

**City of High Shoals
High Shoals, North Carolina
For the year ended
June 30, 2020**

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

Governance

Mayor Paul Rathbone

Council Members

**Todd Duggins
A J Cook
Dennis Cash
Lisa Stamey
Joe Heavener**

Clerk

Lucy Williams

City of High Shoals

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June 30, 2020

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INDEPENDENT AUDITOR'S REPORT

To the Mayor and City Council
City of High Shoals
High Shoals, North Carolina

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, business-type activities and each major fund of the City of High Shoals, North Carolina, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the City'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

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, on pages 3-12 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 Council, 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated October 8 2020, on my consideration of the City of High Shoals, North Carolina's internal control over financial reporting and on my 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 my 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 City of High Shoals, North Carolina's internal control over financial reporting and compliance.

Emphasis of Matter

As discussed in Note VI to the financial statements, in January 2020, the World Health Organization has declared COVID-19 to constitute a "Public Health Emergency of International Concern." Given the uncertainty of the situation, the duration of any business disruption and related financial impact cannot be reasonably estimated at this time. My opinion is not modified with respect to this matter.



Eddie Carrick, CPA

Lexington, North Carolina

October 12, 2020



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Management's Discussion and Analysis

As management of the City of High Shoals, we offer the readers of the City of High Shoals' financial statements this narrative overview and analysis of the financial activities of the City of High Shoals 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 City's financial statements, which follow this narrative.

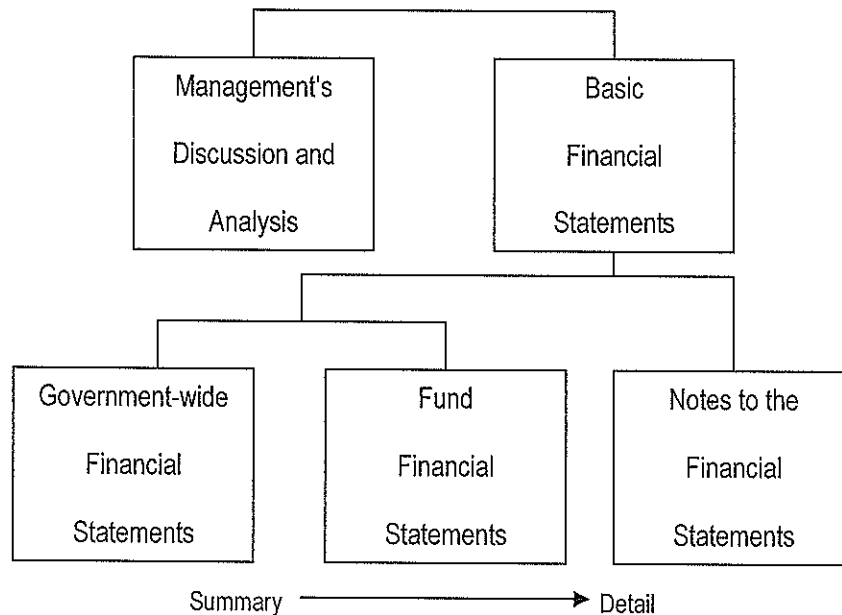
Financial highlights

- The assets of the City of High Shoals exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$6,817,182 (*net position*).
- The government's total net position increased by \$1,563,748, primarily due to a conservative spending approach by management and sewer grants.
- As of the close of the current fiscal year, the City of High Shoals' governmental funds reported combined ending fund balances of \$235,178 with a net decrease of \$14,390 in fund balance. Approximately 52% of this total amount, or \$121,849 is restricted or assigned.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$113,329, or 30% of total general fund expenditures for the fiscal year.
- The City of High Shoals debt decreased by \$108,792 due to payments on loan for City Hall of \$125,000 and borrowing on equipment of \$16,208.

Overview of the Financial Statements

This discussion and analysis is intended to serve as introduction to the City of High Shoals' basic financial statements. The City'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 City 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 City of High Shoals.

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 City's financial status.

The next statements (Exhibit 3 through 9) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the City's government. These statements provide more detail than the government-wide statements. There are three parts to the Fund Financial Statements: 1) the governmental fund statements 2) the budgetary comparison statements and 3) the proprietary fund statements.

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 City'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 City'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 City's financial status as a whole.

The two government-wide statements report the City's net position and how it has changed. Net position is the difference between the City'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 City'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 City's basic services such as streets, sanitation, parks and recreation, and general administration. Property tax and state shared revenues finance these activities. The business-type activities are those that the City charges customers to provide. These include water and sewer services offered by the City.

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 City's most significant activities. A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of High Shoals, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as General Statutes or the City's budget ordinance. All of the funds of the City of High Shoals 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 City's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting* which provides a short term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him determine if there are more or less financial resources available to finance the City's programs. The relationship between governmental activities (reported in the Statement of Net position and the Statement of Activities) and governmental funds is described in a reconciliation that is part of the fund financial statements.

Management Discussion and Analysis
City of High Shoals

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

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

Notes to the Financial Statements – The notes provide additional information that is essential to the full understanding of data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 22 of this report.

Other Information – In addition to the basic financial statements and accompanying notes, this report includes certain supplemental information detailing the information provided in the basic financial statements and is presented to allow the reader to gain an in-depth understanding of the financial information presented.

Interdependence with Other Entities - The City depends on financial resources flowing from, or associated with, both the Federal Government and the State of North Carolina. Because of this dependency, the City is subject to changes in specific flows of intergovernmental revenues based on modifications to Federal and State laws and Federal and State appropriations. It is also subject to changes in investment earnings and asset values associated with U.S. Treasury Securities because of actions by foreign government and other holders of publicly held U.S. Treasury Securities.

Management Discussion and Analysis
City of High Shoals

City of High Shoals's Net Position (Figure 2)

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>	
	<i>2020</i>	<i>2019</i>	<i>2020</i>	<i>2019</i>	<i>2020</i>	<i>2019</i>
Current and other assets	\$ 253,753	\$ 262,670	\$ 231,246	\$ 197,077	\$ 484,999	\$ 459,747
Capital assets	994,584	1,010,320	5,457,651	4,017,420	6,452,235	5,027,740
Total assets	<u>1,248,337</u>	<u>1,272,990</u>	<u>5,688,897</u>	<u>4,214,497</u>	<u>6,937,234</u>	<u>5,487,487</u>
Other liabilities	5,056	5,792	28,788	33,261	33,844	39,053
Long-term Liabilities	86,208	195,000	-	-	86,208	195,000
Total liabilities	<u>91,264</u>	<u>200,792</u>	<u>28,788</u>	<u>33,261</u>	<u>120,052</u>	<u>234,053</u>
Net position:						
Net investment in						
capital assets	908,376	815,320	5,457,651	4,017,420	6,366,027	4,832,740
Restricted for:						
Stabilization by State Statute	21,991	18,847	-	-	21,991	18,847
Streets	24,858	6,383	-	-	24,858	6,383
Unrestricted	201,848	231,648	202,458	163,817	404,306	395,465
Total net position	<u>\$ 1,157,073</u>	<u>\$ 1,072,198</u>	<u>\$ 5,660,109</u>	<u>\$ 4,181,237</u>	<u>\$ 6,817,182</u>	<u>\$ 5,253,434</u>

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets and deferred outflows of the City exceeded liabilities and deferred inflows by \$6,817,182 as of June 30, 2020. The City's net position increased by \$1,563,748 for the fiscal year ended June 30, 2020. However, the largest portion (94%) reflects the City's net investment in capital assets (road improvements, equipment, machinery, utility plant). The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's net investment in capital assets is reported net of the outstanding debt, the resources needed to repay that debt must be provided by other sources, since capital assets cannot be used to liquidate these liabilities. An additional portion of the City's net position, \$46,849, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$404,306 is unrestricted.

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

- Continued diligence in the collection of property taxes and uncollected receivables.
- Conservative spending practices
- State grants of \$1,956,199 for housing rehabilitation and sewer improvement

Management Discussion and Analysis
City of High Shoals

City of High Shoals' Changes in Net Position (Figure 3)

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>	
	2020	2019	2020	2019	2020	2019
Revenues						
Program revenues:						
Charges for services	\$ 40,998	\$ 37,886	\$ 199,605	\$ 169,035	\$ 240,603	\$ 206,921
Grants and contributions	442,588	44,101	-	-	442,588	44,101
Capital grants and contributions	-	-	1,532,086	136,170	1,532,086	136,170
General revenues:						
Property taxes	152,456	121,073	-	-	152,456	121,073
Unrestricted intergovernmental revenues	114,396	118,797	-	-	114,396	118,797
Other	8,444	2,332	-	-	8,444	2,332
Total revenues	758,882	324,189	1,731,691	305,205	2,490,573	629,394
Expenses:						
General government	568,897	136,697	-	-	568,897	136,697
Public safety	-	-	-	-	-	-
Transportation	59,979	59,108	-	-	59,979	59,108
Environmental protection	47,134	56,777	-	-	47,134	56,777
Cultural and recreational	10,496	14,163	-	-	10,496	14,163
Water and sewer	-	-	240,319	265,234	240,319	265,234
Total expenses	686,506	266,745	240,319	265,234	926,825	531,979
Increase in net assets before transfers and contributions	72,376	57,444	1,491,372	39,971	1,563,748	97,415
Transfers	12,500	12,500	(12,500)	(12,500)	-	-
Increase in net position	84,876	69,944	1,478,872	27,471	1,563,748	97,415
Net position, July 1	1,072,198	1,002,253	4,181,237	4,153,766	5,253,435	5,156,019
Net position, June 30	\$ 1,157,073	\$ 1,072,198	\$ 5,660,109	\$ 4,181,237	\$ 6,817,182	\$ 5,253,433

Governmental activities. Governmental activities increased the City's net position by \$84,876, thereby accounting for 5% of the total increase in net position of the City. The increase in net position was the result of a concerted effort to control costs and manage expenditures. Management believes healthy investment in the City will result in additional revenues, and in that vein added to the City's net position by investing in capital assets. Increased efforts to maximize tax collections also contributed to the favorable net position. Tax revenue did not appreciably decline in the current year. City management acknowledges that 2020 was a successful year and plans on improving upon these approaches as a long-term strategy to realize continued fiscal health.

Key elements of this increase are as follows:

- Reducing expenditures in the street maintenance departments.
- Additional principal paid on City Hall loan

Management Discussion and Analysis

City of High Shoals

Business-type activities: Business-type activities increased the City's net position by \$1,478,872 accounting for 95% of the total increase in the government's net position. Key elements of this increase are as follows:

- Continued efficient operation of the system
- Grant proceeds for infrastructure improvement
- Increased depreciation expense with completion of sewer improvements

Financial Analysis of the City's Funds

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

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

The general fund is the chief operating fund of the City. At the end of the current fiscal year, the City of High Shoals' fund balance available in the General Fund was \$113,329, while total fund balance reached \$235,178. The City currently has an available fund balance of 30% of general fund expenditures, while total fund balance represents 63% of the same amount.

General Fund Budgetary Highlights: During the fiscal year, the City made several revisions to 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.

Revenues were more than the budgeted amounts in taxes and unrestricted revenues primarily because the City is very conservative on its estimates. Expenditures were held in check to comply with its budgetary requirements.

Proprietary Funds: The City's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net position in the Water and Sewer Fund at the end of the fiscal year amounted to \$202,458. The total increase in net position was \$1,478,872. Other factors concerning the finances of this fund have already been addressed in the discussion of the City's business-type activities.

Capital Asset and Debt Administration

Capital Assets. The City's investment in capital assets for its governmental and business-type activities as of June 30, 2020, totals \$6,452,235 (net of accumulated depreciation). These assets include buildings, land, roads, machinery and equipment, park facilities, vehicles, water distribution lines, sewage collection lines and water and wastewater treatment facilities.

Management Discussion and Analysis
City of High Shoals

Major capital asset transactions during the year included the following additions:

- Work in progress for sewer infrastructure \$1,532,086

Town of High Shoals' Capital Assets (net of depreciation) (Figure 4)

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>	
	2020	2019	2020	2019	2020	2019
Land	\$ 55,958	\$ 55,958	\$ 50	\$ 50	\$ 56,008	\$ 56,008
Buildings	582,770	609,503	200	200	582,970	609,703
System improvements other than buildings	53,465	56,540	5,457,401	4,015,952	5,510,866	4,072,492
Machinery and equipment	64,966	44,611	-	1,218	64,966	45,829
Vehicles	10,327	10,327	-	-	10,327	10,327
Infrastructure	227,098	233,381	-	-	227,098	233,381
	<u>\$ 994,584</u>	<u>\$ 1,010,320</u>	<u>\$ 5,457,651</u>	<u>\$ 4,017,420</u>	<u>\$ 6,452,235</u>	<u>\$ 5,027,740</u>

Additional information on the City's capital assets can be found in Note III.A.4 of the Basic Financial Statements.

City of High Shoals' Outstanding Debt

At June 30, 2020, the City has secured financing with Peoples Bank in the amount of \$300,000 with interest accruing at 2.85% secured by City Hall. It is anticipated to be repaid with ten annual payments of \$30,000 of principal plus interest beginning 4-11-2020. The City paid extra principal of \$95,000 during the year. The remaining balance was \$70,000. The City retired the remaining debt on July 16, 2020.

The City entered into a lease / purchase arrangement with John Deere financial for the purchase of various equipment for \$16,208. The term is 60 monthly payments \$270 at 0% interest.

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of property located within that government's boundaries. The legal debt margin for the City is \$2,999,980.

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

Economic Factors and Next Year's Budgets and Rates

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

- The City continues to extend its solid waste collection services outside the city limits.
- The City continues to make plans to make improvements to certain city streets and increase mileage of city streets with housing subdivision development.
- The City is starting a clean water distribution line with Gaston County that will include additional City residents and county government agencies. It will include the newly developed industrial park.
- The City has plans to increase revenues with infrastructure improvements over the next 3 years for sewer distribution with the help of a CDBG Grant.
- The City has plans to increase revenues with infrastructure improvements over the next 3 years for clean water distribution utilizing a CDBG Grant.
- The City is looking to develop properties for commercial business by using a CDBG Grant for demolition
- The City is implementing a capital and asset management plan for the water and sewer department. This will help in keeping track of all the assets and staying on track of all equipment, it will also help in replacing older less efficient equipment with updated and proficient equipment.

Budget Highlights for the Fiscal Year Ending June 30, 2021

Governmental Activities:

- The City has plans to develop a multiuse property by utilization of Brownfield Grants.
- The City plans to increase property values with the use of a North Carolina Neighborhood Revitalization Grant, to assist low income and poverty level families.
- By use of Powell Bill Funding storm water issues are be controlled and corrected with improvements.
- Plans to adopt a Fees Schedule to aid in housing growth
- Increased tax revenues with development of housing subdivisions

The City has chosen to appropriate General Fund balance in the fiscal year 2021 budget. Management believes that increased revenues and continued restrictions on spending will maintain the City's financial position. Though management believes current growth will generate enough revenue to support City operations, a careful analysis of property tax revenue will be considered in future years' budgets.

Business-type Activities:

The water and sewer rates in the City will remain the same. General operating expenses are also expected to remain the same. The Water and Sewer Fund has experienced an increased customer base for sewer services because of the new sewer interconnect project and sewer infrastructure projects.

The City will increase revenues with the development of the new clean water distribution line by increasing the customer base in the Water & Sewer Fund.

Management Discussion and Analysis
City of High Shoals

Business-type Activities: (continued)

The City has adopted a capital and asset management plan for the water and sewer department that will help in keeping track of all the assets and staying on track of all equipment, it will also help in replacing older less efficient equipment with updated and proficient equipment.

Requests for Information

This report is designed to provide an overview of the City's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the City Clerk, City of High Shoals, 101 Thompkins Street, PO box 6, High Shoals, NC 28077.

City of High Shoals, North Carolina
Statement of Net Position
June 30, 2020

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents - unrestricted	\$ 193,385	\$ 189,732	\$ 383,117
Taxes receivable (net)	8,878	-	8,878
Accounts receivable (net)	4,732	22,197	26,929
Due from other governments	21,900	367	22,267
Cash and cash equivalents - restricted	24,858	18,950	43,808
Total current assets	<u>253,753</u>	<u>231,246</u>	<u>484,999</u>
Non-current assets:			
Capital Assets:			
Land, non-depreciable improvements, and construction in process	55,958	1,767,196	1,823,154
Other capital assets, net of depreciation	938,626	3,690,454	4,629,080
Total capital assets	<u>994,584</u>	<u>5,457,651</u>	<u>6,452,235</u>
Total assets	<u>1,248,337</u>	<u>5,688,897</u>	<u>6,937,234</u>
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities	5,056	9,838	14,894
Customer deposits	-	18,950	18,950
Current portion of long-term debt	33,240	-	33,240
Long-term liabilities:			
Due in more than one year	52,968	-	52,968
Total liabilities	<u>91,264</u>	<u>28,788</u>	<u>120,052</u>
DEFERRED INFLOWS OF RESOURCES			
None	-	-	-
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>
NET POSITION			
Net investment in capital assets	908,376	5,457,651	6,366,027
Restricted for:			
Stabilization by State Statute	21,991	-	21,991
Streets	24,858	-	24,858
Unrestricted	201,848	202,458	404,306
Total net position	<u>\$ 1,157,073</u>	<u>\$ 5,660,109</u>	<u>\$ 6,817,182</u>

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

City of High Shoals, North Carolina
Statement of Activities
For the Year Ended June 30, 2020

EXHIBIT 2

Function / Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental Activities:							
General government	\$ 563,273	\$ -	\$ 424,113	\$ -	\$ (139,160)	\$ -	\$ (139,160)
Street maintenance	59,979	-	18,475	-	(41,504)	-	(41,504)
Sanitation	43,043	40,348	-	-	(2,695)	-	(2,695)
Recreation	10,496	-	-	-	(10,496)	-	(10,496)
Cemetery	4,091	650	-	-	(3,441)	-	(3,441)
Interest on long-term debt	5,624	-	-	-	(5,624)	-	(5,624)
Total governmental activities (see Note 1)	<u>686,507</u>	<u>40,998</u>	<u>442,588</u>	<u>-</u>	<u>(202,921)</u>	<u>-</u>	<u>(202,921)</u>
Business-type activities:							
Water and sewer	<u>240,319</u>	<u>199,605</u>	<u>-</u>	<u>1,532,086</u>	<u>-</u>	<u>1,491,372</u>	<u>1,491,372</u>
Total business-type activities	<u>240,319</u>	<u>199,605</u>	<u>-</u>	<u>1,532,086</u>	<u>-</u>	<u>1,491,372</u>	<u>1,491,372</u>
Total primary government	<u>\$ 926,826</u>	<u>\$ 240,603</u>	<u>\$ 442,588</u>	<u>\$ 1,532,086</u>	<u>(202,921)</u>	<u>1,491,372</u>	<u>1,288,451</u>
General revenues:							
Taxes:							
Property taxes levied for general purposes					152,456	-	152,456
Unrestricted intergovernmental revenues					114,396	-	114,396
Transfer from (to)					12,500	(12,500)	-
Unrestricted investment earnings					2,286	-	2,286
Miscellaneous					6,160	-	6,160
Total general revenues and special items					<u>287,797</u>	<u>(12,500)</u>	<u>275,297</u>
Change in net position					84,876	1,478,872	1,563,748
Net position-beginning					<u>1,072,198</u>	<u>4,181,237</u>	<u>5,253,435</u>
Net position-ending					<u>\$ 1,157,073</u>	<u>\$ 5,660,109</u>	<u>\$ 6,817,182</u>

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

City of High Shoals, North Carolina
Balance Sheet
Governmental Funds
June 30, 2020

	Major Fund	Non-major Fund	Total
	General Fund	Capital Projects	Governmental Funds
ASSETS			
Cash and cash equivalents - unrestricted	\$ 193,385	\$ -	\$ 193,385
Cash and cash equivalents - restricted	24,858	-	24,858
Accounts receivable (net)	4,732	-	4,732
Taxes receivable (net)	3,878	-	8,878
Due from other governments	21,900	-	21,900
Total assets	<u>\$ 253,753</u>	<u>\$ -</u>	<u>\$ 253,753</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued liabilities	\$ 5,056	\$ -	\$ 5,056
Total liabilities	<u>5,056</u>	<u>-</u>	<u>5,056</u>
Deferred inflows of resources:			
User fee receivables	4,641	-	4,641
Property tax receivable	8,878	-	8,878
Total deferred inflows of resources	<u>13,519</u>	<u>-</u>	<u>13,519</u>
Fund balances:			
Restricted:			
Stabilization by State Statute	21,991	-	21,991
Streets	24,858	-	24,858
Assigned for subsequent expenditures	75,000	-	75,000
Unassigned	113,329	-	113,329
Total fund balances	<u>235,178</u>	<u>-</u>	<u>235,178</u>
Total Liabilities, deferred inflows of resources and fund balances	<u>\$ 253,753</u>	<u>\$ -</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.			
Gross capital assets at historical cost	\$ 1,610,893		
Accumulated depreciation	<u>(616,309)</u>		994,584
Liabilities for earned revenues considered deferred inflows of resources in fund statements.			13,519
Some liabilities, including bonds payable, accrued interest, and compensated absences are not due and payable in the current period and are therefore not reported in the funds.			<u>(86,208)</u>
Net position of the governmental activities			<u>\$ 1,157,073</u>

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

City of High Shoals, North Carolina
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2020

	Major Funds	Non-major Funds	Total Governmental Funds
	General	Capital Projects	
Revenues:			
Ad Valorem taxes	\$ 147,379	\$ -	\$ 147,379
Other taxes and licenses	75	-	75
Unrestricted intergovernmental revenues	114,396	-	114,396
Restricted intergovernmental revenues	18,475	424,113	442,588
Permits and fees	700	-	700
Investment earnings	2,286	-	2,286
Sales and services	39,865	-	39,865
Miscellaneous	5,385	-	5,385
Total revenues	<u>328,559</u>	<u>424,113</u>	<u>328,559</u>
Expenditures:			
Current:			
General government	116,843	424,113	540,956
Street maintenance	81,756	-	81,756
Sanitation	31,454	-	31,454
Recreational	6,989	-	6,989
Cemetery	3,991	-	3,991
Debt service	130,624	-	130,624
Total Expenditures	<u>371,658</u>	<u>424,113</u>	<u>371,658</u>
Excess (deficiency) of revenues over expenditures	<u>(43,099)</u>	<u>-</u>	<u>(43,099)</u>
Other financing sources (uses):			
Transfers from (to) other funds	12,500	-	12,500
Loan proceeds	16,208	-	16,208
Total other financing sources	<u>28,708</u>	<u>-</u>	<u>28,708</u>
Net change in fund balance	(14,390)	-	(14,390)
Fund Balances			
Beginning of year, July 1	<u>249,569</u>	<u>-</u>	<u>249,569</u>
End of year, June 30	<u>\$ 235,178</u>	<u>\$ -</u>	<u>\$ 235,178</u>

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

City of High Shoals, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balance (continued)
Governmental Funds
For the Year Ended June 30, 2020

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

Net changes in fund balances - total governmental funds \$ (14,390)

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 outlays exceeded depreciation in the current period (net of disposals).

Capital outlay expenditures which were capitalized	\$ 31,308	
Depreciation expense for governmental assets	<u>(47,044)</u>	(15,736)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.

Change in unavailable revenue for tax revenues	5,077	
Change in unavailable revenue for sanitation fees	<u>1,133</u>	6,210

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. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Principle payments on long-term debt	125,000	
Proceeds from long term debt	<u>(16,208)</u>	<u>108,792</u>

Total changes in net position of governmental activities	<u>\$ 84,876</u>
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City of High Shoals, North Carolina
General Fund

Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the Year Ended June 30, 2020

	Original	Final	Actual Amounts	Variance with Final Budget- Positive (Negative)
Revenues:				
Ad valorem taxes	\$ 124,787	\$ 124,787	\$ 147,379	\$ 22,592
Other taxes and licenses	125	125	75	(50)
Unrestricted intergovernmental	124,775	115,773	114,396	(1,377)
Restricted intergovernmental	-	-	18,475	18,475
Permits and fees	-	-	700	700
Investment earnings	1,000	1,000	2,286	1,286
Sales and services	34,925	34,925	39,865	4,940
Miscellaneous	3,498	-	5,385	5,385
Total revenues	<u>289,110</u>	<u>276,610</u>	<u>328,559</u>	<u>51,949</u>
Expenditures				
Current:				
General government	185,890	189,050	116,843	72,207
Street maintenance	68,764	68,764	81,756	(12,992)
Sanitation	33,309	33,309	31,454	1,855
Recreation	13,300	13,300	6,989	6,311
Cemetery	7,200	37,200	3,991	33,209
Debt service:				
Principal retirement	15,000	125,000	6,013	118,987
Interest and other charges	-	6,840	124,611	(117,771)
Total expenditures	<u>323,463</u>	<u>473,463</u>	<u>371,658</u>	<u>101,805</u>
Revenues over (under) expenditures	<u>(34,353)</u>	<u>(196,853)</u>	<u>(43,099)</u>	<u>153,754</u>
Other financing sources (uses):				
Fund balance appropriated	34,353	34,353	-	(34,353)
Proceeds from borrowing	-	150,000	16,208	(133,792)
Transfer from other funds	-	12,500	12,500	-
Total other financing sources (uses)	<u>34,353</u>	<u>196,853</u>	<u>28,708</u>	<u>(34,353)</u>
Net change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>(14,390)</u>	<u>\$ (14,390)</u>
Fund balance, beginning of year			<u>249,569</u>	
Fund balance, ending of year			<u>\$ 235,178</u>	

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

City of High Shoals, North Carolina
Statement of Fund Net Position
Proprietary Funds
June 30, 2020

	<u>Water and Sewer Fund</u>
Assets:	
Current assets:	
Cash and investments - unrestricted	\$ 189,732
Cash and investments - restricted	18,950
Accounts receivable, (net) - billed	22,197
Due from other governments	367
Total current assets	<u>231,246</u>
Capital assets:	
Land and other non-depreciable assets	1,767,196
Other capital assets, net of depreciation	3,690,454
Capital assets (net)	<u>5,457,651</u>
Total assets	<u>5,688,897</u>
Liabilities:	
Current Liabilities:	
Accounts payable and accrued liabilities	9,838
Customer deposits	18,950
Due to other governments	-
Total current liabilities	<u>28,788</u>
Net Position:	
Net investment in capital assets	5,457,651
Unrestricted	<u>202,458</u>
Total net position	<u>\$ 5,660,109</u>

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

City of High Shoals, North Carolina
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
For the Year Ended June 30, 2020

	<u>Water and Sewer Fund</u>
Operating Revenues:	
Charges for services	\$ 199,605
Other operating revenues	-
Total operating revenues	<u>199,605</u>
Operating Expenses:	
Water and sewer operations	148,463
Depreciation	91,856
Total operating expenses	<u>240,319</u>
Operating income (loss)	<u>(40,715)</u>
Non-Operating Revenues (Expenses):	
Operating transfers	(12,500)
Grant revenues	1,532,086
Total non-operating revenues (expenses)	<u>1,519,586</u>
Income (loss) before contributions and transfers	<u>1,478,872</u>
Change in net position	1,478,872
Total net position - beginning	<u>4,181,237</u>
Total net position - ending	<u>\$ 5,660,109</u>

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

City of High Shoals, North Carolina
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2020

	<u>Water and Sewer Fund</u>
Cash Flows From Operating Activities:	
Cash received from customers	\$ 194,756
Cash paid for goods and services	(127,483)
Cash to or on behalf of employees	(28,828)
Net cash provided by operating activities	<u>38,445</u>
Cash Flows From Capital Financing Activities:	
Acquisition and construction of capital assets	(1,532,086)
Transfers out	(12,500)
Cash from grant income	1,616,448
Net cash provided (used) by capital and related financing activities	<u>71,862</u>
Cash Flows From Investing Activities:	
Interest and dividends	<u>-</u>
Net increase (decrease) in cash and cash equivalents	110,307
Balances - beginning of year	<u>98,375</u>
Balances - end of year	<u>\$ 208,682</u>
Reconciliation of operating income to net cash provided by operating activities	
Operating income (loss)	\$ (40,715)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	91,856
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	(8,224)
Increase (decrease) in accounts payable and accrued liabilities	(7,847)
Increase in customer deposits	3,375
Total adjustment	<u>79,160</u>
Net cash provided by operating activities	<u>\$ 38,445</u>
Interest paid	<u>\$ -</u>

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

City of High Shoals, North Carolina
NOTES TO FINANCIAL STATEMENTS
As of or for the Year Ended June 30, 2020

Description of the Unit

The City of High Shoals is located in Gaston County, which is in the Piedmont area of North Carolina. The City has a population of approximately 714 and covers approximately two and seven-tenths square miles. The City provides water and sewer services to its residents.

I. Summary of Significant Accounting Policies

The accounting policies of the City 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 City of High Shoals is a municipal corporation governed by an elected mayor and six-member council. The City was incorporated on November 6, 1973.

B. Basis of Presentation

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

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

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

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

Notes to the Financial Statements (continued)

B. Basis of Presentation (continued)

The City reports the following major governmental funds:

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

The City reports the following major enterprise funds:

Water and Sewer Fund. This fund is used to account for its water and sewer services.

C. Measurement Focus and Basis of Accounting

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

Government-wide and Proprietary Fund Financial Statements: The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses recorded at the time liabilities are incurred regardless of when the related cash flows take place. Non-exchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, includes 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 City enterprise fund are charges to customers for sales and services. The City 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 financial sources.

Notes to the Financial Statements (continued)

C. Measurement Focus and Basis of Accounting (continued)

The City considers all revenue available if they are collected within 90 days after year end, except for property taxes. Ad valorem taxes receivable are not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable for property other than motor vehicles are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of September 1, 2013, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, the State of North Carolina is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts. Property taxes are due when vehicles are registered. The billed taxes are applicable to the fiscal year in which they are received. Uncollected taxes that were billed in periods prior to September 1, 2013 and for limited registration plates are shown as a receivable in these financial statements and are offset by deferred inflows of resources.

Sales taxes and certain intergovernmental revenues, such as the utilities franchise tax, collected and held by the State at year-end on behalf of the City are recognized as revenue. Intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. Under the terms of grant agreements, the City 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 City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then general revenues.

D. Budgetary Data

The City's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund and the Enterprise Funds. All annual appropriations lapse at the fiscal-year end. Project ordinances are adopted for the Enterprise Capital Projects Funds. The enterprise fund projects are consolidated with their respective operating fund for reporting purposes. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the departmental level for all annually budgeted funds and at the project level for the multi-year funds. The City Clerk is authorized to transfer objects of expenditures within a department without limit and without a report to the governing board and to transfer appropriations between departments within a fund up to \$2,500. Any revisions that alter total expenditures of any fund must be approved by the governing board. During the year, amendments to the original budget were necessary. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

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

1. Deposits and Investments

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

Notes to the Financial Statements (continued)

1. Deposits and Investments (continued)

State law (G.S. 159-30(c)) authorizes the City to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances; and the North Carolina Capital Management Trust (NCCMT). The City's investments are reported at fair value. Non-participating interest earning contracts are accounted for at cost. The NCCMT- Government Portfolio, a SEC-registered (2a-7) external investment pool, is measured at amortized cost, which is the NCCMT's share price. The NCCMT- Term Portfolio's securities are valued at fair value. The City does not have a formal investment or credit risk policy.

2. Cash and Cash Equivalents

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

3. Restricted Assets

Customer deposits held by the City before any services are supplied are restricted to the service for which the deposit was collected. Powell Bill funds are also 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

City of High Shoals Restricted Cash

Governmental Activities		
General Fund	Streets	\$ 24,858
Total governmental activities		<u>24,858</u>
 Business-type Activities		
Water and Sewer Fund	Customer deposits	18,950
Total Business-type Activities		<u>18,950</u>
Total Restricted Cash		<u><u>\$ 43,808</u></u>

4. Ad Valorem Taxes Receivable

In accordance with State law (G.S. 105-347 and G.S. 159-13(a)), the City 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; however, interest does not accrue until the following January 6. These taxes are based on the assessed values as of January 1, 2019. As allowed by State law, the City has established a schedule of discounts that apply to taxes which are paid prior to the due date. In the City's General Fund, ad valorem tax revenues are reported net of such discounts.

Notes to the Financial Statements (continued)

5. Allowances for Doubtful Accounts

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

6. Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain amount and an estimated useful life in excess of two years. Minimum capitalization costs are as follows: land, \$300; buildings, improvements, substations, lines, and other plant and distribution systems, \$300; infrastructure, \$300; furniture and equipment, \$300; vehicles, \$300; computer software, \$300; and computer equipment, \$300. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. Beginning July 1, 2003 and prospectively, acquisitions of roads, streets, sidewalks, and similar infrastructure of the City are reported at cost or estimated cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

<u>Asset Class</u>	<u>Life</u>
Infrastructure	25-50 years
Buildings	50
Improvements	20
Vehicles	5
Furniture, office and other equipment	5-10
Computer equipment	5
Computer software	5

7. Deferred Outflows / Inflows of Resources

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

8. Long-Term Obligations

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

Notes to the Financial Statements (continued)

8. Long-Term Obligations (continued)

In fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

9. Compensated Absences

The City had three employees who were eligible to earn paid vacation and a significant amount of that earned had been taken prior to June 30, 2020. Therefore, no provision for unused vacation has been made in these financial statements.

The City's sick leave policy provide for an unlimited accumulation of earned sick leave. Sick leave does not vest. Since the City does not have any obligation for the accumulation of sick leave until it is actually taken, no accrual for sick leave has been made.

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:

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

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 - portion of fund balance that is restricted by State Statute [G.S. 159-8(a)].

Restricted for Streets - Powell Bill portion of fund balance that is restricted by revenue source for street construction and maintenance expenditures. This amount represents the balance of the total unexpended Powell Bill funds.

Notes to the Financial Statements (continued)

10. Net position / Fund Balances (continued)

Committed Fund Balance –portion of fund balance that can only be used for specific purposes imposed by majority vote by quorum of the City of High Shoals' 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 the City of High Shoals intends to use for specific purposes. The City has assigned fund balance for future year's expenditures that have not been restricted or assigned.

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

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

II. Stewardship, Compliance, and Accountability

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

B. Deficit in Fund Balance or Net position of Individual Funds None were noted.

C. Excess of Expenditures over Appropriations None were noted.

III. Detail Notes on All Funds and Account Groups

A. Assets:

1. Deposits

All the deposits of the City 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 City's agents in the unit's name. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the City, these deposits are considered to be held by the City's agents in their names. The amount of the pledged collateral is based on an approval 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 City or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the City under the Pooling Method, the potential exists to undercollateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The City has no formal policy regarding custodial credit risk for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The City complies with provisions of GS 159-31 when designating official depositories and verifying that deposits are properly secured.

Notes to the Financial Statements (continued)

1. Deposits (continued)

At June 30, 2020, the City's deposits had a carrying amount of \$384,687 and a bank balance of \$394,496. The bank balances of the City were covered by \$250,000 of federal depository insurance. The remaining balance of deposits is collateralized under the Pooling Method as enumerated above. At June 30, 2020, the City's petty cash fund totaled \$95

2. Investments

At June 30, 2020, the City had \$42,143 invested with the North Carolina Capital Management Trust's Government Portfolio which carried a credit rating of AAAM by Standard and Poor's. The City has no policy regarding credit risk.

3. Receivable - Allowances for Doubtful Accounts

The amounts presented in the Balance Sheet and the Statement of Net Position for the year ended June 30, 2020 is net of the following allowances for doubtful accounts:

General Fund:

Taxes receivable	\$ 1,742
User fees receivable	2,613
Total	<u>\$ 4,355</u>

Enterprise Fund:

Accounts receivable - Water	\$ 6,172
Accounts receivable - Sewer	6,327
Total	<u>\$ 12,499</u>

Notes to the Financial Statements (continued)

4. 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	\$ 55,958	\$ -	\$ -	\$ 55,958
Construction in progress	-	-	-	-
Total Capital assets not being depreciated	55,958	-	-	55,958
Capital assets being depreciated:				
Buildings	788,147	-	-	788,147
Other improvements	103,643	-	-	103,643
Equipment	200,000	31,308	-	231,308
Vehicles	180,554	-	-	180,554
Infrastructure	251,283	-	-	251,283
Total capital assets being depreciated:	1,523,627	31,308	-	1,554,935
Less, accumulated depreciation for:				
Buildings	178,644	26,733	-	205,377
Other improvements	47,102	3,076	-	50,178
Equipment	155,389	10,953	-	166,342
Vehicles	170,227	-	-	170,227
Infrastructure	17,903	6,282	-	24,185
Total accumulated depreciation	569,265	47,044	-	616,309
Total capital assets being depreciated, net	954,362			938,626
Governmental activity capital assets, net	\$ 1,010,320			\$ 994,584

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

General government	\$ 22,317
Sanitation	11,589
Street maintenance	9,531
Cemetery	101
Cultural and recreational	3,506
	<u>\$ 47,044</u>

Notes to the Financial Statements (continued)

4. Capital Assets (continued)

Business-type activities:

	Beginning Balances	Increases	Decreases	Ending Balances
Water and sewer fund:				
Capital assets not being depreciated				
Land	\$ 50	\$ -	\$ -	\$ 50
Construction in progress	235,060	1,532,086	-	1,767,146
Total not being depreciated	<u>235,110</u>	<u>1,532,086</u>	<u>-</u>	<u>1,767,196</u>
Capital assets being depreciated:				
Building	1,057	-	-	1,057
Water plant and system	445,613	-	-	445,613
Water system equipment	33,646	-	-	33,646
Vehicles	15,317	-	-	15,317
Sewer system	4,214,171	-	-	4,214,171
Sewer system equipment	9,920	-	-	9,920
Total capital assets being depreciated:	<u>4,719,724</u>	<u>-</u>	<u>-</u>	<u>4,719,724</u>
Less, accumulated depreciation for:				
Building	857	-	-	857
Water plant and system	231,208	11,133	-	242,341
Water system equipment	48,197	-	-	48,197
Vehicles	15,317	-	-	15,317
Sewer system	632,439	80,723	-	713,162
Sewer system equipment	9,396	-	-	9,396
Total accumulated depreciation	<u>937,414</u>	<u>91,856</u>	<u>-</u>	<u>1,029,270</u>
Total capital assets being depreciated, net	<u>3,782,310</u>			<u>3,690,454</u>
Business-type activity capital assets, net	<u>\$ 4,017,420</u>			<u>\$ 5,457,651</u>

Construction commitments

The City has entered into a contract for the construction of sewer lines. The total anticipated construction costs are \$1,906,767. The construction will be funded by a CDBG grant. The City had spent \$1,767,146 as of June 30, 2020.

B. Liabilities:

1. Pension Plan Obligations:

The City does not provide retirement benefits for its employees. The City disbanded its police department; therefore, no law enforcement retirement benefits apply for the current fiscal year.

Notes to the Financial Statements (continued)

2. Deferred Outflows and Inflows of Resources

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

	Unavailable Revenue	Unearned Revenue
General Fund		
Prepaid property taxes	\$ -	\$ -
User fees receivable	4,641	-
Taxes receivable (net)	8,878	-
	<u>\$ 13,519</u>	<u>\$ -</u>

3. Risk Management

The City is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City maintains insurance coverage, through individual policies with commercial carriers, against these risks of loss. These policies provide general liability and auto liability coverage of \$1 million per occurrence, property coverage up to the total insurance values of the property policy, workers' compensation coverage up to statutory limits, and employee health coverage up to \$1 million lifetime limit.

The City carries commercial coverage for all other risks of loss. There have been no significant reduction in insurance coverage in the prior year, and settled claims have not exceeded coverage in any of the past three fiscal years.

The City does not carry flood insurance because the City and its major properties are not in a flood plain as mapped by the State of North Carolina.

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

4. Claims, Judgments and Contingent Liabilities

At June 30, 2020, the City was a defendant to various lawsuits. In the opinion of the City's management and the City attorney, the ultimate effect of these legal matters will not have a material adverse effect on the City's financial position.

5. Long-Term Obligations

a. General Obligation Indebtedness

At June 30, 2016, the City secured financing with Peoples Bank in the amount of \$300,000 with interest accruing at 2.85%. It is to be repaid with ten annual payments of \$30,000 of principal plus interest, totaling \$39,330, beginning April 11, 2018. The City paid additional principal of \$95,000 during the current year.

The City retired the remaining balance of the debt on July 16, 2020.

Notes to the Financial Statements (continued)

a. General Obligation Indebtedness (continued)

The City entered into a lease / purchase arrangement with John Deere financial for the purchase of various equipment for \$16,208. The term is 60 monthly payments \$270 at 0% interest.

Future anticipated payments are as follows including interest of \$0:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 3,240	\$ -	\$ 3,240
2022	3,240	-	3,240
2023	3,240	-	3,240
2024	3,240	-	3,240
2025	3,248	-	3,248
thereafter	-	-	-
	<u>\$ 16,208</u>	<u>\$ -</u>	<u>\$ 16,208</u>

b. Changes in Long-Term Liabilities

	<u>Balance</u>			<u>Balance</u>	<u>Current</u>
	<u>June 30, 2019</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2020</u>	<u>Portion</u>
Governmental activities:					
Installment purchase	\$ 195,000	\$ 16,208	\$ 125,000	\$ 86,208	\$ 33,240
Governmental activity					
long-term liabilities	\$ 195,000	\$ 16,208	\$ 125,000	\$ 86,208	\$ 33,240

At June 30, 2020, the City had no bonds authorized but unissued and a legal debt margin of \$2,999,980.

c. Commitments

The City is in the process of constructing sewer lines. The total anticipated construction costs are \$1,906,767. The construction will be funded by a CDBG grant. The City had spent \$1,767,146 as of June 30, 2020.

6. Interfund Receivables and Payables/ Transfers

The composition of interfund transfers as of June 30, 2020 is as follows:

Transfers:		
To	General Fund	\$12,500
From	Water and Sewer Fund	\$12,500

Transfers are to cover administrative costs incurred by the General fund for the Water / Sewer Fund.

Notes to the Financial Statements (continued)

7. Net Investment in Capital Assets

	Governmental	Business-type
Capital Assets	\$ 994,584	\$ 5,457,651
less: long-term debt	86,208	-
add: unexpended debt proceeds	-	-
Net investment in capital assets	<u>\$ 908,376</u>	<u>\$ 5,457,651</u>

8. Fund Balance

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

Total fund balance - General Fund	\$ 235,178
Less:	
Assigned for subsequent expenditures	75,000
Stabilization by State Statute	21,991
Streets - Powell Bill	24,858
Remaining Fund Balance	<u>\$ 113,329</u>

IV. Summary Disclosure of Significant Contingencies

Federal and State Assisted Programs

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

V. Significant Effects of Subsequent Events

Subsequent events occurring after the statement of financial position date have been evaluated through October 12, 2020, which is the date the financial statements were available to be issued. The City extinguished its remaining debt of \$70,000 on City Hall on July 16, 2020.

In January 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a "Public Health Emergency of International Concern", which continues to spread throughout the world and has adversely impacted global commercial activity and contributed to significant declines and volatility in financial markets. The coronavirus outbreak and government responses are creating disruption in global supply chains and adversely impacting many industries. The outbreak could have a continued material adverse impact on economic and market conditions and trigger a period of global economic slowdown. The rapid development and fluidity of this situation precludes any prediction as to the ultimate material adverse impact of the coronavirus outbreak. The outbreak presents uncertainty and risk with respect to the City and its ability to carry out its activities which could impact its financial results.

City of High Shoals, 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)

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>Actual Year end June 30, 2019</u>
REVENUES:				
Ad valorem taxes:				
Current year		\$ 147,379		\$ 123,963
Penalties and interest		-		-
	<u>\$ 124,787</u>	<u>147,379</u>	<u>\$ 22,592</u>	<u>123,963</u>
Other taxes and licenses:				
Privilege Licenses		75		25
	<u>125</u>	<u>75</u>	<u>(50)</u>	<u>25</u>
Unrestricted intergovernmental:				
Utility franchise tax		24,332		24,973
Local option sales tax		46,706		44,467
Gaston County sales tax		42,815		48,864
Solid waste disposal tax		543		3
Gasoline tax refunds		-		490
	<u>115,773</u>	<u>114,396</u>	<u>(1,377)</u>	<u>118,797</u>
Restricted intergovernmental:				
Powell Bill allocation		18,475		19,101
Other grants		-		25,000
	<u>-</u>	<u>18,475</u>	<u>18,475</u>	<u>44,101</u>
Permits and fees:				
Building and zoning permits	<u>-</u>	<u>700</u>	<u>700</u>	<u>150</u>
Sales and Services:				
Cemetery plots		650		3,900
Sanitation		39,215		36,758
	<u>34,925</u>	<u>39,865</u>	<u>4,940</u>	<u>40,658</u>
Investment earnings:	<u>1,000</u>	<u>2,286</u>	<u>1,286</u>	<u>2,002</u>
Miscellaneous:				
Miscellaneous		5,275		-
Rentals		110		155
	<u>-</u>	<u>5,385</u>	<u>5,385</u>	<u>155</u>
Total revenues	<u>276,610</u>	<u>328,559</u>	<u>51,949</u>	<u>329,850</u>

City of High Shoals, North Carolina
General Fund (Continued)
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)

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>Actual Year end June 30, 2019</u>
EXPENDITURES:				
General Government:				
Salaries and benefits		\$ 43,936		\$ 41,646
Professional services		24,309		16,638
Elections - Contracted services		1,160		-
Other operating expenditures		47,438		49,593
Capital outlay		-		-
Total general government	<u>\$ 189,050</u>	<u>116,843</u>	<u>\$ 72,207</u>	<u>107,880</u>
Street maintenance:				
Salaries and benefits		26,532		23,852
Other operating expenditures		24,016		41,348
Capital outlay		31,208		-
Powell Bill expenditures:				
Capital outlay		-		65,795
Other		-		1,923
Total street maintenance	<u>68,764</u>	<u>81,756</u>	<u>(12,992)</u>	<u>132,918</u>
Sanitation:				
Salaries and benefits		13,365		15,069
Contract services		10,844		7,680
Other operating expenditures		7,245		8,275
Capital outlay		-		-
	<u>33,309</u>	<u>31,454</u>	<u>1,855</u>	<u>31,025</u>
Cemetery:				
Other operating expenditures		3,991		14,062
	<u>37,200</u>	<u>3,991</u>	<u>33,209</u>	<u>14,062</u>
Recreation:				
Salaries and benefits		-		-
Other operating expenditures		6,989		14,652
Capital outlay		-		-
	<u>13,300</u>	<u>6,989</u>	<u>6,311</u>	<u>14,652</u>

City of High Shoals, North Carolina
General Fund (Continued)
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)

	Budget	Actual	Variance Favorable (Unfavorable)	Actual Year end June 30, 2019
Debt service:				
Interest and other charges	\$ 6,840	\$ 6,013		\$ 55,000
Principal retirement	125,000	124,611		7,299
	<u>131,840</u>	<u>130,624</u>	<u>\$ 1,216</u>	<u>62,299</u>
Total expenditures	<u>436,263</u>	<u>371,658</u>	<u>68,596</u>	<u>362,835</u>
Revenues over expenditures	<u>(159,653)</u>	<u>(43,099)</u>	<u>116,554</u>	<u>(32,985)</u>
Other sources (uses):				
Fund Balance appropriations	34,353	-	(34,353)	-
Proceeds from borrowing	150,000	16,208	(133,792)	-
Transfer from (to) other funds	12,500	12,500	-	12,500
	<u>196,853</u>	<u>28,708</u>	<u>(168,145)</u>	<u>12,500</u>
Net change in fund balance	<u>\$ 37,200</u>	<u>(14,390)</u>	<u>\$ (51,590)</u>	<u>(20,485)</u>
Fund balances - beginning of year		<u>249,569</u>		<u>270,054</u>
Fund balances - end of year		<u>\$ 235,178</u>		<u>\$ 249,569</u>

City of High Shoals, North Carolina
General Capital Project
2018 Neighborhood Revitalization CDBG Project
17-C-3025

Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
From Inception and for the Fiscal Year Ended June 30, 2020

	Project Authorization	Actual			Variance Positive (Negative)
		Prior Year	Current Year	Total to Date	
REVENUES					
Restricted intergovernmental:					
State grant	\$ 750,000	\$ 3,803	\$ 424,113	\$ 427,916	\$ (322,084)
Total revenues	<u>750,000</u>	<u>3,803</u>	<u>424,113</u>	<u>427,916</u>	<u>(322,084)</u>
EXPENDITURES					
Rehabilitation	675,000	-	393,657	393,657	281,343
Administration	75,000	3,803	30,456	34,259	40,741
Total expenditures	<u>750,000</u>	<u>3,803</u>	<u>424,113</u>	<u>427,916</u>	<u>322,084</u>
Revenues under expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
OTHER FINANCING SOURCES					
None	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Revenues and other sources over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>	<u>\$ -</u>
Beginning of year, July 1			<u>-</u>		
End of year, June 30			<u>\$ -</u>		

City of High Shoals, North Carolina
Water and Sewer Fund
Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)
For the Fiscal Year Ended June 30, 2020
(With Comparative Actual Amounts for the Year Ended June 30, 2019)

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>Actual Year ended June 30, 2019</u>
REVENUES:				
Operating Revenues:				
Water - charges		\$ 94,568		\$ 93,114
Sewer - charges		100,178		72,179
Reconnect and late fees		4,859		3,742
Total revenues	<u>\$ 177,000</u>	<u>199,605</u>	<u>\$ 22,605</u>	<u>169,035</u>
 EXPENDITURES:				
Water Operations:				
Salaries and employee benefits		18,951		17,852
Purchased water		34,237		34,169
Maintenance and repairs		43		-
Capital outlay		-		-
Other operating expenditures		15,083		35,190
	<u>104,400</u>	<u>68,314</u>	<u>36,086</u>	<u>87,211</u>
 Sewer Operations:				
Salaries and employee benefits		9,877		12,594
Sewer processing		44,341		51,995
Maintenance and repairs		1,971		8,173
Capital outlay		-		9,612
Other operating expenditures		23,960		13,614
	<u>133,350</u>	<u>80,150</u>	<u>53,200</u>	<u>95,988</u>
 Debt Service:				
Principal		-		-
Interest		-		-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
 Total expenditures	<u>237,750</u>	<u>148,463</u>	<u>89,287</u>	<u>183,199</u>
 Revenues over expenditures	<u>(60,750)</u>	<u>51,141</u>	<u>111,891</u>	<u>(14,164)</u>

City of High Shoals, North Carolina
Water and Sewer Fund (continued)
Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)
For the Fiscal Year Ended June 30, 2020
(With Comparative Actual Amounts for the Year Ended June 30, 2019)

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>Actual</u>
Other financing sources (uses):				
Transfer to general fund	\$ (12,500)	\$ (12,500)	\$ -	\$ (12,500)
Total Other Financing (Uses)	<u>(12,500)</u>	<u>(12,500)</u>	<u>-</u>	<u>(12,500)</u>
Fund Balance Appropriated	<u>73,250</u>	<u>-</u>	<u>(73,250)</u>	<u>-</u>
Revenues over expenditures and other financing (uses)	<u>\$ -</u>	38,641	<u>\$ 38,641</u>	(26,664)
Reconciliation of modified accrual basis to full accrual basis:				
Reconciling items:				
Grant revenues from capital project funds		1,532,086		136,170
Capital outlay		-		9,612
Depreciation		<u>(91,856)</u>		<u>(91,647)</u>
		<u>1,440,230</u>		<u>54,135</u>
Change in Net Position		<u>\$ 1,478,872</u>		<u>\$ 27,471</u>

City of High Shoals, North Carolina
Sewer Infrastructure Capital Project Fund
Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)
E-CDBG-I-2016-00002920-1
NC 16-I-2920
From Inception and for the Fiscal Year Ended June 30, 2020

	Project Authorization	Actual			Variance Positive (Negative)
		Prior Year	Current Year	Total to Date	
REVENUES - Water Project:					
Restricted intergovernmental:					
Federal grant	\$ 1,906,767	\$ 235,060	\$ 1,532,086	\$ 1,767,146	\$ (139,621)
Total revenues	<u>1,906,767</u>	<u>235,060</u>	<u>1,532,086</u>	<u>1,767,146</u>	<u>(139,621)</u>
EXPENDITURES - Water Project:					
Sewer line construction	1,722,727	192,686	1,458,834	1,651,520	71,207
Housing rehabilitation	39,050	-	-	-	39,050
Administration	144,990	42,374	73,252	115,626	29,364
Total expenditures	<u>1,906,767</u>	<u>235,060</u>	<u>1,532,086</u>	<u>1,767,146</u>	<u>139,621</u>
Revenues under expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
OTHER FINANCING SOURCES					
Contribution from Gaston County	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Revenues and other sources over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>	<u>\$ -</u>
Beginning of year, July 1			<u>-</u>		
End of year, June 30			<u>\$ -</u>		

City of High Shoals, North Carolina
Schedule of Ad Valorem Taxes Receivable
General Fund
June 30, 2020

<u>Fiscal Year</u>	<u>Uncollected Balance June 30, 2019</u>	<u>Additions</u>	<u>Collections and Credits</u>	<u>Uncollected Balance June 30, 2020</u>
2020	\$ -	\$ 153,878	\$ 146,870	\$ 7,008
2019	1,831	-	1,026	805
2018	949	-	320	629
2017	512	-	77	435
2016	509	-	-	509
2015	313	-	-	313
2014	482	-	252	230
2013	419	-	189	230
2012	485	-	261	224
2011	479	-	243	236
2010	405	-	405	-
	<u>\$ 6,384</u>	<u>\$ 153,878</u>	<u>\$ 149,643</u>	<u>\$ 10,619</u>
Less: allowance for uncollectible accounts:				
General Fund				<u>1,742</u>
Ad valorem taxes receivable - net				<u>\$ 8,877</u>
<u>Reconciliation with revenues:</u>				
Taxes-Ad Valorem-General				\$ 147,379
Reconciling items:				
Discoveries, abatement and adjustments				<u>2,264</u>
Total collections and credits				<u>\$ 149,643</u>

City of High Shoals, North Carolina
Analysis of Current Tax Levy
Town-Wide Levy
For the Year Ended June 30, 2020

	Total Levy				
	Total Property Valuation	Rate	Amount of Levy	Property excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Property taxed at current years rate	\$ 37,288,780	0.41	\$ 152,884	\$ 136,786	\$ 16,098
Registered motor vehicles taxed at prior year's rate	-	0.41	-	-	-
Penalties	-		-	-	-
Total	<u>37,288,780</u>		<u>152,884</u>	<u>136,786</u>	<u>16,098</u>
Discoveries:					
Current year taxes	242,439	0.41	994	994	-
Penalties	-		-	-	-
Total	<u>242,439</u>		<u>994</u>	<u>994</u>	<u>-</u>
Abateements					
Current year taxes	31,463		129	129	-
Penalties	-		-	-	-
Total	<u>31,463</u>		<u>129</u>	<u>129</u>	<u>-</u>
Total property valuation	<u>\$ 37,499,756</u>				
Net Levy			153,749	137,651	16,098
Uncollected taxes at June 30, 2020			<u>7,008</u>	<u>7,008</u>	<u>-</u>
Current year's taxes collected			<u>\$ 146,741</u>	<u>\$ 130,643</u>	<u>\$ 16,098</u>
Percent current year collected			<u>95.44%</u>	<u>94.91%</u>	<u>100.00%</u>

**Report On Internal Control Over Financial Reporting And On Compliance and Other Matters Based
On An Audit Of Financial Statements Performed In Accordance With *Government Auditing
Standards***

Independent Auditor's Report

To the Honorable Mayor and
City Council
City of High Shoals, North Carolina

I 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 financial statements of the governmental activities, the business-type activities and each major fund of the City of High Shoals, North Carolina, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprises the City of High Shoals' basic financial statements, and have issued my report thereon dated October 12, 2020.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered the City of High Shoals' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of High Shoals' internal control. Accordingly, I do not express an opinion on the effectiveness of the City'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.

My consideration of internal control 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 my audit I did not identify any deficiencies in internal control that I consider material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of High Shoals' financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my 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 my testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in the accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Eddie Carrick, CPA

A handwritten signature in black ink, appearing to read "E. Carrick, CPA".

Lexington, North Carolina
October 12, 2020

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

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
City of High Shoals, North Carolina

Report on Compliance for Each Major Federal Program

I have audited the City of High Shoals, North Carolina, compliance with the types of compliance requirements described in the OMB *Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of the City of High Shoals' major federal programs for the year ended June 30, 2020. The City of High Shoals' 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 the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

My responsibility is to express an opinion on compliance for each of the City of High Shoals' major federal programs based on my audit of the types of compliance requirements referred to above. I conducted my 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 I 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 the City of High Shoals' compliance with those requirements and performing such other procedures, as I considered necessary in the circumstances.

I believe that my audit provides a reasonable basis for my opinion on compliance for each major federal program. However, my audit does not provide a legal determination of the City of High Shoals' compliance.

Opinion on Each Major Federal Program

In my opinion, the City of High Shoals 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

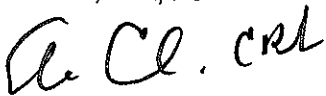
Management of the City of High Shoals is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing my audit of compliance, I considered the City of High Shoals' internal control over 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 my 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, I do not express an opinion on the effectiveness of the City'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 a 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 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.

My 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 significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over compliance that I 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 my 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.

Eddie Carrick, CPA, PC

Handwritten signature of Eddie Carrick in cursive script.

Lexington, North Carolina
October 12, 2020

City of High Shoals, North Carolina
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2020

I. Summary of Auditor's Results

Financial statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

* Material weakness(es) identified? _____ yes X no

* Significant Deficiency(s) identified that
are not considered to be material weaknesses? _____ yes X none reported

Noncompliance material to financial
statements noted _____ yes X no

Federal and state awards

* Material weakness(es) identified? _____ yes X no

* Significant Deficiency(s) identified that
are not considered to be material weaknesses? _____ yes X none reported

Type of auditor's report issued on compliance for major federal programs: unqualified

Any audit findings disclosed that are required to be
accordance with 2 CFR 200.516(a)? _____ yes X no

Identification of major federal and state programs:

Program Name	CFDA #
US Department of Housing and Urban Development Community Development Block Grants - States	14.228

Dollar threshold to distinguish between Type A and Type B programs: \$ 750,000

Auditee qualified as low risk auditee? _____ yes X no

City of High Shoals, North Carolina
Financial Statement Findings
For the Year Ended June 30, 2020

II Financial Statement Findings

Material weakness

None reported

III Federal Award Findings and Questioned Costs

None reported

IV State Award Findings and Questioned Costs

None reported

City of High Shoals, North Carolina
Schedule of Federal and State Financial Awards
For the year ended June 30, 2020

GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS THROUGH GRANTOR'S NUMBER	FEDERAL (DIRECT) PASS-THROUGH EXPENDITURES	STATE EXPENDITURES	LOCAL EXPENDITURES
FEDERAL LOANS AND GRANTS					
<u>US Department of Housing and Urban Development</u>					
Pass through N.C. Department of Environmental Quality					
Community Development Block Grant - States	14.228	16-I-2920	\$ 1,532,086 **		
Pass through N.C. Department of Commerce					
Community Development Block Grant - States					
2018 Neighborhood Revitalization CDBG	14.228	17-C-3025	424,113 **		
STATE GRANTS					
<u>N.C. Department of Transportation</u>					
Powell Bill					
			\$ 1,956,199	\$ -	\$ -

**** Major programs**

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

Note 1: Basis of Presentation

The accompanying schedule of expenditures of federal and State awards (SEFSA) includes the federal and State grant activity of the City of High Shoals 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 the City of High Shoals, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City of High Shoals.

Note 2: 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.

Note 3: Indirect Cost Rate

The City of High Shoals has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.