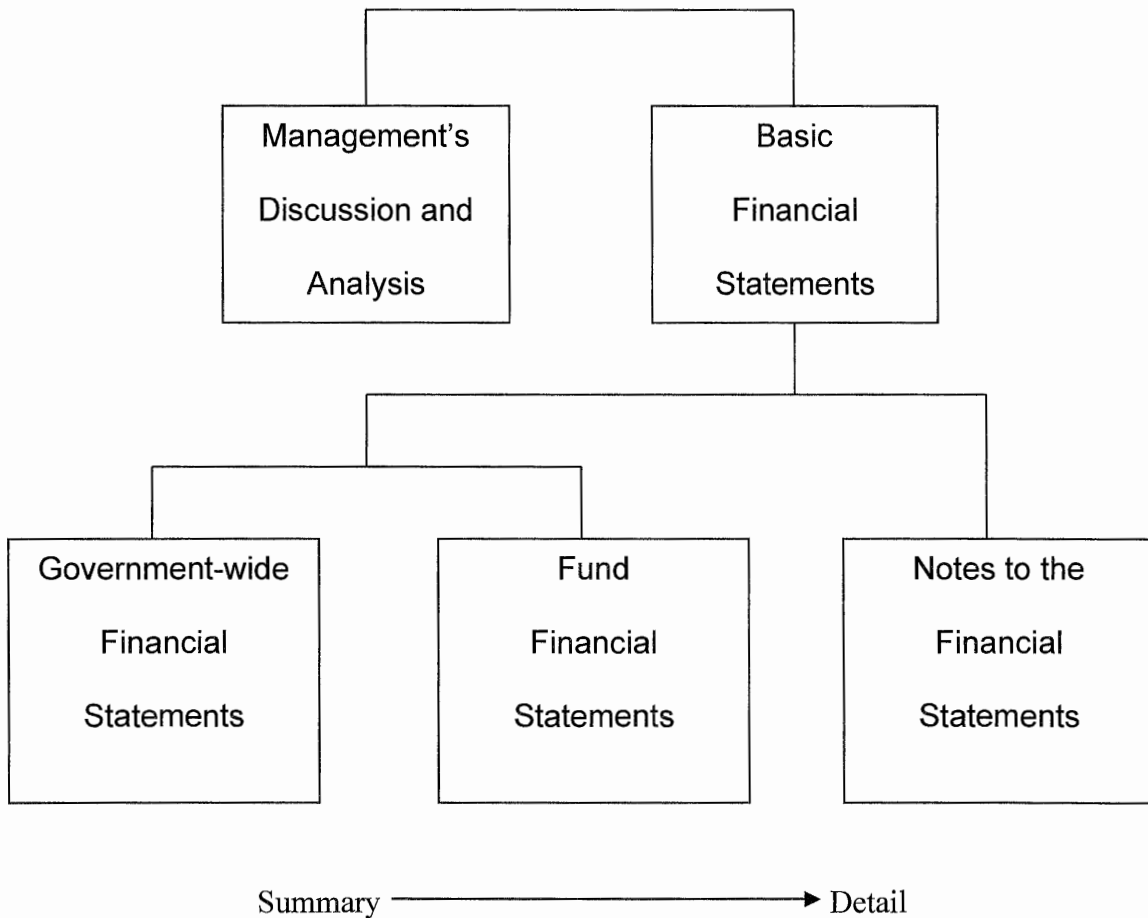
Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to Town of Fallston'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 Fallston.

Town of Fallston
Management Discussion and Analysis

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

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

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

Town of Fallston Management Discussion and Analysis

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

Government-Wide Financial Statements

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

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

The government-wide statements are divided into 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 and state and federal grant funds finance most of these activities. The business-type activities are those that the Town charges customers to provide. These include the water and sewer services offered by the Town of Fallston.

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 grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Fallston, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the Town's budget ordinance. All of the funds of Town of Fallston 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

Town of Fallston
Management Discussion and Analysis

the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the Town's programs. The relationship between government activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The Town of Fallston adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the Town, the management of the Town, and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the Town to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the Town complied with the budget ordinance and whether or not the Town succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the board; 2) the final budget as amended by the board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges.

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

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 21 of this report.

Town of Fallston
Management Discussion and Analysis

Government Wide Financial Analysis:

Town of Fallston's Net Position

Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2020	2019	2020	2019	2020	2019
Current and other assets	\$ 640,816	\$ 669,874	\$ 424,304	\$ 446,060	\$ 1,065,120	\$ 1,115,934
Capital assets	58,392	63,903	4,571,639	3,977,569	4,630,031	4,041,472
Total assets	699,208	733,777	4,995,943	4,423,629	5,695,151	5,157,406
Long-term liabilities outstanding	-	-	1,827,000	1,857,000	1,827,000	1,857,000
Other liabilities	13,775	715	176,803	208,150	190,578	208,865
Total liabilities	13,775	715	2,003,803	2,065,150	2,017,578	2,065,865
Net position:						
Net investment in capital assets	58,392	63,903	2,744,639	2,120,569	2,803,031	2,184,472
Restricted	154,483	211,772	-	-	154,483	211,772
Unrestricted	472,558	457,387	247,501	237,910	720,059	695,297
Total net position	\$ 685,433	\$ 733,062	\$ 2,992,140	\$ 2,358,479	\$ 3,677,573	\$ 3,091,541

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets and deferred outflows of the Town of Fallston exceeded liabilities and deferred inflows by \$3,677,573 as of June 30, 2020. The Town's net position increased by \$586,032 for the fiscal year ended June 30, 2020. However, the largest portion (76.21%) reflects the Town's net investment in capital assets (e.g. land, buildings, machinery, and equipment). The Town of Fallston uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Fallston's net investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Town of Fallston's net position \$154,483 (4.20%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$720,059 is unrestricted.

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

- USDA Grant in the Business-Type Activities

Town of Fallston
Management Discussion and Analysis

Town of Fallston Changes in Net Position
Figure 3

	Governmental Activities		Business-type Activities		Total	
	2020	2019	2020	2019	2020	2019
Revenues:						
Program revenues:						
Charges for services	\$ -	\$ -	\$ 138,442	\$ 199,264	\$ 138,442	\$ 199,264
Operating grants and contributions	25,318	25,327	-	-	25,318	25,327
Capital grants and contributions	-	-	764,743	419,901	764,743	419,901
General revenues:						
Property taxes	21,532	21,610	-	-	21,532	21,610
Other taxes	10,087	8,892	-	-	10,087	8,892
Grants and contributions not restricted to specific programs	-	-	-	-	-	-
Other	41,040	42,292	49,598	755	90,638	43,047
Total revenues	97,977	98,121	952,783	619,920	1,050,760	718,041
Expenses:						
General government	49,628	45,033	-	-	49,628	45,033
Culture and Recreation	11,641	19,232	-	-	11,641	19,232
Transportation	84,337	10,930	-	-	84,337	10,930
Water and sewer	-	-	319,122	372,084	319,122	372,084
Total expenses	145,606	75,195	319,122	372,084	464,728	447,279
Increase in net position before transfers	(47,629)	22,926	633,661	247,836	586,032	270,762
Transfers	-	-	-	-	-	-
Increase (decrease) in net position	(47,629)	22,926	633,661	247,836	586,032	270,762
Net position, July 1	733,062	710,136	2,358,479	2,110,643	3,091,541	2,820,779
Net position, June 30	\$ 685,433	\$ 733,062	\$ 2,992,140	\$ 2,358,479	\$ 3,677,573	\$ 3,091,541

Governmental activities. Governmental activities decreased the Town's net position by \$47,629. This decrease is mostly due to the use of Powell Bill funds for a paving project. Powell Bill funds were required to be spent by the State in order to avoid funds being taken away for accumulating more than allowed.

Business-type activities: Business-type activities increased the Town of Fallston's net position by \$633,661, contributing to the overall increase in the government's net position. Key elements of this decrease are as follows:

- Depreciation of the Town's distribution system.
- Receipt of grant funds from the USDA for water and sewer system improvements.

Town of Fallston
Management Discussion and Analysis

Financial Analysis of the Town's Funds

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

Governmental Funds. The focus of the Town of Fallston'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 Fallston's financing requirements.

The general fund is the chief operating fund of the Town of Fallston. At the end of the current fiscal year, Town of Fallston's fund balance available in the General Fund was \$465,650, while total fund balance reached \$626,428. The Governing Body of Town of Fallston has determined that the Town should maintain an available fund balance of 8% of general fund expenditures in case of unforeseen needs or opportunities, in addition to meeting the cash flow needs of the Town. The Town currently has an available fund balance of 332.24% of general fund expenditures, while total fund balance represents 457.42% of the same amount.

General Fund Budgetary Highlights: During the fiscal year, the Town did not revise the budget. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and 3) increases in appropriations that become necessary to maintain services.

There were several reasons the Town revised its budget throughout the year. The Town approved a paving project and increased Budgeted Powell Bill expenditures.

Proprietary Fund. The Town of Fallston's proprietary fund provides the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the Water and Sewer Fund at the end of the fiscal year amounted to \$247,501. The total change in net position was an increase of \$633,661. This increase is mainly due to the receipt of \$764,743 grant from the USDA for system improvements and depreciation and repairs and maintenance throughout the Town's water and sewer system.

Capital Asset and Debt Administration

Capital assets. The Town of Fallston's investment in capital assets for its governmental and business-type activities as of June 30, 2020, totals \$4,630,031 (net of accumulated depreciation). These assets include land, machinery and equipment, park facilities, and distribution systems.

Town of Fallston
Management Discussion and Analysis

Major capital asset transactions during the year include the following:

- Completion of the USDA water project

**Town of Fallston's Capital Assets
(net of depreciation)**

Figure 4

	Governmental Activities		Business-type Activities		Total	
	2020	2019	2020	2019	2020	2019
Land	\$ 25,659	\$ 25,659	\$ 5,700	\$ 5,700	\$ 31,359	\$ 31,359
Machinery and equipment	-	-	-	-	-	-
Infrastructure	32,733	38,244	4,565,939	1,705,484	4,598,672	1,743,728
Construction in progress	-	-	-	2,266,385	-	2,266,385
Total	\$ 58,392	\$ 63,903	\$ 4,571,639	\$ 3,977,569	\$ 4,630,031	\$ 4,041,472

Additional information on the Town's capital assets can be found in note III. A. 3. of the Basic Financial Statements.

Long-term Debt. As of June 30, 2020, the Town of Fallston had outstanding debt of \$1,827,000.

**Town of Fallston's Outstanding Debt
Figure 5**

	Governmental Activities		Business-type Activities		Total	
	2020	2019	2020	2019	2020	2019
USDA Revenue Bonds	\$ -	\$ -	\$ 1,827,000	\$ -	\$ 1,827,000	\$ -
Interim Direct Borrowing				1,857,000		1,857,000
Total Debt	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,827,000</u>	<u>\$ 1,857,000</u>	<u>\$ 1,827,000</u>	<u>\$ 1,857,000</u>

The Town of Fallston's outstanding debt decreased by \$30,000 during the current fiscal year. The Town's first payment of \$30,000 was paid to USDA. Revenue Bonds were received and interim financing was satisfied.

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8% of the total assessed value of taxable property located within that government's boundaries less its outstanding obligations. The remaining legal debt margin for Town of Fallston is \$1,625,320.

Town of Fallston
Management Discussion and Analysis

Economic Factors and Next Year's Budgets and Rates

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

- Property tax levy was increased due to a County-Wide reevaluation.
- Revenues in the Enterprise Fund should experience modest growth.

The Town entered into an Inter-local agreement between the Town of Fallston and Cleveland County Water (CCW) for management of the local water system in conjunction with USDA guidelines and funding. USDA will provide funding, in the form of a \$1,857,000 loan and a \$1,392,000 grant, for a new interconnection to CCW. This will include 16,900 LF of 12 inch water transmission mains that will connect to the existing 100,000 gallon elevated storage tank and replacement of 10,000 LF of water distribution lines. The USDA loan will be repaid annually for a period of 40 years beginning June 1, 2020. CCW will lease the system from the Town of Fallston for the amount of the loan payment. Construction began in 2019 and was completed in 2020. The system was placed in service and all water accounts were taken over by CCW in accordance with the lease.

Budget Highlights for the Fiscal Year Ending June 30, 2021

Governmental Activities: Property taxes and revenues from sales tax are expected to remain consistent. Expenditures in the General Fund will remain steady for the coming year. The governmental activities felt very little impact caused by COVID-19 and it is not expected to have much affect in the future.

Business – type Activities: The water and sewer rates in the Town will remain stable. General operating expenses will remain steady for the coming year. Receivables have increased due to COVID-19. The Governor put a moratorium on utility shut offs and penalties for non-payment. Customers were allowed to not pay from March through July without penalty or being shut off. Once the moratorium expired they were required to make a payment plan. Utility collections may suffer for the unforeseeable future due to the widespread unemployment caused by the restrictions put in place by Federal, State, and Local governments in their effort to slow the spread of COVID.

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 Director of Finance, Town of Fallston, P O Box 547, Fallston, NC 28042.

Town of Fallston, North Carolina
Statement of Net Position
June 30, 2020

	Primary Government		
	Governmental	Business-type	Total
	Activities	Activities	
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 469,675	\$ 175,082	\$ 644,757
Taxes receivables (net)	613	-	613
Accounts receivable (net)	-	22,375	22,375
Grant receivable-USDA	-	176,667	176,667
Due from other governments	13,574	2,914	16,488
Internal Balances	468	(468)	-
Prepaid items	6,295	390	6,685
Restricted cash	150,191	47,344	197,535
Total current assets	640,816	424,304	1,065,120
Capital assets (Note 1):			
Land, non-depreciable improvements, and construction in progress	25,659	5,700	31,359
Other capital assets, net of depreciation	32,733	4,565,939	4,598,672
Total capital assets	58,392	4,571,639	4,630,031
Total assets	\$ 699,208	\$ 4,995,943	\$ 5,695,151
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 13,775	\$ 176,803	\$ 190,578
Customer deposits	-	-	-
Current portion-USDA loan	-	33,000	33,000
Total liabilities	13,775	209,803	223,578
Long-term Liabilities:			
Direct borrowing-USDA	-	1,794,000	1,794,000
NET POSITION			
Net investment in capital assets	58,392	2,744,639	2,803,031
Restricted for:			
Streets	140,441	-	140,441
Stabilization by State Statute	14,042	-	14,042
Unrestricted	472,558	247,501	720,059
Total net position	\$ 685,433	\$ 2,992,140	\$ 3,677,573

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

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

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental Activities:							
General government	\$ 49,628	\$ -	\$ -	\$ -	\$ (49,628)	\$ -	\$ (49,628)
Culture and Recreation	11,641	-	6,849	-	(4,792)	-	(4,792)
Transportation	84,337	-	18,469	-	(65,868)	-	(65,868)
Total governmental activities (See Note 1)	145,606	-	25,318	-	(120,288)	-	(120,288)
Business-type activities:							
Water and sewer	319,122	138,442	-	764,743	-	\$ 584,063	584,063
Total business-type activities	319,122	138,442	-	764,743	-	584,063	584,063
Total primary government	\$ 464,728	\$ 138,442	\$ 25,318	\$ 764,743	(120,288)	584,063	463,775
General revenues:							
Taxes:							
Property taxes, levied for general purpose					21,532	-	21,532
Other taxes					10,087	-	10,087
Unrestricted investment earnings					1,586	1,079	2,665
Restricted investment earnings					495	-	495
Miscellaneous					-	-	-
Other operating revenues					38,959	48,519	87,478
Total general revenues and transfers					72,659	49,598	122,257
Change in net position					(47,629)	633,661	586,032
Net position, beginning					733,062	2,358,479	3,091,541
Net position, ending					\$ 685,433	\$ 2,992,140	\$ 3,677,573

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

Exhibit 3

**Town of Fallston
Balance Sheet
Governmental Fund
June 30, 2020**

	General Fund	Total Governmental Funds
ASSETS		
Cash and cash equivalents	\$ 469,675	\$ 469,675
Receivables, net:		
Taxes	613	613
Accounts	-	-
Due from other governments	13,574	13,574
Prepaid items	6,295	6,295
Due from sewer	468	468
Restricted cash	150,191	150,191
Total assets	<u>\$ 640,816</u>	<u>\$ 640,816</u>
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable and accrued liabilities	\$ 13,775	\$ 13,775
Due to water fund	-	-
Total liabilities	<u>13,775</u>	<u>13,775</u>
DEFERRED INFLOWS OF RESOURCES		
Property taxes receivable	<u>613</u>	<u>613</u>
Fund balances:		
Nonspendable:		
Prepaid items	6,295	6,295
Reserved for:		
Stabilization by State statute	14,042	14,042
Streets	140,441	140,441
Unassigned	465,650	465,650
Total fund balances	<u>626,428</u>	<u>626,428</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 640,816</u>	<u>\$ 640,816</u>

Amounts reported for governmental activities in the statement of net position (Exhibit 1) are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	58,392
Other long-term assets (accrued interest receivable from taxes) are not available to pay for current-period expenditures and	-
Liabilities for earned but unavailable revenues in fund statements.	613
Net position of governmental activities	<u>\$ 685,433</u>

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

Exhibit 4

Town of Fallston
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Fund
For the Year Ended June 30, 2020

	General Fund	Total Governmental Funds
REVENUES		
Ad valorem taxes	\$ 21,284	\$ 21,284
Other taxes and licenses	10,087	10,087
Unrestricted intergovernmental	38,959	38,959
Restricted intergovernmental	25,318	25,318
Permits, fees and other receipts	-	-
Investment earnings	2,081	2,081
Total revenues	<u>97,729</u>	<u>97,729</u>
EXPENDITURES		
Current:		
General government	48,342	48,342
Cultural and Recreation	10,545	10,545
Transportation	81,207	81,207
Total expenditures	<u>140,094</u>	<u>140,094</u>
Excess (deficiency) of revenues over expenditures	<u>(42,365)</u>	<u>(42,365)</u>
OTHER FINANCING SOURCES (USES)		
Installment purchase obligations issued	-	-
Capital lease obligations issued	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>
Net change in fund balance	<u>(42,365)</u>	<u>(42,365)</u>
Fund balance, beginning	668,793	668,793
Fund balances, ending	<u>\$ 626,428</u>	<u>\$ 626,428</u>

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

Town of Fallston
Reconciliation of the Statement of Revenues, Expenditures, and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2020

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

Net changes in fund balances - total governmental funds	\$ (42,365)
---	-------------

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period	(5,512)
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Amount of donated assets	-
Change in unavailable revenue for tax revenues	247

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

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Compensated absences	-
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Rounding	1
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Total changes in net position of governmental activities	\$ (47,629)
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Town of Fallston
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the Year Ended June 30, 2020

	General Fund			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
Revenues:				
Ad valorem taxes	22,000	22,000	21,284	(716)
Other taxes and licenses	8,900	8,900	10,087	1,187
Unrestricted intergovernmental	43,000	43,000	38,959	(4,041)
Restricted intergovernmental	25,327	25,327	25,318	(9)
Miscellaneous Income	-	-	-	-
Investment earnings	1,460	1,460	2,081	621
Total revenues	100,687	100,687	97,729	(2,958)
Expenditures:				
Current:				
General government	65,024	65,232	48,342	16,890
Cultural and Recreation	26,800	26,800	10,545	16,255
Transportation	17,800	71,800	81,207	(9,407)
Total expenditures	109,624	163,832	140,094	23,738
Revenues over (under) expenditures	(8,937)	(63,145)	(42,365)	20,780
Fund Balance Appropriated	8,937	63,145	-	(63,145)
Total other financing sources (uses)	8,937	63,145	-	(63,145)
Revenues and other sources over (under) expenditures and other uses	\$ -	\$ -	(42,365)	\$ (42,365)
Fund balance, beginning			668,793	
Fund balance, ending			\$ 626,428	

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

**Town of Fallston
Statement of Net Position
Proprietary Fund
June 30, 2020**

	<u>Water and Sewer Fund</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 175,082
Restricted cash	47,344
Accounts receivable (net) - billed	22,375
Grant receivable-USDA	176,667
Due from other governments	2,914
Due from other funds	-
Prepaid items	390
Total current assets	<u>424,772</u>
Capital assets:	
Land and other non-depreciable assets	5,700
Other capital assets, net of depreciation	<u>4,565,939</u>
Capital assets (net)	<u>4,571,639</u>
Total assets	<u><u>\$ 4,996,411</u></u>
LIABILITIES	
Current liabilities:	
Accounts payable and accrued liabilities	176,803
Due to other funds	468
Customer deposits	-
USDA Loan-current portion	<u>33,000</u>
Total current liabilities	<u>210,271</u>
Noncurrent liabilities:	
Direct borrowing-USDA	<u>1,794,000</u>
NET POSITION	
Net investment in capital assets	2,744,639
Unrestricted	<u>247,501</u>
Total net position	<u><u>\$ 2,992,140</u></u>

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

Town of Fallston
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Fund
For the Year Ended June 30, 2020

	<u>Water and Sewer Fund</u>
OPERATING REVENUES	
Water Charges	\$ 11,556
Water Lease	48,519
Sewer Charges	126,836
Reconnections and New Meters	50
Total operating revenues	<u>186,961</u>
OPERATING EXPENSES	
Salaries	14,596
Utilities	844
Repairs and Maintenance	2,411
Water Samples	1,304
Water Purchases	5,879
Professional Services	-
Sewer Expense	93,243
Postage and Office Expense	1,273
Dues and Subscriptions	3,138
Insurance	1,200
Miscellaneous	1,447
Provision for Bad Debts	7,507
Depreciation	115,230
Total operating expenses	<u>248,072</u>
Operating income (loss)	<u>(61,111)</u>
NONOPERATING REVENUES (EXPENSES)	
Investment earnings	1,079
Loss on Abandonment of Assets	(2,958)
USDA Grant	764,743
Interest paid USDA Loan	(51,862)
Loan issuance costs-USDA Loan	(16,230)
Total nonoperating revenue (expenses)	<u>694,772</u>
Change in net position	633,661
Total net position, beginning	2,358,479
Total net position, ending	<u>\$ 2,992,140</u>

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

**Town of Fallston
Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended June 30, 2020**

Exhibit 9

	<u>Water and Sewer Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 175,745
Cash paid for goods and services	(110,491)
Cash paid to or on behalf of employees for services	(14,596)
Customer deposits-net	(2,900)
Net cash provided (used) by operating activities	<u>47,758</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Miscellaneous revenues (rounding)	-
(Increase) Decrease in due from General Fund	751
Total cash flows from noncapital financing activities	<u>751</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital grant-USDA	764,743
Sales Tax Refund on USDA Project	46,930
USDA loan issuance costs	(16,230)
Principal paid	(30,000)
Interest paid	(51,862)
Acquisition and construction of capital assets	(715,171)
Net cash provided (used) by capital and related financing activities	<u>(1,590)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and dividends	<u>1,079</u>
Net increase (decrease) in cash and cash equivalents	47,998
Balances, beginning	174,428
Balances, ending	<u>\$ 222,426</u>
 Reconciliation of operating income to net cash provided by operating activities	
Operating income (loss)	<u>\$ (61,111)</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	115,230
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	(3,709)
(Increase) decrease in due from other governments	143
(Increase) decrease in grant receivable-USDA	28,553
(Increase) decrease in prepaid items	-
Increase (decrease) in accounts payable and accrued liabilities	(28,448)
Increase (decrease) in customer deposits	(2,900)
Total adjustments	108,869
Net cash provided by operating activities	<u>\$ 47,758</u>

Town of Fallston, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2020

I. Summary of Significant Accounting Policies

The accounting policies of the Town of Fallston 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 Fallston is a municipal corporation that is governed by an elected mayor and a four-member council.

B. Basis of Presentation

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

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

Fund Financial Statements: The fund financial statements provide information about the Town's funds. Separate statements for each fund category – *governmental* and *proprietary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are 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 equal values. Non-operating revenues, such as subsidies result from non-exchange transactions. Other non-operating revenues are ancillary activities such as investment earnings,

The Town reports the following major governmental fund:

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

Town of Fallston, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2020

The Town reports the following major enterprise fund:

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

Capital Projects Fund. This fund is used to account for the Water Distribution System Improvements Project.

C. Measurement Focus and Basis of Accounting

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

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

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

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 is charges to customers for sales and services. The Town also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the water and sewer system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

The Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable for property other than motor vehicles are materially

Town of Fallston, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2020

past due and are not considered to be an available resource to finance the operations of the current year. Also, as of September 1, 2013, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, the State of North Carolina is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts. Property taxes are due when vehicles are registered. The billed taxes are applicable to the fiscal year in which they are received. Uncollected taxes that were billed in periods prior to September 1, 2013 and for limited registration plates are shown as a receivable in these financial statements and are offset by deferred inflows of resources.

Sales taxes and certain intergovernmental revenues, such as the utilities franchise tax, collected and held by the State at year-end on behalf of the Town are recognized as revenue. Sales taxes are considered a shared revenue for the Town because the tax is levied by Cleveland County and then remitted to and distributed by the State. Intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. Under the terms of grant agreements, the Town funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there is both restricted and unrestricted net position available to 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 by 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. Project ordinances are adopted for the Enterprise Fund Capital Projects Funds, which are consolidated with the operating funds for reporting purposes. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the project level for the multi-year funds. All amendments must be approved by the governing board. During the year several amendments to the original budget were made. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

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

1. Deposits and Investments

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

State law [G.S. 159-30(c)] authorizes the Town to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances and the North Carolina Capital Management Trust (NCCMT).

Town of Fallston, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2020

The Town's investments with a maturity of more than one year at acquisition and non-money market investments are reported at fair value as determined by quoted market prices.

2. Cash and Cash Equivalents

The Town pools money from several funds to facilitate disbursement and investment and to maximize investment income and considers all cash and investments to be cash and cash equivalents.

3. Restricted Assets

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

<u>Town of Fallston Restricted Cash</u>		
Governmental Activities		
General Fund		
	Streets	\$ 150,191
Total governmental activities		<u>\$ 150,191</u>
Business-Type Activities		
	Debt Service Reserve	\$ 12,277
	Short Lived Asset Reserve	35,067
Total Business-type Activities		<u>\$ 47,344</u>
Total Restricted Cash		<u><u>\$ 197,535</u></u>

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, 2018. As allowed by State law, the Town has established a schedule of discounts that apply to taxes that are paid prior to the due date. In the Town's General Fund, ad valorem tax revenues are reported net of such discounts.

5. Allowances for Doubtful Accounts

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

Town of Fallston, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2020

6. 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 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. The minimum capitalization cost is \$5,000 for all assets. Donated capital assets received prior to June 15, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 15, 2015 are recorded at acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

In July 2003, the Town increased its capitalization policy for all assets from \$1,000 to \$5,000 to improve the efficiency in keeping the accounting records.

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

Asset Class	Estimated Useful Lives
Infrastructure	20
Buildings	40
Furniture and equipment	7
Computer equipment	5
Plant and Distribution System	32-39
Wells	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 items that meet 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 statement element, *Deferred Inflows of resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Town has one item that meets this criterion- 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 statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method that

Town of Fallston, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2020

approximates the effective interest rate method. Bonds payable are reported net of the applicable bond premiums or discount. Bond issuance costs, except for prepaid insurance costs, are expensed in the reporting period in which they are incurred. Prepaid insurance costs are expensed over the life of the debt.

In fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing uses. Issuance costs, whether withheld from the actual debt proceeds received or not, 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, restricted, and unrestricted. Restricted net position represents constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through state statute.

Fund Balances

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

The governmental fund types classify fund balances as follows:

Non-spendable 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 Items-portion of fund balance that is not an available resource because it represents the year-end balance of prepaid items which are not a spendable resource.

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

Town of Fallston, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2020

prepaids as they are classified as non-spendable. Outstanding encumbrances are included within RSS. RSS is included as a component of Restricted Net Position and Restricted fund balance on the face of the balance sheet.

Reserved 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.

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

Assigned Fund Balance-portion of fund balance that Town of Fallston intends to use for specific purposes.

Subsequent year's expenditures - portion of fund balance that is appropriated in the next year's budget that is not already classified in restricted or committed. The governing body approves the appropriation; however the budget ordinance authorizes the Finance Officer to modify the appropriations by resource or appropriation within funds up to \$2,500.

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

The town of Fallston has also adopted a minimum fund balance policy for the general fund which instructs management to conduct the business of the Town in such a manner that available fund balance is at least equal to or greater than 8% of budgeted expenditures. Any portion of the general fund balance in excess of 8% of budgeted expenditures may be appropriated for one-time expenditures and may not be used for any purpose that would obligate the Town in a future budget.

II. Stewardship, Compliance, and Accountability

A. Material Excess of Expenditures over Appropriations

For the fiscal year ended June 30, 2020, the expenditures made in the Town's General Fund did not exceed the authorized appropriations made by the governing board as a whole. However transportation expenses exceeded budgeted amounts by \$9,407. This over-expenditure occurred because accounts payable was not taken into account during budgeting. The Town will monitor the budget vs actual going forward and will make amendments as necessary.

Town of Fallston, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2020

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 approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Town, or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Town under the Pooling Method, the potential exists for under-collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Town has no policy regarding custodial risks for deposits.

At June 30, 2020, the Town's deposits had a carrying amount of \$842,292 and a bank balance of \$867,752. Of the bank balance, \$384,214 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method.

2. Receivables - Allowances for Doubtful Accounts

The amounts presented in the Balance Sheet and the Statement of Net Position is net of the following allowances for doubtful accounts:

Fund	6/30/2020
General Fund:	
Taxes Receivable	\$ 456
Accounts receivable	-
Total	<u>456</u>
Enterprise Funds	13,039
Total	<u>\$ 13,495</u>

Town of Fallston, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2020

3. Capital Assets

Primary Government

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

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 18,282	\$ -	\$ -	\$ 18,282
Construction in progress	7,377	-	-	7,377
Total capital assets not being depreciated	25,659	-	-	25,659
Capital assets being depreciated:				
Office Equipment	400	-	-	400
Furniture and Equipment	4,150	-	-	4,150
Infrastructure	100,739	-	-	100,739
Total capital assets being depreciated	105,289	-	-	105,289
Less accumulated depreciation for:				
Office Equipment	400	-	-	400
Furniture and Equipment	4,150	-	-	4,150
Infrastructure	62,494	5,512	-	68,006
Total accumulated depreciation	67,044	\$ 5,512	\$ -	72,556
Total capital assets being depreciated, net	38,245			32,733
Governmental activity capital assets, net	\$ 63,904			\$ 58,392

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

General government	\$ 1,286
Transportation	3,130
Culture and Recreation	1,096
Total depreciation expense	<u>\$ 5,512</u>

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
<i>Water and Sewer Fund</i>				
Capital assets not being depreciated:				
Land	\$ 5,700	\$ -	\$ -	\$ 5,700
Construction in progress	2,266,385	-	2,266,385	-
Total capital assets not being depreciated	2,272,085	-	2,266,385	5,700
Capital assets being depreciated:				
Plant and distribution systems	3,191,448	2,978,643	-	6,170,091
Office Equipment	-	-	-	-
Wells	87,210	-	87,210	-
Total capital assets being depreciated	3,278,658	2,978,643	87,210	6,170,091
Less accumulated depreciation for:				
Plant and distribution systems	1,490,030	114,122	-	1,604,152
Office Equipment	-	-	-	-
Wells	83,144	1,108	84,252	-
Total accumulated depreciation	1,573,174	\$ 115,230	\$ 84,252	1,604,152
Total capital assets being depreciated, net	1,705,484			4,565,939
Water and Sewer fund capital assets, net	3,977,569			4,571,639
Business-type activities capital assets, net	\$ 3,977,569			\$ 4,571,639

4. Deferred Outflows and Inflows of Resources

The balance in deferred inflows at year-end is composed of the following elements:

Town of Fallston, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2020

4. Deferred Outflows and Inflows of Resources

The balance in deferred inflows at year-end is composed of the following elements:

	Unavailable Revenue
Prepaid taxes (General Fund)	\$ -
Taxes receivable (General Fund)	613
Total	<u>\$ 613</u>

B. Liabilities

1. 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 to cover property, general liability, and auto liability coverage of \$500,000 per occurrence, workmen's compensation coverage of \$ 100,000 per accident. Settled claims resulting from these risks have not exceeded coverage in any of the past three (3) fiscal years. The Town of Fallston is not in a flood plain and does not carry flood insurance.

In accordance with G.S. 159-29 the Town's employees that have access to \$100 or more at any given time of the Town's funds are performance bonded through a commercial surety bond. The finance officer is individually bonded for \$50,000. The remaining employees and Council are bonded under a blanket bond for \$250,000.

2. Claims, Judgments and Contingent Liabilities

At June 30, 2020, the Town was party to threatened litigation from the contractor used on the USDA project. The Contractor underbid the project and is demanding additional payments. The Town and the Contractor have participated in mediation. The Contractor is demanding payment of as much as \$550,000. The amount owed based on bid and change orders is roughly \$171,200 which has been recorded as accounts payable at June 30, 2020. The Town has USDA grant funds to cover the amount owed and will contest the matter of any additional payment vigorously. The likelihood of an unfavorable outcome is premature to evaluate until a lawsuit is filed and the exact nature of the claims are known. Accordingly, no amount has been recorded for this potential claim.

3. Long-Term Obligations

a. USDA Bond Payable

During a prior year the Town secured interim financing through the issuance of Bond Anticipation Note Proceeds for the construction of Water Distribution System Improvements. During the current year the permanent revenue bonds were issued and the interim financing was satisfied. The Bond is payable in 40 annual instalments on June 1 ranging from \$30,000 to \$62,000 plus 1.75% interest. The first payment was June 1, 2020 and the loan matures on June 1, 2059. The bond is a special obligation of the Town, payable solely from the Net Revenues and other funds pledged to payment as provided in the Bond Order. Neither the Town's faith and credit nor its taxing power is pledged for any payment on the Bonds and no owner of any Bond has any right to compel the exercise of the Town's taxing power in connection with any default on the Bond. All obligations of the Town under the Bond Order are payable only from System Revenues or, when so indicated in the Bond Order, from Net Revenues. Default in payments or covenants could render the principal and interest payable in full. Failure to meet the rate covenants does not necessarily cause default if the Town submits proof of consulting on rates to ensure adequate funds.

Town of Fallston, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2020

The Town is required to make a deposit into the Debt Service Reserve Fund in an amount equal to 1/10th the annual payment each year until the Fund reaches the amount of one annual payment. These deposits must begin in the Fiscal Year following the Fiscal Year in which the first principal payment is due. This requirement begins in fiscal year June 30, 2021, however the Town has already funded it in the amount of \$47,344.

Total Serviced by the Water Fund \$1,827,000

Annual debt service requirements to maturity for the revenue bond is as follows:

Year Ending June 30	Business-type Activities		Governmental Activities	
	Principal	Interest	Principal	Interest
2021	\$ 33,000	\$ 31,973	\$ -	\$ -
2022	34,000	31,395	-	-
2023	34,000	30,800	-	-
2024	35,000	30,205	-	-
2025	35,000	29,593	-	-
2026-2030	187,000	138,478	-	-
2031-2035	203,000	121,555	-	-
2036-2040	222,000	103,128	-	-
2041-2045	241,000	83,055	-	-
2046-2050	265,000	61,163	-	-
2051-2055	290,000	37,100	-	-
2056-2060	248,000	10,885	-	-
	-	-	-	-
Total	\$ 1,827,000	\$ 709,330	\$ -	\$ -

The Town is in compliance with the covenants as to rates, fees, rentals and charges in section 3 of the Bond Order, authorizing the issuance of the Water Revenue Bonds. Section 3.04 requires debt service coverage ratio to be no less than 110%. The debt service coverage ratio calculation for the year ended June 30, 2020 is as follows:

Operating Revenues	\$ 186,961
Operating Expenses*	(132,842)
Operating Income	54,119
Nonoperating Revenues (Expenses)**	1,079
Income Available for Debt Service	55,198
Debt Service, Principal and Interest	
Paid (Revenue Bonds Only)	\$ 48,519
Debt Service Coverage Ratio	114%

*Per rate covenants, this does not include the depreciation expense of \$115,230

**Per rate covenants, this does not include revenue bond interest of \$18,520

b. Changes in Long-Term Liabilities

	Balance July 1, 2019	Increases	Decreases	Balance June 30, 2020	Current Portion of Balance
Governmental activities:					
Governmental activity long-term liabilities	\$ -	\$ -	\$ -	\$ -	\$ -
Business-type activities:					
Series 2019 USDA Bond	\$ -	\$ 1,827,000	\$ -	\$ 1,827,000	\$ 33,000
Direct Borrowing - Bank	1,857,000	-	1,857,000	-	-
Business-type activity long-term liabilities	\$ 1,857,000	\$ -	\$ 1,857,000	\$ -	\$ -

The Town's legal debt margin is \$ 1,625,320.

Town of Fallston, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2020

C. Interfund Balances

The amount due to the General Fund from the Water and Sewer Fund is for a legal invoice paid from the wrong account.

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>\$626,428</u>
Less;	
Stabilization by State Statute	14,042
Streets - Powell Bill	140,441
Fund Balance Appropriated in 2021 Budget	0
Prepaid Items	6,295
Working Capital / Fund Balance Policy	8,770
Remaining Fund Balance	<u>456,880</u>

The Town of Fallston has adopted a minimum fund balance policy for the General Fund which instructs management to conduct the business of the Town in such a manner that available fund balance is at least equal to or greater than 8% of budgeted expenditures.

E. Net Investment in Capital Assets

	Governmental Activities	Business-Type Activities
Capital Assets net of Depreciation	\$58,392	\$4,571,639
Less Related Debt	<u>-</u>	<u>1,827,000</u>
Net Investment In Capital Assets	<u>\$58,392</u>	<u>\$2,744,639</u>

IV. Summary Disclosure of Significant Contingencies

Federal and State Assisted Programs

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

Town of Fallston, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2020

V. Contingencies and Commitments

The Town entered into an Inter-local agreement between the Town of Fallston and Cleveland County Water (CCW) for management of the local water system in conjunction with USDA guidelines and funding. USDA will provide funding, in the form of a \$1,857,000 loan and a \$1,392,000 grant, for a new interconnection to CCW. This will include 16,900 LF of 12 inch water transmission mains that will connect to the existing 100,000 gallon elevated storage tank and replacement of 10,000 LF of water distribution lines. The USDA loan portion was completed and closed on June 1, 2020 and the loan will be repaid annually for a period of 40 years beginning June 1, 2020. CCW will lease the system from the Town of Fallston for the amount of the loan payment. Construction was completed in fiscal year ending June 30, 2020 and the system was placed in service. As of June 30, 2020 grant revenue was \$1,184,644. The remaining grant of \$207,356 will be received in fiscal year ending June 30, 2021.

Cleveland County Water is required to establish separate accounting procedures to establish and maintain any required USDA short lived asset reserve funds.

Per this agreement the lease will expire on June 30, 2059 and may be renewed in additional 10 year terms by mutual agreement. CCW is responsible for maintenance and repairs. Fallston has relinquished all customer deposits to CCW.

The following is a schedule of future minimum rental payments from Cleveland County Water under this Inter-Local agreement:

Year Ending June 30		
2021	✓	\$ 64,973
2022	✓	\$ 65,395
2023	✓	\$ 64,800
2024	✓	\$ 65,205
2025	✓	\$ 64,593
2026-2030		\$ 325,478
2031-2035		\$ 324,555
2036-2040		\$ 325,128
2041-2045		\$ 324,055
2046-2050		\$ 326,163
2051-2055		\$ 327,100
2056-2060		\$ 258,885
		-
Total		<u>\$ 2,536,330</u>

VI. Impact of COVID-19 on the Town

The COVID-19 pandemic developed rapidly in 2020, with a significant number of cases. Measures taken by Federal, State, and Local governments to contain the virus have affected economic activity. From March 19, 2020 through July 31, 2020, penalties for late payments on utilities were waived and payment plans up to six months could be utilized with no cut-offs for utility customers per the Governor's executive order. The impact of COVID-19 has reduced receipts from utility customers and other intergovernmental revenues received from governments due to stay at home orders to prevent the spread of the virus. Depending on the duration of the COVID-19 crisis and continued government restrictions, the Town may experience further negative results. The exact impact of the Town's activities cannot be predicted and no adjustment has been made to the financial statements for this uncertainty.

Supplementary Statements

This section contains additional statements required by the Local Government Commission in North Carolina.

TOWN OF FALLSTON, NORTH CAROLINA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2020
(With Comparative Actual Amounts for the Year Ended June 30, 2019)

SCHEDULE 1

	June 30, 2020		VARIANCE	6/30/2019
	BUDGET	ACTUAL	FAVORABLE (UNFAVORABLE)	ACTUAL
REVENUES				
Advalorem Taxes:				
Current Year	\$ 22,000	\$ 20,944	\$ (1,056)	\$ 21,191
Prior Years	-	249	249	830
Interest	-	91	91	134
Total	22,000	21,284	(716)	22,155
Other Taxes & Licenses:				
Local Option Sales Tax	8,900	10,087	1,187	8,892
Total	8,900	10,087	1,187	8,892
Unrestricted Intergovernmental Revenue:				
Hold Harmless Distribution	-	-	-	-
Beer and Wine Tax	3,000	2,770	(230)	2,702
Franchise Tax	40,000	36,189	(3,811)	37,792
Total	43,000	38,959	(4,041)	40,494
Restricted Intergovernmental Revenue:				
Cleveland County Recreational	6,849	6,849	-	6,849
Sale of Powell Bill Asset	-	-	-	-
"State Street Aid" Allocation	18,478	18,469	(9)	18,478
Total	25,327	25,318	(9)	25,327
Miscellaneous Income:				
Miscellaneous	-	-	-	-
Investment Earnings:				
Interest-General Fund	1,000	1,586	586	1,210
Interest-Powell Bill	460	495	35	588
Total	1,460	2,081	621	1,798
TOTAL REVENUES	\$ 100,687	\$ 97,729	\$ (2,958)	\$ 98,666

TOWN OF FALLSTON, NORTH CAROLINA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2020
(With Comparative Actual Amounts for the Year Ended June 30, 2019)

SCHEDULE 1

	June 30, 2020		VARIANCE	6/30/2019
	BUDGET	ACTUAL	FAVORABLE (UNFAVORABLE)	ACTUAL
EXPENDITURES:				
General Government:				
Administration	\$ 25,708	\$ 20,276	\$ 5,432	\$ 18,418
Salaries	8,524	8,516	8	8,516
Professional Fees	15,000	13,250	1,750	11,124
Election Expenditures	5,000	547	4,453	-
General Insurance	11,000	5,753	5,247	5,689
Capital outlay	-	-	-	-
Total	<u>65,232</u>	<u>48,342</u>	<u>16,890</u>	<u>43,747</u>
Cultural and Recreational:				
Recreation and Parks	10,200	6,605	3,595	3,396
Capital Outlay	-	-	-	-
Public Celebrations	16,600	3,940	12,660	14,740
Total	<u>26,800</u>	<u>10,545</u>	<u>16,255</u>	<u>18,136</u>
Transportation:				
Capital Outlay	-	-	-	-
Operating Expenses	71,800	81,207	(9,407)	7,800
Total	<u>71,800</u>	<u>81,207</u>	<u>(9,407)</u>	<u>7,800</u>
TOTAL EXPENDITURES	<u>163,832</u>	<u>140,094</u>	<u>23,738</u>	<u>69,683</u>
REVENUES OVER (UNDER) EXPENDITURES	(63,145)	(42,365)	20,780	28,983
OTHER FINANCING SOURCES (USES)				
Fund Balance Appropriated	63,145	-	63,145	-
Fund Balance Reserve	-	-	-	-
Transfer (to) from Water & Sewer Func	-	-	-	-
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	<u>\$ -</u>	<u>(42,365)</u>	<u>\$ (42,365)</u>	<u>\$ 28,983</u>
FUND BALANCE				
Beginning of Year, July 1		668,793		639,810
End of Year, June 30		<u>\$ 626,428</u>		<u>\$ 668,793</u>

TOWN OF FALLSTON, NORTH CAROLINA
WATER AND SEWER FUND

Schedule 2

STATEMENT OF REVENUES AND EXPENDITURES-BUDGET AND ACTUAL (NON GAAP)
FOR THE YEAR ENDED JUNE 30, 2020

(With Comparative Actual Amounts for the Year Ended June 30, 2019)

	June 30, 2020		Variable	06/30/19
	Budget	Actual	Favorable (Unfavorable)	Actual
OPERATING REVENUES				
Water Charges	\$ 11,556	\$ 11,556	\$ -	\$ 79,469
Water Lease	48,519	48,519	-	-
Sewer Charges	105,100	126,836	21,736	117,810
Reconnections & New Meters	50	50	-	1,985
Total Operating Revenue	<u>165,225</u>	<u>186,961</u>	<u>21,736</u>	<u>199,264</u>
NON OPERATING REVENUES				
Interest Income	1,000	1,079	79	755
Fund Balance Appropriated	-	-	-	-
Other	-	-	-	-
Transfer from GF	35,000	-	(35,000)	-
TOTAL REVENUES	<u>\$ 201,225</u>	<u>\$ 188,040</u>	<u>\$ (13,185)</u>	<u>\$ 200,019</u>
EXPENDITURES				
Salaries	\$ 17,284	\$ 14,596	\$ 2,688	\$ 17,260
Utilities	2,000	844	1,156	2,327
Repairs & Maintenance	10,000	2,411	7,589	42,607
Water Samples	1,340	1,304	36	3,320
Water Purchases	5,879	5,879	-	30,316
Professional Services	-	-	-	-
Sewer Expense	118,500	93,243	25,257	122,169
Postage and Office Expense	3,000	1,273	1,727	2,249
Dues and Subscriptions	3,800	3,138	662	3,055
Rent	1,200	1,200	-	1,200
Collection Fee	2,600	1,447	1,153	118
Transfer to Capital Project Fund	3,692	-	3,692	3,692
Provision for Bad Debt	-	7,507	(7,507)	4,773
Capital Outlay	-	-	-	-
Total Expenditures	<u>\$ 169,295</u>	<u>\$ 132,842</u>	<u>\$ 36,453</u>	<u>\$ 233,086</u>

Note: Prepared on the budgetary basis which is modified accrual.

TOWN OF FALLSTON, NORTH CAROLINA
WATER AND SEWER FUND
STATEMENT OF REVENUES AND EXPENDITURES-BUDGET AND ACTUAL (NON GAAP)
FOR THE YEAR ENDED JUNE 30, 2020
(With Comparative Actual Amounts for the Year Ended June 30, 2019)

Schedule 2

RECONCILIATION OF MODIFIED ACCRUAL BASIS TO FULL ACCRUAL BASIS

Total Revenues from page 1 of 2	\$ 188,040
Total Expenditures from page 1 of 2	<u>132,842</u>
Excess Revenues over (under) Expenditures	55,198
Depreciation	(115,230)
Loss on Abandonment of Assets	(2,958)
Interest paid-USDA Loan	(51,862)
Loan issuance costs-USDA Loan	(16,230)
USDA Grant	<u>764,743</u>
Change in net assets at Exhibit 8	<u><u>\$ 633,661</u></u>

Town of Fallston, North Carolina
Capital Projects Fund -Water Distribution System Improvements Project
Schedule of Revenues and Expenditures - Budget and Actual (Non - GAAP)
From Inception and for the Fiscal Year Ended June 30, 2020

	Project Author - ization	Prior Years	Actual Current Year	Total to Date	Variance Positive (Negative)
Expenditures - Water/Sewer System:					
Engineering and architectural fees	452,800	385,575	44,876	430,451	22,349
Construction	2,562,700	1,920,024	500,023	2,420,047	142,653
Contingency	256,000	2,010	175,752	177,762	78,238
Materials Testing	10,500	666	-	666	9,834
Administrative	6,300	5,040	-	5,040	1,260
Interest-Interim Financing	37,200	51,086	33,342	84,428	(47,228)
Legal Fees-Local Attorney	1,000	-	750	750	250
Legal Fees-Bond Counsel	22,500	12,500	10,000	22,500	-
Total	<u>3,349,000</u>	<u>2,376,901</u>	<u>764,743</u>	<u>3,141,644</u>	<u>207,356</u>
Other Revenues:					
USDA Grant	1,392,000	419,901	764,743	1,184,644	(207,356)
Transfer from W/S reserve	100,000	100,000	-	100,000	-
Usda Loan	1,857,000	1,857,000	-	1,857,000	-
	<u>3,349,000</u>	<u>2,376,901</u>	<u>764,743</u>	<u>3,141,644</u>	<u>(207,356)</u>
Revenues over (under) expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Town of Fallston
Schedule of Net Position
Water and Sewer Fund by Function
June 30, 2020

	Water	Sewer	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 101,888	\$ 73,194	\$ 175,082
Restricted cash	47,344	-	47,344
Accounts receivable (net) - billed	-	22,375	22,375
Grant receivable-USDA	176,667	-	176,667
Due from other governments	2,914	-	2,914
Due from other funds	-	-	-
Prepaid items	390	-	390
Total current assets	329,203	95,569	424,772
Capital assets:			
Land and other non-depreciable assets	5,700	-	5,700
Other capital assets, net of depreciation	2,949,662	1,616,277	4,565,939
Capital assets (net)	2,955,362	1,616,277	4,571,639
Total assets	\$ 3,284,565	\$ 1,711,846	\$ 4,996,411
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities	176,803	-	176,803
Due to other funds	468	-	468
Customer deposits	-	-	-
USDA Loan-current portion	33,000	-	33,000
Total current liabilities	210,271	-	210,271
Noncurrent liabilities:			
Direct borrowing-USDA	1,794,000	-	1,794,000
NET POSITION			
Net investment in capital assets	1,128,362	1,616,277	2,744,639
Unrestricted	151,932	95,569	247,501
Total net position	\$ 1,280,294	\$ 1,711,846	\$ 2,992,140

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

Schedule 5

Town of Fallston
Schedule of Revenues, Expenses, and Changes in Fund Net Position
Water and Sewer Fund by Function
For the Year Ended June 30, 2020

	Water	Sewer	Total
OPERATING REVENUES			
Water Charges	\$ 11,556	\$ -	\$ 11,556
Water Lease	48,519	-	48,519
Sewer Charges	-	126,836	126,836
Reconnections and New Meters	50	-	50
Total operating revenues	<u>60,125</u>	<u>126,836</u>	<u>186,961</u>
OPERATING EXPENSES			
Salaries	8,758	5,838	14,596
Utilities	844	-	844
Repairs and Maintenance	2,411	-	2,411
Water Samples	1,304	-	1,304
Water Purchases	5,879	-	5,879
Professional Services	-	-	-
Sewer Expense	-	93,243	93,243
Postage and Office Expense	764	509	1,273
Dues and Subscriptions	2,437	701	3,138
Rent	1,200	-	1,200
Collection Fee	-	1,447	1,447
Provision for Bad Debts	1,122	6,385	7,507
Depreciation	38,678	76,552	115,230
Total operating expenses	<u>63,397</u>	<u>184,675</u>	<u>248,072</u>
Operating income (loss)	<u>(3,272)</u>	<u>(57,839)</u>	<u>(61,111)</u>
NONOPERATING REVENUES (EXPENSES)			
Investment earnings	413	666	1,079
Loss on Abandonment of Assets	(2,958)	-	(2,958)
USDA Grant	764,743	-	764,743
Interest paid USDA Loan	(51,862)	-	(51,862)
Loan issuance costs-USDA Loan	(16,230)	-	(16,230)
Total nonoperating revenue (expenses)	<u>694,106</u>	<u>666</u>	<u>694,772</u>
Change in net position	690,834	(57,173)	633,661
Total net position, beginning	589,460	1,769,019	2,358,479
Total net position, ending	<u>\$ 1,280,294</u>	<u>\$ 1,711,846</u>	<u>\$ 2,992,140</u>

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

Schedule 6

Town of Fallston
Schedule of Cash Flows
Water and Sewer Fund by Function
For the Fiscal Year Ended June 30, 2020

	Water	Sewer	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 70,203	\$ 105,542	\$ 175,745
Cash paid for goods and services	(14,591)	(95,900)	(110,491)
Cash paid to or on behalf of employees for services	(8,758)	(5,838)	(14,596)
Customer deposits-net	(2,900)	-	(2,900)
Net cash provided (used) by operating activities	43,954	3,804	47,758
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Miscellaneous revenues (rounding)	-	-	-
Transfers (to) from other funds	638	113	751
Total cash flows from noncapital financing activities	638	113	751
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Capital grant-USDA	764,743	-	764,743
Sales Tax Refund on USDA Project	46,930	-	46,930
USDA loan issuance costs	(16,230)	-	(16,230)
Principal paid	(30,000)	-	(30,000)
Interest paid	(51,862)	-	(51,862)
Acquisition and construction of capital assets	(715,171)	-	(715,171)
Net cash provided (used) by capital and related financing activities	(1,590)	-	(1,590)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends	413	666	1,079
Net increase (decrease) in cash and cash equivalents	43,415	4,583	47,998
Balances, beginning	105,817	68,611	174,428
Balances, ending	\$ 149,232	\$ 73,194	\$ 222,426
 Reconciliation of operating income to net cash provided by operating activities			
Operating income (loss)	\$ (3,272)	\$ (57,839)	\$ (61,111)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	38,678	76,552	115,230
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable	11,200	(14,909)	(3,709)
(Increase) decrease in due from other governments	143	-	143
(Increase) decrease in grant receivable-USDA	28,553	-	28,553
(Increase) decrease in prepaid items	-	-	-
Increase (decrease) in accounts payable and accrued liabilities	(28,448)	-	(28,448)
Increase (decrease) in customer deposits	(2,900)	-	(2,900)
Total adjustments	47,226	61,643	108,869
Net cash provided by operating activities	\$ 43,954	\$ 3,804	\$ 47,758

Other Schedules

This section contains additional information required on property taxes.

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

TOWN OF FALLSTON, NORTH CAROLINA
SCHEDULE OF TAXES RECEIVABLE
FISCAL YEAR ENDED JUNE 30, 2020

SCHEDULE 7

	<u>Balance 7/1/2019</u>	<u>2019 Levy</u>	<u>Collections</u>	<u>Discoveries Adjustments</u>	<u>Balance 6/30/2020</u>
2009 Levy	\$ 53		\$ -	\$ (53)	\$ -
2010 Levy	41		-	-	41
2011 Levy	25		-	-	25
2012 Levy	60		6	-	54
2013 Levy	51		-	-	51
2014 Levy	91		-	-	91
2015 Levy	103		-	-	103
2016 Levy	6		-	-	6
2017 Levy	52		42	-	10
2018 Levy	301		200	-	101
2019 Levy	<u>-</u>	<u>21,577</u>	<u>20,990</u>	<u>-</u>	<u>587</u>
Totals	<u>\$ 783</u>	<u>\$ 21,577</u>	<u>\$ 21,238</u>	<u>\$ (53)</u>	<u>\$ 1,069</u>
Less: Allowance for uncollectible accounts					456
Ad Valorem taxes receivable - net					<u>\$ 613</u>

Adjustments are to write off old taxes and adjust remaining balances to actual per reconciliations.

Reconcilement with revenues:	
Ad valorem taxes - general fund	\$ 21,284
Reconciling items:	
Interest collected	(91)
Discounts allowed	45
Total Collections	<u>\$ 21,238</u>

TOWN OF FALLSTON, NORTH CAROLINA
ANALYSIS OF CURRENT TAX LEVY
TOWN WIDE LEVY
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

SCHEDULE 8

	Town Wide			Total Levy	
	Property Valuation	Rate	Total Levy	Property excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Property taxed at current year's rate	\$ 43,154,000	\$ 0.05	\$ 21,576	\$ 18,880	\$ 2,696
Discoveries:					
Current year taxes	-	0.05	-	-	-
Prior year taxes	-	-	-	-	-
Penalties	-	-	-	-	-
Total	<u>43,154,000</u>		<u>21,576</u>	<u>18,880</u>	<u>2,696</u>
Abatements	-	0.05	-	-	-
Total property valuation	<u><u>\$ 43,154,000</u></u>				
Net Levy			21,576	18,880	2,696
Uncollected taxes at June 30, 2020			<u>587</u>	<u>587</u>	<u>-</u>
Current year's taxes collected			<u><u>\$ 20,989</u></u>	<u><u>\$ 18,293</u></u>	<u><u>\$ 2,696</u></u>
Current levy collection percentage			<u><u>97.28%</u></u>	<u><u>96.89%</u></u>	<u><u>100.00%</u></u>

Supplementary Information:

Compliance Section

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, the business-type activities, and each major fund, of Town of Fallston, North Carolina, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise Town of Fallston, North Carolina's basic financial statements and have issued our report thereon dated January 29, 2021.

Internal Control Over Financial Reporting

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

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Town of Fallston, North Carolina's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Darrell L Keller, CPA, PA

Darrell L. Keller, CPA, PA
Kings Mountain, North Carolina
January 29, 2021

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE
AND THE STATE SINGLE AUDIT IMPLEMENTATION ACT**

To the Board of Directors
Town of Fallston
Fallston, North Carolina

Report on Compliance for Each Major Federal program

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

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Town of Fallston, North Carolina's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and the State Single Audit Implementation Act. Those standards, the Uniform Guidance, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Town of Fallston, North Carolina's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal program

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

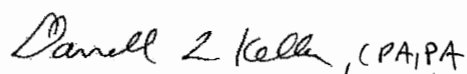
Report on Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Darrell L. Keller, CPA, PA
Kings Mountain, North Carolina
January 29, 2021

TOWN OF FALLSTON
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2020

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Internal control over financial reporting:

* Material weaknesses(es) identified?	<u> </u> Yes	<u> X </u> No
* Significant Deficiency(s) identified that are not considered to be material weaknesses	<u> </u> Yes	<u> X </u> None Reported

Noncompliance material to financial statements noted	<u> </u> Yes	<u> X </u> No
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Federal Awards

Internal control over major Federal programs:

* Material weakness(es) identified?	<u> </u> Yes	<u> X </u> No
* Significant Deficiency(s) identified that are not considered to be material weaknesses	<u> </u> Yes	<u> X </u> None Reported

Type of auditor's report issued on compliance for major Federal programs: Unmodified for all federal programs.

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	<u> </u> Yes	<u> X </u> No
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Identification of major Federal programs:

<u>CFDA No.</u>	<u>Program Name</u>
10.766	Community Facilities Loans and Grant

Dollar threshold used to distinguish between Type A and Type B Programs	<u> \$ 750,000 </u>
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Auditee qualified as low risk auditee?	<u> </u> Yes	<u> X </u> No
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State Awards

No major programs

TOWN OF FALLSTON
SCHEDULE OF FINDINGS AND QUESTIONED COST
YEAR ENDED JUNE 30, 2020

Section II – Financial Statement Findings

None reported

Section III – Federal Award Findings and Questioned Costs

None reported

Section IV-State Award Findings and Questioned Costs

None reported

TOWN OF FALLSTON, NORTH CAROLINA
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2020

	Federal CFDA Number	State Grantor's Number	Expenditures
Federal Grants			
Cash Assistance:			
<u>U S Department of Agriculture</u>			
<u>Direct Federal Assistance</u>			
Water and Waste Program-Loan	10.760		\$ -
Water and Waste Program-Grant	10.760		764,743
			<hr/>
Total Federal Assistance			<u>\$ 764,743</u>
State Grants:			
Cash Assistance:			
<u>N.C. Department of Transportation:</u>			
Powell Bill		38570	\$ 84,337
			<hr/>
Total State Assistance			<u>\$ 84,337</u>
			<hr/>
Total Federal and State Assistance			<u>\$ 849,080</u>

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

- Basis of Presentation
The accompanying schedule of expenditures of federal and State awards (SEFSA) includes the federal grant activity of Town of Fallston under the programs of the federal government and the State of North Carolina for the year ended June 30, 2020. The information in this SEFSA is presented in accordance with the requirements of title 2 US Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit requirements for Federal Awards and the State Single Audit Implementation Act. Because the schedule presents only a selected portion of the Operations of Town of Fallston, North Carolina, it is not intended to and does not present the financial position, changes in net position, or cash flows of Town of Fallston, North Carolina
- Summary of Significant Accounting Policies
Expenditures reported in the SEFSA are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- Indirect Cost Rate
Town of Fallston, North Carolina has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.
- Outstanding Loans of Federal Funds
The following schedule presents the amount of outstanding loans of federal funds. The loans were provided by USDA.

Federal CFDA No.	Program Title	Amount Outstanding	
		7/1/2019	6/30/2020
10.760	Water and Waste Program	\$ 1,857,000	\$ 1,827,000