



**REVIEWED**

*By SLGFD at 4:58 pm, Dec 22, 2021*

**Darrell L. Keller, CPA, PA**

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**TOWN OF FALLSTON, NORTH CAROLINA**  
**FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2021**

**(704) 739-0771**

**Town of Fallston, North Carolina  
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June 30, 2021**

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## **FINANCIAL SECTION**

## INDEPENDENT AUDITOR'S REPORT

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Fallston, North Carolina, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Town of Fallston, North Carolina's basic financial statements as listed in the table of contents.

#### ***Management's Responsibility for the Financial Statements***

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

#### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

#### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Town of Fallston, North Carolina, as of June 30, 2021, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 11, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Supplementary and Other Information***

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

The combining and individual fund financial statements, budgetary schedules, other schedules, are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial 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*, we have also issued our report dated November 23, 2021, on our consideration of the Town of Fallston, North Carolina's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Fallston, North Carolina's internal control over financial reporting and compliance.



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

November 23, 2021

Town of Fallston  
Management's Discussion and Analysis  
June 30, 2021

As management of the Town of Fallston, we offer readers of the Town of Fallston's financial statements this narrative overview and analysis of the financial activities of the Town of Fallston for the fiscal year ended June 30, 2021. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

### **Financial Highlights**

- The assets and deferred outflows of resources of the Town of Fallston exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$3,541,599 (*net position*).
- The government's total net position decreased by \$135,974, primarily due to decreases in net position due to depreciation.
- As of the close of the current fiscal year, the Town of Fallston's governmental fund reported ending fund balance of \$591,306 a decrease of \$35,122 in comparison with the prior year. Approximately 80.2 percent of this total amount, or \$474,283, is available for spending at the government's discretion (*unassigned fund balance*).
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$474,283 or 359.44 percent of total general fund expenditures for the fiscal year.

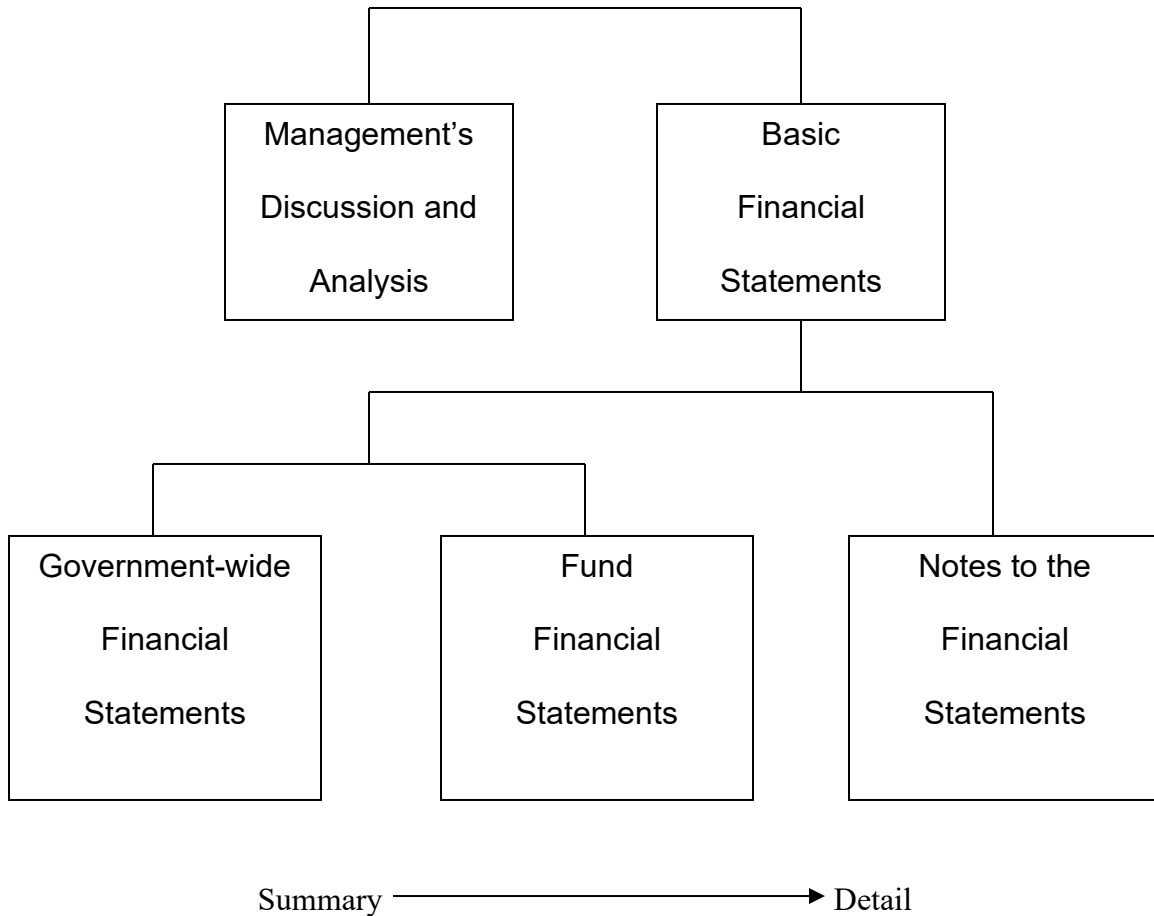
### **Overview of the Financial Statements**

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

Town of Fallston  
Management Discussion and Analysis

**Required Components of Annual Financial Report**

**Figure 1**



**Basic Financial Statements**

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

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



## Town of Fallston Management Discussion and Analysis

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

### **Government-Wide Financial Statements**

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

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

The government-wide statements are divided into two categories: 1) governmental activities; and 2) business-type activities. The governmental activities include most of the Town's basic services such as public safety, parks and recreation, and general administration. Property taxes and state and federal grant funds finance most of these activities. The business-type activities are those that the Town charges customers to provide. These include the water and sewer services offered by the Town of Fallston.

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

### **Fund Financial Statements**

The fund financial statements (see Figure 1) provide a more detailed look at the Town's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Fallston, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the Town's budget ordinance. All of the funds of Town of Fallston can be divided into two categories: governmental funds and proprietary funds.

**Governmental Funds** – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the Town's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting* which provides a short-term spending focus. As a result, the governmental fund financial statements give

Town of Fallston  
Management Discussion and Analysis

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

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

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

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

Town of Fallston  
Management Discussion and Analysis

**Government Wide Financial Analysis:**

Town of Fallston's Net Position

**Figure 2**

	Governmental Activities		Business-Type Activities		Total	
	2021	2020	2021	2020	2021	2020
Current and other assets	\$ 592,270	\$ 640,816	\$ 441,712	\$ 424,304	\$ 1,033,982	\$ 1,065,120
Capital assets	52,928	58,392	4,420,284	4,571,639	4,473,212	4,630,031
Total assets	645,198	699,208	4,861,996	4,995,943	5,507,194	5,695,151
Long-term liabilities outstanding	-	-	1,760,000	1,827,000	1,760,000	1,827,000
Other liabilities	205	13,775	40,056	176,803	40,261	190,578
Total liabilities	205	13,775	1,800,056	2,003,803	1,800,261	2,017,578
Deferred Inflows of Resources	-	-	165,334	-	165,334	-
Net position:						
Net investment in capital assets	52,928	58,392	2,626,284	2,744,639	2,679,212	2,803,031
Restricted	111,222	154,483	212,768	-	323,990	154,483
Unrestricted	480,843	472,558	57,554	247,501	538,397	720,059
Total net position	\$ 644,993	\$ 685,433	\$ 2,896,606	\$ 2,992,140	\$ 3,541,599	\$ 3,677,573

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets and deferred outflows of the Town of Fallston exceeded liabilities and deferred inflows by \$3,541,599 as of June 30, 2021. The Town's net position decreased by \$135,974 for the fiscal year ended June 30, 2021. However, the largest portion (75.65%) reflects the Town's net investment in capital assets (e.g. land, buildings, machinery, and equipment). The Town of Fallston uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Fallston's net investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Town of Fallston's net position \$323,990 (9.15%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$538,397 is unrestricted.

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

- USDA Grant in the Business-Type Activities
- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 96.57%. The statewide average in fiscal year 2021 was 98.96%.

Town of Fallston  
Management Discussion and Analysis

**Town of Fallston Changes in Net Position**  
**Figure 3**

	Governmental Activities		Business-type Activities		Total	
	2021	2020	2021	2020	2021	2020
Revenues:						
Program revenues:						
Charges for services	\$ -	\$ -	\$ 120,969	\$ 138,442	\$ 120,969	\$ 138,442
Operating grants and contributions	24,388	25,318	-	-	24,388	25,318
Capital grants and contributions	-	-	42,022	764,743	42,022	764,743
General revenues:						
Property taxes	22,279	21,532	-	-	22,279	21,532
Other taxes	9,693	10,087	-	-	9,693	10,087
Grants and contributions not restricted to specific programs	-	-	-	-	-	-
Other	40,614	41,040	65,417	49,598	106,031	90,638
Total revenues	96,974	97,977	228,408	952,783	325,382	1,050,760
Expenses:						
General government	51,061	49,628	-	-	51,061	49,628
Culture and Recreation	24,899	11,641	-	-	24,899	11,641
Transportation	61,454	84,337	-	-	61,454	84,337
Water and sewer	-	-	323,942	319,122	323,942	319,122
Total expenses	137,414	145,606	323,942	319,122	461,356	464,728
Increase in net position before transfers	(40,440)	(47,629)	(95,534)	633,661	(135,974)	586,032
Transfers	-	-	-	-	-	-
Increase (decrease) in net position	(40,440)	(47,629)	(95,534)	633,661	(135,974)	586,032
Net position, July 1	685,433	733,062	2,992,140	2,358,479	3,677,573	3,091,541
Net position, June 30	\$ 644,993	\$ 685,433	\$ 2,896,606	\$ 2,992,140	\$ 3,541,599	\$ 3,677,573

**Governmental activities.** Governmental activities decreased the Town's net position by \$40,440. This decrease is mostly due to the use of Powell Bill funds for a paving project. Powell Bill funds were required to be spent by the State in order to avoid funds being taken away for accumulating more than allowed.

**Business-type activities:** Business-type activities decreased the Town of Fallston's net position by \$95,534, contributing to the overall decrease in the government's net position. Key elements of this decrease are as follows:

- Depreciation of the Town's distribution system.
- Receipt of grant funds from the USDA for water and sewer system improvements and legal fees paid for continuing mediation with the contractor as described in Note III B 2 to the financial statements.

Town of Fallston  
Management Discussion and Analysis

**Financial Analysis of the Town's Funds**

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

**Governmental Funds.** The focus of the Town of Fallston's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the Town of Fallston's financing requirements.

The general fund is the chief operating fund of the Town of Fallston. At the end of the current fiscal year, Town of Fallston's fund balance available in the General Fund was \$474,283, while total fund balance reached \$591,306. The Governing Body of Town of Fallston has determined that the Town should maintain an available fund balance of 8% of general fund expenditures in case of unforeseen needs or opportunities, in addition to meeting the cash flow needs of the Town. The Town currently has an available fund balance of 359.40% of general fund expenditures, while total fund balance represents 448.10% of the same amount.

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

There were several reasons the Town revised its budget throughout the year. The Town approved a donation to the Cleveland County Water for a park project and increased its park and recreation budget.

**Proprietary Fund.** The Town of Fallston's proprietary fund provides the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the Water and Sewer Fund at the end of the fiscal year amounted to \$57,554. The total change in net position was a decrease of \$95,534. This decrease is mainly due to the legal fees rising from the USDA project and depreciation and repairs and maintenance throughout the Town's water and sewer system.

Town of Fallston  
Management Discussion and Analysis

**Capital Asset and Debt Administration**

**Capital assets.** The Town of Fallston's investment in capital assets for its governmental and business-type activities as of June 30, 2021, totals \$4,473,212 (net of accumulated depreciation). These assets include land, machinery and equipment, park facilities, and distribution systems.

Major capital asset transactions during the year include the following:

- There were no major capital transactions this year other than depreciation.

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

**Figure 4**

	Governmental Activities		Business-type Activities		Total	
	2021	2020	2021	2020	2021	2020
Land	\$ 25,659	\$ 25,659	\$ 5,700	\$ 5,700	\$ 31,359	\$ 31,359
Machinery and equipment	-	-	-	-	-	-
Infrastructure	27,269	32,733	4,414,584	4,565,939	4,441,853	4,598,672
Construction in progress	-	-	-	-	-	-
Total	\$ 52,928	\$ 58,392	\$ 4,420,284	\$ 4,571,639	\$ 4,473,212	\$ 4,630,031

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

**Long-term Debt.** As of June 30, 2021, the Town of Fallston had outstanding debt of \$1,794,000.

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

	Governmental Activities		Business-type Activities		Total	
	2021	2020	2021	2020	2021	2020
USDA Revenue Bonds	\$ -	\$ -	\$ 1,794,000	\$ 1,827,000	\$ 1,794,000	\$ 1,827,000
				-		-
Total Debt	\$ -	\$ -	\$ 1,794,000	\$ 1,827,000	\$ 1,794,000	\$ 1,827,000

Town of Fallston  
Management Discussion and Analysis

The Town of Fallston's outstanding debt decreased by \$33,000 during the current fiscal year. The Town's second payment of \$33,000 was paid to USDA.

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8% of the total assessed value of taxable property located within that government's boundaries less its outstanding obligations. The remaining legal debt margin for Town of Fallston is \$1,763,600.

### **Economic Factors and Next Year's Budgets and Rates**

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

- Revenues in the Enterprise Fund should experience modest growth.

The Town entered into an Inter-local agreement between the Town of Fallston and Cleveland County Water (CCW) for management of the local water system in conjunction with USDA guidelines and funding. USDA provided funding, in the form of a \$1,857,000 loan and a \$1,392,000 grant, for a new interconnection to CCW. The USDA loan will be repaid annually for a period of 40 years beginning June 1, 2020. CCW will lease the system from the Town of Fallston for the amount of the loan payment. Construction began in 2019 and was completed in 2020. The system was placed in service and all water accounts were taken over by CCW in accordance with the lease.

### **Budget Highlights for the Fiscal Year Ending June 30, 2022**

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

**Business – type Activities:** The water and sewer rates in the Town will remain stable. General operating expenses will remain steady for the coming year. The Town has received \$96,406 in Local Fiscal Recovery Funds provided by the American Rescue Plan Act due to COVID-19.

### **Requests for Information**

This report is designed to provide an overview of the Town's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to Director of Finance, Town of Fallston, P O Box 547, Fallston, NC 28042.

**Town of Fallston, North Carolina**  
**Statement of Net Position**  
**June 30, 2021**

	<b>Primary Government</b>		
	<b>Governmental</b>	<b>Business-type</b>	
	<b>Activities</b>	<b>Activities</b>	<b>Total</b>
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 474,488	\$ 180,954	\$ 655,442
Taxes receivables (net)	759	-	759
Accounts receivable (net)	-	42,487	42,487
Grant receivable-USDA	-	-	-
Due from other governments	10,641	-	10,641
Internal Balances	468	(468)	-
Prepaid items	5,801	-	5,801
Restricted cash	100,113	218,739	318,852
Total current assets	592,270	441,712	1,033,982
Capital assets (Note 1):			
Land, non-depreciable improvements, and construction in progress	25,659	5,700	31,359
Other capital assets, net of depreciation	27,269	4,414,584	4,441,853
Total capital assets	52,928	4,420,284	4,473,212
Total assets	\$ 645,198	\$ 4,861,996	\$ 5,507,194
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	\$ 205	\$ 6,056	\$ 6,261
Customer deposits	-	-	-
Current portion-USDA loan	-	34,000	34,000
Total liabilities	205	40,056	40,261
Long-term Liabilities:			
Direct borrowing-USDA	-	1,760,000	1,760,000
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unearned Revenue-USDA Grant	-	165,334	165,334
<b>NET POSITION</b>			
Net investment in capital assets	52,928	2,626,284	2,679,212
Restricted for:			
USDA	-	212,768	212,768
Streets	100,113	-	100,113
Stabilization by State Statute	11,109	-	11,109
Unrestricted	480,843	57,554	538,397
Total net position	\$ 644,993	\$ 2,896,606	\$ 3,541,599

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



**Town of Fallston, North Carolina**  
**Statement of Activities**  
**For the Year Ended June 30, 2021**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
<b>Primary government:</b>							
Governmental Activities:							
General government	\$ 51,061	\$ -	\$ -	\$ -	\$ (51,061)	\$ -	\$ (51,061)
Culture and Recreation	24,899	-	6,849	-	(18,050)	-	(18,050)
Transportation	61,454	-	17,539	-	(43,915)	-	(43,915)
Total governmental activities (See Note 1)	137,414	-	24,388	-	(113,026)	-	(113,026)
Business-type activities:							
Water and sewer	323,942	120,969	-	42,022	-	\$ (160,951)	(160,951)
Total business-type activities	323,942	120,969	-	42,022	-	(160,951)	(160,951)
Total primary government	\$ 461,356	\$ 120,969	\$ 24,388	\$ 42,022	(113,026)	(160,951)	(273,977)
General revenues:							
Taxes:							
Property taxes, levied for general purpose					22,279	-	22,279
Other taxes					9,693	-	9,693
Unrestricted investment earnings					989	444	1,433
Restricted investment earnings					456	-	456
Miscellaneous					-	-	-
Other operating revenues					39,169	64,973	104,142
Total general revenues and transfers					72,586	65,417	138,003
Change in net position					(40,440)	(95,534)	(135,974)
Net position, beginning					685,433	2,992,140	3,677,573
Net position, ending					\$ 644,993	\$ 2,896,606	\$ 3,541,599

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

**Exhibit 3**

**Town of Fallston  
Balance Sheet  
Governmental Fund  
June 30, 2021**

	<b>General Fund</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 474,488	\$ 474,488
Receivables, net:		
Taxes	759	759
Accounts	-	-
Due from other governments	10,641	10,641
Prepaid items	5,801	5,801
Due from sewer	468	468
Restricted cash	100,113	100,113
Total assets	<u>\$ 592,270</u>	<u>\$ 592,270</u>
<b>LIABILITIES AND FUND BALANCES</b>		
Liabilities:		
Accounts payable and accrued liabilities	\$ 205	\$ 205
Due to water fund	-	-
Total liabilities	<u>205</u>	<u>205</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Property taxes receivable	<u>759</u>	<u>759</u>
Fund balances:		
Nonspendable:		
Prepaid items	5,801	5,801
Reserved for:		
Stabilization by State statute	11,109	11,109
Streets	100,113	100,113
Unassigned	474,283	474,283
Total fund balances	<u>591,306</u>	<u>591,306</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 592,270</u>	<u>\$ 592,270</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.	52,928
Other long-term assets (accrued interest receivable from taxes) are not available to pay for current-period expenditures and	-
Liabilities for earned but unavailable revenues in fund statements.	759
Net position of governmental activities	<u>\$ 644,993</u>

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

**Exhibit 4**

**Town of Fallston**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Governmental Fund**  
**For the Year Ended June 30, 2021**

	<b>General Fund</b>	<b>Total Governmental Funds</b>
<b>REVENUES</b>		
Ad valorem taxes	\$ 22,133	\$ 22,133
Other taxes and licenses	9,693	9,693
Unrestricted intergovernmental	38,669	38,669
Restricted intergovernmental	24,388	24,388
Permits, fees and other receipts	500	500
Investment earnings	1,445	1,445
Total revenues	<u>96,828</u>	<u>96,828</u>
<b>EXPENDITURES</b>		
Current:		
General government	49,775	49,775
Cultural and Recreation	23,851	23,851
Transportation	58,324	58,324
Total expenditures	<u>131,950</u>	<u>131,950</u>
Excess (deficiency) of revenues over expenditures	<u>(35,122)</u>	<u>(35,122)</u>
<b>OTHER FINANCING SOURCES (USES)</b>		
Installment purchase obligations issued	-	-
Capital lease obligations issued	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>
Net change in fund balance	(35,122)	(35,122)
Fund balance, beginning	626,428	626,428
Fund balances, ending	<u>\$ 591,306</u>	<u>\$ 591,306</u>

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

**Exhibit 5**

**Town of Fallston**  
**Reconciliation of the Statement of Revenues, Expenditures, and Changes**  
**in Fund Balances of Governmental Funds to the Statement of Activities**  
**For the Year Ended June 30, 2021**

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

Net changes in fund balances - total governmental funds	\$ (35,122)
---	-------------

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period	(5,464)
---	---------

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

Amount of donated assets	-
Change in unavailable revenue for tax revenues	146

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

-

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

Compensated absences	-
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Rounding	<u>-</u>
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Total changes in net position of governmental activities	<u><u>\$ (40,440)</u></u>
--	---------------------------

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

**Town of Fallston**  
**General Fund**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual**  
**For the Year Ended June 30, 2021**

	<b>General Fund</b>			
	Original	Final	Actual Amounts	Variance with Final Budget - Positive (Negative)
<b>Revenues:</b>				
Ad valorem taxes	22,000	22,000	22,133	133
Other taxes and licenses	8,900	8,900	9,693	793
Unrestricted intergovernmental	43,000	43,000	38,669	(4,331)
Restricted intergovernmental	25,318	25,318	24,388	(930)
Miscellaneous Income	-	-	500	500
Investment earnings	1,460	1,460	1,445	(15)
Total revenues	100,678	100,678	96,828	(3,850)
<b>Expenditures:</b>				
Current:				
General government	65,024	65,024	49,775	15,249
Cultural and Recreation	26,800	36,800	23,851	12,949
Transportation	71,800	71,800	58,324	13,476
Total expenditures	163,624	173,624	131,950	41,674
Revenues over (under) expenditures	(62,946)	(72,946)	(35,122)	37,824
Fund Balance Appropriated	62,946	72,946	-	(72,946)
Total other financing sources (uses)	62,946	72,946	-	(72,946)
Revenues and other sources over (under) expenditures and other uses	\$ -	\$ -	(35,122)	\$ (35,122)
Fund balance, beginning			626,428	
Fund balance, ending			\$ 591,306	

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

**Town of Fallston  
Statement of Net Position  
Proprietary Fund  
June 30, 2021**

	<b>Water and Sewer Fund</b>
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$ 180,954
Restricted cash	218,739
Accounts receivable (net) - billed	42,487
Grant receivable-USDA	-
Due from other governments	-
Due from other funds	-
Prepaid items	-
Total current assets	<u>442,180</u>
Capital assets:	
Land and other non-depreciable assets	5,700
Other capital assets, net of depreciation	<u>4,414,584</u>
Capital assets (net)	<u>4,420,284</u>
Total assets	<u><u>\$ 4,862,464</u></u>
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable and accrued liabilities	6,056
Due to other funds	468
Customer deposits	-
USDA Loan-current portion	<u>34,000</u>
Total current liabilities	<u>40,524</u>
Noncurrent liabilities:	
Direct borrowing-USDA	<u>1,760,000</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Unearned Revenue-USDA Grant	<u>165,334</u>
<b>NET POSITION</b>	
Net investment in capital assets	2,626,284
Restricted	212,768
Unrestricted	<u>57,554</u>
Total net position	<u><u>\$ 2,896,606</u></u>

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

**Town of Fallston**  
**Statement of Revenues, Expenses, and Changes in Fund Net Position**  
**Proprietary Fund**  
**For the Year Ended June 30, 2021**

	<u>Water and Sewer Fund</u>
<b>OPERATING REVENUES</b>	
Water Charges	\$ -
Water Lease	64,973
Sewer Charges	120,969
Reconnections and New Meters	-
<b>Total operating revenues</b>	<u>185,942</u>
<b>OPERATING EXPENSES</b>	
Salaries	10,984
Utilities	798
Repairs and Maintenance	-
Water Samples	-
Water Purchases	-
Professional Services	-
Sewer Expense	89,785
Postage and Office Expense	-
Dues and Subscriptions	976
Insurance	1,200
Miscellaneous	1,792
Provision for Bad Debts	(6,943)
Depreciation	151,355
<b>Total operating expenses</b>	<u>249,947</u>
<b>Operating income (loss)</b>	<u>(64,005)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Investment earnings	444
Loss on Abandonment of Assets	-
USDA Grant	42,022
Interest paid USDA Loan	(31,973)
Project and Legal costs-USDA Loan	(42,022)
<b>Total nonoperating revenue (expenses)</b>	<u>(31,529)</u>
<b>Change in net position</b>	(95,534)
<b>Total net position, beginning</b>	2,992,140
<b>Total net position, ending</b>	<u><u>\$ 2,896,606</u></u>

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

**Town of Fallston  
Statement of Cash Flows  
Proprietary Fund  
For the Fiscal Year Ended June 30, 2021**

**Exhibit 9**

	<b>Water and Sewer Fund</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash received from customers	\$ 172,773
Cash paid for goods and services	(93,363)
Cash paid to or on behalf of employees for services	(11,923)
Customer deposits-net	-
Net cash provided (used) by operating activities	<u>67,487</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Miscellaneous revenues (rounding)	-
(Increase) Decrease in due from General Fund	-
Total cash flows from noncapital financing activities	<u>-</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Capital grant-USDA	384,023
Sales Tax Refund on USDA Project	2,914
USDA project costs	(212,628)
Principal paid	(33,000)
Interest paid	(31,973)
Acquisition and construction of capital assets	-
Net cash provided (used) by capital and related financing activities	<u>109,336</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest and dividends	<u>444</u>
Net increase (decrease) in cash and cash equivalents	177,267
Balances, beginning	222,426
Balances, ending	<u><u>\$ 399,693</u></u>
 Reconciliation of operating income to net cash provided by operating activities	
Operating income (loss)	<u>\$ (64,005)</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	151,355
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	(20,112)
(Increase) decrease in due from other governments	-
(Increase) decrease in prepaid items	390
Increase (decrease) in accounts payable and accrued liabilities	(141)
Increase (decrease) in customer deposits	-
Total adjustments	<u>131,492</u>
Net cash provided by operating activities	<u><u>\$ 67,487</u></u>

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



**Town of Fallston, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2021**

**I. Summary of Significant Accounting Policies**

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

**A. Reporting Entity**

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

**B. Basis of Presentation**

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

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

*Fund Financial Statements:* The fund financial statements provide information about the Town's funds. Separate statements for each fund category – *governmental and proprietary* – are presented. The Town has no fiduciary funds to report. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as non-major funds.

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

The Town reports the following major governmental fund:

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

**Town of Fallston, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2021**

The Town reports the following major enterprise fund:

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

**Town of Fallston, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2021**

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

Sales taxes and certain intergovernmental revenues, such as the utilities franchise tax, collected and held by the State at year-end on behalf of the Town are recognized as revenue. Sales taxes are considered a shared revenue for the Town because the tax is levied by Cleveland County and then remitted to and distributed by the State. Intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. Under the terms of grant agreements, the Town funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there is both restricted and unrestricted net position available to finance the program. It is the Town's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

**D. Budgetary Data**

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund, and the Enterprise Fund. All annual appropriations lapse at the fiscal-year end. Project ordinances are adopted for the Enterprise Fund Capital Projects Funds, which are consolidated with the operating funds for reporting purposes. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the project level for the multi-year funds. All amendments must be approved by the governing board. During the year several amendments to the original budget were made. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

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

**1. Deposits and Investments**

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

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

**Town of Fallston, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2021**

**2. Cash and Cash Equivalents**

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

**3. Restricted Assets**

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

<u>Town of Fallston Restricted Cash</u>		
Governmental Activities		
General Fund		
	Streets	\$ 100,113
Total governmental activities		<u>\$ 100,113</u>
Business-Type Activities		
	Debt Service Reserve	\$ 12,277
	Short Lived Asset Reserve	\$ 35,067
	USDA Project	<u>171,395</u>
Total Business-type Activities		<u>\$ 218,739</u>
Total Restricted Cash		<u><u>\$ 318,852</u></u>

**4. Ad Valorem Taxes Receivable**

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, interest does not accrue until the following January 6. These taxes are based on the assessed values as of January 1, 2020. As allowed by State law, the Town has established a schedule of discounts that apply to taxes that are paid prior to the due date. In the Town's General Fund, ad valorem tax revenues are reported net of such discounts.

**5. Allowances for Doubtful Accounts**

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

**Town of Fallston, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2021**

**6. Prepaid Items**

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

**7. Capital Assets**

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. The minimum capitalization cost is \$5,000 for all assets. Donated capital assets received prior to June 15, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 15, 2015 are recorded at acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

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

Asset Class	Estimated Useful Lives
Infrastructure	20
Buildings	40
Furniture and equipment	7
Computer equipment	5
Plant and Distribution System	32-39
Wells	20

**8. Deferred Outflows/Inflows of Resources**

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

**9. Long-Term Obligations**

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

**Town of Fallston, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2021**

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

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

#### 10. Net Position/Fund Balances

##### Net Position

Net position in government-wide and proprietary fund financial statements are classified as net investment in capital assets, restricted, and unrestricted. Restricted net position represents constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through state statute.

##### Fund Balances

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

The governmental fund types classify fund balances as follows:

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

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

Restricted Fund Balance-This classification includes amounts that are restricted to specific purposes externally imposed by creditors or imposed by law.

Restricted for Stabilization by State statute – North Carolina G.S. 159-8 prohibits units of government from budgeting or spending a portion of their fund balance. This is one of several statutes enacted by the North Carolina State Legislature in the 1930's that were designed to improve and maintain the fiscal health of local government units. Restricted by State statute (RSS), is calculated at the end of each fiscal year for all annually budgeted funds. The calculation in G.S. 159-8(a) provides a formula for determining what portion of fund balance is available for appropriation. The amount of fund balance not available for appropriation is what is known as "restricted by State statute". *Appropriated fund balance in any fund shall not exceed the sum of cash and investments minus the sum of liabilities, encumbrances, and deferred revenues arising from cash receipts, as those figures stand at the close of the fiscal year next preceding the budget.* Per GASB guidance, RSS is considered a resource upon which a restriction is "imposed by law through constitutional provisions or enabling legislation." RSS is reduced by inventories and

**Town of Fallston, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2021**

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

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

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

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

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

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

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

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

## **II. Stewardship, Compliance, and Accountability**

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

None.

**Town of Fallston, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2021**

**III. Detail Notes on All Funds**

A. Assets

1. Deposits

All the deposits of the Town are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the Town's agents in these units' names. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town these deposits are considered to be held by the Town's agents in their names. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Town, or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Town under the Pooling Method, the potential exists for under-collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Town has no policy regarding custodial risks for deposits.

At June 30, 2021, the Town's deposits had a carrying amount of \$974,294 and a bank balance of \$1,159,132. Of the bank balance, \$378,642 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method.

2. Receivables - Allowances for Doubtful Accounts

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

Fund	6/30/2021
General Fund:	
Taxes Receivable	\$ 434
Accounts receivable	-
Total General	<u>434</u>
Enterprise Funds	<u>6,096</u>
Total Enterprise	6,096
Total General and Enterprise	<u><u>\$ 6,530</u></u>



**Town of Fallston, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2021**

**3. Capital Assets**

**Primary Government**

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

	Beginning Balances	Increases	Decreases	Ending Balances
<b>Governmental activities:</b>				
<b>Capital assets not being depreciated:</b>				
Land	\$ 18,282	\$ -	\$ -	\$ 18,282
Construction in progress	7,377	-	-	7,377
Total capital assets not being depreciated	25,659	-	-	25,659
<b>Capital assets being depreciated:</b>				
Office Equipment	400	-	-	400
Furniture and Equipment	4,150	-	-	4,150
Infrastructure	100,739	-	-	100,739
Total capital assets being depreciated	105,289	-	-	105,289
<b>Less accumulated depreciation for:</b>				
Office Equipment	400	-	-	400
Furniture and Equipment	4,150	-	-	4,150
Infrastructure	68,006	5,464	-	73,470
Total accumulated depreciation	72,556	\$ 5,464	\$ -	78,020
Total capital assets being depreciated, net	32,733			27,269
<b>Governmental activity capital assets, net</b>	<b>\$ 58,392</b>			<b>\$ 52,928</b>

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

General government	\$ 1,286
Transportation	3,130
Culture and Recreation	1,048
Total depreciation expense	<u>\$ 5,464</u>

	Beginning Balances	Increases	Decreases	Ending Balances
<b>Business-type activities:</b>				
<b><i>Water and Sewer Fund</i></b>				
<b>Capital assets not being depreciated:</b>				
Land	\$ 5,700	\$ -	\$ -	\$ 5,700
Construction in progress	-	-	-	-
Total capital assets not being depreciated	5,700	-	-	5,700
<b>Capital assets being depreciated:</b>				
Plant and distribution systems	6,170,091	-	-	6,170,091
Office Equipment	-	-	-	-
Total capital assets being depreciated	6,170,091	-	-	6,170,091
<b>Less accumulated depreciation for:</b>				
Plant and distribution systems	1,604,152	151,355	-	1,755,507
Office Equipment	-	-	-	-
Total accumulated depreciation	1,604,152	\$ 151,355	\$ -	1,755,507
Total capital assets being depreciated, net	4,565,939			4,414,584
Water and Sewer fund capital assets, net	4,571,639			4,420,284
<b>Business-type activities capital assets, net</b>	<b>\$ 4,571,639</b>			<b>\$ 4,420,284</b>

**Town of Fallston, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2021**

**4. Deferred Outflows and Inflows of Resources**

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

	Unavailable Revenue	Unearned Revenue
Taxes Receivable (General Fund)	\$ 759	\$ -
USDA Grant (Proprietary Fund)	-	165,334
Total	<u>\$ 759</u>	<u>\$ 165,334</u>

The unearned revenue for the USDA grant is related to grant revenue that has been received from USDA but has not yet been expended or earned.

**B. Liabilities**

**1. Risk Management**

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town carries commercial insurance to cover property, general liability, and auto liability coverage of \$500,000 per occurrence, workmen's compensation coverage of \$ 100,000 per accident. Settled claims resulting from these risks have not exceeded coverage in any of the past three (3) fiscal years. The Town of Fallston is not in a flood plain and does not carry flood insurance.

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

**2. Claims, Judgments and Contingent Liabilities**

At June 30, 2021, the Town was party to threatened litigation from the contractor used on the USDA project. The Contractor underbid the project and is demanding additional payments. The Town and the Contractor have participated in mediation. The Contractor is demanding payment of as much as \$550,000. The amount owed based on bid and change orders is roughly \$171,200 which has been recorded as accounts payable at June 30, 2021. The Town has USDA grant funds to cover the amount owed and will contest the matter of any additional payment vigorously. The likelihood of an unfavorable outcome is premature to evaluate until a lawsuit is filed and the exact nature of the claims are known. Accordingly, no amount has been recorded for this potential claim.

**3. Long-Term Obligations**

**a. USDA Bond Payable**

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

**Town of Fallston, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2021**

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

Total Serviced by the Water Fund \$1,794,000

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

Year Ending June 30	Business-type Activities		Governmental Activities	
	Principal	Interest	Principal	Interest
2022	34,000	31,395	\$ -	\$ -
2023	34,000	30,800	-	-
2024	35,000	30,205	-	-
2025	35,000	29,593	-	-
2026	36,000	28,980	-	-
2027-2031	190,000	135,205	-	-
2032-2036	207,000	118,003	-	-
2037-2041	226,000	99,243	-	-
2042-2046	245,000	78,838	-	-
2047-2051	270,000	56,525	-	-
2052-2056	295,000	32,025	-	-
2057-2061	187,000	6,545	-	-
	-	-	-	-
Total	\$ 1,794,000	\$ 677,357	\$ -	\$ -

The Town is in compliance with the covenants as to rates, fees, rentals and charges in section 3 of the Bond Order, authorizing the issuance of the Water Revenue Bonds. Section 3.04 requires debt service coverage ratio to be no less than 110%. The debt service coverage ratio calculation for the year ended June 30, 2021 is as follows:

Operating Revenues	\$ 185,942
Operating Expenses*	(98,592)
Operating Income	87,350
Nonoperating Revenues (Expenses)**	444
Income Available for Debt Service	87,794
Debt Service, Principal and Interest	
Paid (Revenue Bonds Only)	\$ 64,973
Debt Service Coverage Ratio	135%

\*Per rate covenants, this does not include the depreciation expense of \$151,355

\*\*Per rate covenants, this does not include revenue bond interest of \$31,973

**b. Changes in Long-Term Liabilities**

	Balance July 1, 2020	Increases	Decreases	Balance June 30, 2021	Current Portion of Balance
Governmental activities:					
Governmental activity long-term liabilities	\$ -	\$ -	\$ -	\$ -	\$ -
Business-type activities:					
Series 2019 USDA Bond	\$ 1,827,000	\$ -	\$ 33,000	\$ 1,794,000	\$ 34,000
Direct Borrowing - Bank	-	-	-	-	-
Business-type activity long-term liabilities	\$ -	\$ -	\$ -	\$ -	\$ -

The Town's legal debt margin is \$ 1,763,600.

**Town of Fallston, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2021**

**C. Interfund Balances**

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

**D. Fund Balance**

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

<b><u>Total fund balance-General Fund</u></b>	<b><u>\$591,306</u></b>
Less;	
Stabilization by State Statute	11,109
Streets - Powell Bill	100,113
Fund Balance Appropriated in 2022 Budget	12,875
Prepaid Items	5,801
Working Capital / Fund Balance Policy	10,556
Remaining Fund Balance	<u>450,852</u>

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

**E. Net Investment in Capital Assets**

	Governmental Activities	Business-Type Activities
Capital Assets net of Depreciation	\$52,928	\$4,420,284
Less Related Debt	-	<u>1,794,000</u>
Net Investment In Capital Assets	<u>\$52,928</u>	<u>\$2,626,284</u>

**IV. Summary Disclosure of Significant Contingencies**

**Federal and State Assisted Programs**

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

**Town of Fallston, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2021**

**V. Contingencies and Commitments**

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

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

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

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

Year Ending June 30	
2022	\$ 65,395
2023	\$ 64,800
2024	\$ 65,205
2025	\$ 64,593
2026	\$ 64,980
2027-2031	\$ 325,205
2032-2036	\$ 325,003
2037-2041	\$ 325,243
2042-2046	\$ 323,838
2047-2051	\$ 326,525
2052-2056	\$ 327,025
2057-2061	\$ 193,545
	-
Total	<u>\$ 2,471,357</u>

**VI. Impact of COVID-19 on the Town**

The COVID-19 pandemic developed rapidly in 2020, with a significant number of cases. Measures taken by Federal, State, and Local governments to contain the virus have affected economic activity. Depending on the duration of the COVID-19 crisis and continued government restrictions, the Town may experience negative results. The exact impact of the Town's activities cannot be predicted and no adjustment has been made to the financial statements for this uncertainty. The Town will receive funds from the Local Fiscal Recovery Fund provided by the American Rescue Act in future years.

### Supplementary Statements

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

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## TOWN OF FALLSTON, NORTH CAROLINA

## SCHEDULE 1

## GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2021  
(With Comparative Actual Amounts for the Year Ended June 30, 2020)

	June 30, 2021		VARIANCE FAVORABLE (UNFAVORABLE)	6/30/2020 ACTUAL
	BUDGET	ACTUAL		
REVENUES				
Advalorem Taxes:				
Current Year	\$ 22,000	\$ 21,422	\$ (578)	\$ 20,944
Prior Years	-	596	596	249
Interest	-	115	115	91
Total	22,000	22,133	133	21,284
Other Taxes & Licenses:				
Local Option Sales Tax	8,900	9,693	793	10,087
Total	8,900	9,693	793	10,087
Unrestricted Intergovernmental Revenue:				
Hold Harmless Distribution	-	-	-	-
Beer and Wine Tax	3,000	2,709	(291)	2,770
Franchise Tax	40,000	35,960	(4,040)	36,189
Total	43,000	38,669	(4,331)	38,959
Restricted Intergovernmental Revenue:				
Cleveland County Recreational	6,848	6,849	1	6,849
Sale of Powell Bill Asset	-	-	-	-
"State Street Aid" Allocation	18,470	17,539	(931)	18,469
Total	25,318	24,388	(930)	25,318
Miscellaneous Income:				
Miscellaneous	-	500	500	-
Investment Earnings:				
Interest-General Fund	1,000	989	(11)	1,586
Interest-Powell Bill	460	456	(4)	495
Total	1,460	1,445	(15)	2,081
TOTAL REVENUES	\$ 100,678	\$ 96,828	\$ (3,850)	\$ 97,729

TOWN OF FALLSTON, NORTH CAROLINA  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2021  
(With Comparative Actual Amounts for the Year Ended June 30, 2020)

SCHEDULE 1

	June 30, 2021		VARIANCE FAVORABLE (UNFAVORABLE)	6/30/2020 ACTUAL
	BUDGET	ACTUAL		
EXPENDITURES:				
General Government:				
Administration	\$ 25,500	\$ 21,153	\$ 4,347	\$ 20,276
Salaries	8,524	8,516	8	8,516
Professional Fees	15,000	14,411	589	13,250
Election Expenditures	5,000	-	5,000	547
General Insurance	11,000	5,695	5,305	5,753
Capital outlay	-	-	-	-
Total	<u>65,024</u>	<u>49,775</u>	<u>15,249</u>	<u>48,342</u>
Cultural and Recreational:				
Recreation and Parks	20,200	12,475	7,725	6,605
Capital Outlay	-	-	-	-
Public Celebrations	16,600	11,376	5,224	3,940
Total	<u>36,800</u>	<u>23,851</u>	<u>12,949</u>	<u>10,545</u>
Transportation:				
Capital Outlay	-	-	-	-
Operating Expenses	71,800	58,324	13,476	81,207
Total	<u>71,800</u>	<u>58,324</u>	<u>13,476</u>	<u>81,207</u>
TOTAL EXPENDITURES	<u>173,624</u>	<u>131,950</u>	<u>41,674</u>	<u>140,094</u>
REVENUES OVER (UNDER) EXPENDITURES	(72,946)	(35,122)	37,824	(42,365)
OTHER FINANCING SOURCES (USES)				
Fund Balance Appropriated	72,946	-	72,946	-
Fund Balance Reserve	-	-	-	-
Transfer (to) from Water & Sewer Fund	-	-	-	-
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	<u>\$ -</u>	(35,122)	<u>\$ (35,122)</u>	\$ (42,365)
FUND BALANCE				
Beginning of Year, July 1		626,428		668,793
End of Year, June 30		<u>\$ 591,306</u>		<u>\$ 626,428</u>



TOWN OF FALLSTON, NORTH CAROLINA  
WATER AND SEWER FUND

Schedule 2

STATEMENT OF REVENUES AND EXPENDITURES-BUDGET AND ACTUAL (NON GAAP)  
FOR THE YEAR ENDED JUNE 30, 2021

(With Comparative Actual Amounts for the Year Ended June 30, 2020)

	June 30, 2020		Variable	06/30/20
	Budget	Actual	Favorable (Unfavorable)	Actual
OPERATING REVENUES				
Water Charges	\$ -	\$ -	\$ -	\$ 11,556
Water Lease	64,973	64,973	-	48,519
Sewer Charges	130,000	120,969	(9,031)	126,836
Reconnections & New Meters	-	-	-	50
Total Operating Revenue	<u>194,973</u>	<u>185,942</u>	<u>(9,031)</u>	<u>186,961</u>
NON OPERATING REVENUES				
Interest Income	1,000	444	(556)	1,079
Fund Balance Appropriated	-	-	-	-
Other	-	-	-	-
Transfer from GF	-	-	-	-
TOTAL REVENUES	<u>\$ 195,973</u>	<u>\$ 186,386</u>	<u>\$ (9,587)</u>	<u>\$ 188,040</u>
EXPENDITURES				
Salaries	\$ 10,984	\$ 10,984	\$ -	\$ 14,596
Utilities	741	798	(57)	844
Repairs & Maintenance	10,000	-	10,000	2,411
Water Samples	-	-	-	1,304
Water Purchases	-	-	-	5,879
Professional Services	-	-	-	-
Sewer Expense	118,500	89,785	28,715	93,243
Postage and Office Expense	3,000	-	3,000	1,273
Dues and Subscriptions	3,800	976	2,824	3,138
Rent	1,200	1,200	-	1,200
Collection Fee	2,600	1,792	808	1,447
Transfer to Capital Project Fund	-	-	-	-
Provision for Bad Debt	-	(6,943)	6,943	7,507
Capital Outlay	-	-	-	-
Total Expenditures	<u>\$ 150,825</u>	<u>\$ 98,592</u>	<u>\$ 52,233</u>	<u>\$ 132,842</u>

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

TOWN OF FALLSTON, NORTH CAROLINA  
WATER AND SEWER FUND  
STATEMENT OF REVENUES AND EXPENDITURES-BUDGET AND ACTUAL (NON GAAP)  
FOR THE YEAR ENDED JUNE 30, 2021  
(With Comparative Actual Amounts for the Year Ended June 30, 2020)

Schedule 2

RECONCILIATION OF MODIFIED ACCRUAL BASIS TO FULL ACCRUAL BASIS

Total Revenues from page 1 of 2	\$ 186,386
Total Expenditures from page 1 of 2	<u>98,592</u>
Excess Revenues over (under) Expenditures	87,794
Depreciation	(151,355)
Loss on Abandonment of Assets	-
Interest paid-USDA Loan	(31,973)
Project costs-USDA Loan	(42,022)
USDA Grant	<u>42,022</u>
Change in net assets at Exhibit 8	<u><u>\$ (95,534)</u></u>

**Town of Fallston, North Carolina**  
**Capital Projects Fund -Water Distribution System Improvements Project**  
**Schedule of Revenues and Expenditures - Budget and Actual (Non - GAAP)**  
**From Inception and for the Fiscal Year Ended June 30, 2021**

	Project Author - ization	Prior Years	Actual Current Year	Total to Date	Variance Positive (Negative)
<b>Expenditures - Water/Sewer System:</b>					
Engineering and architectural fees	452,800	430,451	22,349	452,800	-
Construction	2,562,700	2,420,047	500	2,420,547	142,153
Contingency	256,000	177,762	19,173	196,935	59,065
Materials Testing	10,500	666	-	666	9,834
Administrative	6,300	5,040	-	5,040	1,260
Interest-Interim Financing	37,200	84,428	-	84,428	(47,228)
Legal Fees-Local Attorney	1,000	750	-	750	250
Legal Fees-Bond Counsel	22,500	22,500	-	22,500	-
Transfer to Water/Sewer Fund	-	-	165,334	165,334	(165,334)
<b>Total</b>	<b>3,349,000</b>	<b>3,141,644</b>	<b>207,356</b>	<b>3,349,000</b>	<b>-</b>
<b>Other Revenues:</b>					
USDA Grant	1,392,000	1,184,644	207,356	1,392,000	-
Transfer from W/S reserve	100,000	100,000	-	100,000	-
Usda Loan	1,857,000	1,857,000	-	1,857,000	-
	<b>3,349,000</b>	<b>3,141,644</b>	<b>207,356</b>	<b>3,349,000</b>	<b>-</b>
<b>Revenues over (under) expenditures</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

**Town of Fallston**  
**Schedule of Net Position**  
**Water and Sewer Fund by Function**  
**June 30, 2021**

	<b>Water</b>	<b>Sewer</b>	<b>Total</b>
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 95,693	\$ 85,261	\$ 180,954
Restricted cash	218,739	-	218,739
Accounts receivable (net) - billed	-	42,487	42,487
Grant receivable-USDA	-	-	-
Due from other governments	-	-	-
Due from other funds	-	-	-
Prepaid items	-	-	-
Total current assets	<u>314,432</u>	<u>127,748</u>	<u>442,180</u>
Capital assets:			
Land and other non-depreciable assets	5,700	-	5,700
Other capital assets, net of depreciation	2,874,859	1,539,725	4,414,584
Capital assets (net)	<u>2,880,559</u>	<u>1,539,725</u>	<u>4,420,284</u>
Total assets	<u>\$ 3,194,991</u>	<u>\$ 1,667,473</u>	<u>\$ 4,862,464</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable and accrued liabilities	6,061	(5)	6,056
Due to other funds	468	-	468
Customer deposits	-	-	-
USDA Loan-current portion	34,000	-	34,000
Total current liabilities	<u>40,529</u>	<u>(5)</u>	<u>40,524</u>
Noncurrent liabilities:			
Direct borrowing-USDA	<u>1,760,000</u>	<u>-</u>	<u>1,760,000</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unearned Revenue-USDA Grant	<u>165,334</u>	<u>-</u>	<u>165,334</u>
<b>NET POSITION</b>			
Net investment in capital assets	1,086,559	1,539,725	2,626,284
Restricted	212,768	-	212,768
Unrestricted	(70,199)	127,753	57,554
Total net position	<u>\$ 1,229,128</u>	<u>\$ 1,667,478</u>	<u>\$ 2,896,606</u>

## Schedule 5

**Town of Fallston**  
**Schedule of Revenues, Expenses, and Changes in Fund Net Position**  
**Water and Sewer Fund by Function**  
**For the Year Ended June 30, 2021**

	<b>Water</b>	<b>Sewer</b>	<b>Total</b>
<b>OPERATING REVENUES</b>			
Water Charges	\$ -	\$ -	\$ -
Water Lease	64,973	-	64,973
Sewer Charges	-	120,969	120,969
Reconnections and New Meters	-	-	-
<b>Total operating revenues</b>	<b>64,973</b>	<b>120,969</b>	<b>185,942</b>
<b>OPERATING EXPENSES</b>			
Salaries	6,539	4,445	10,984
Utilities	798	-	798
Repairs and Maintenance	-	-	-
Water Samples	-	-	-
Water Purchases	-	-	-
Professional Services	-	-	-
Sewer Expense	-	89,785	89,785
Postage and Office Expense	-	-	-
Dues and Subscriptions	826	150	976
Rent	1,200	-	1,200
Collection Fee	-	1,792	1,792
Provision for Bad Debts	-	(6,943)	(6,943)
Depreciation	74,803	76,552	151,355
<b>Total operating expenses</b>	<b>84,166</b>	<b>165,781</b>	<b>249,947</b>
<b>Operating income (loss)</b>	<b>(19,193)</b>	<b>(44,812)</b>	<b>(64,005)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Investment earnings	-	444	444
Loss on Abandonment of Assets	-	-	-
USDA Grant	42,022	-	42,022
Interest paid USDA Loan	(31,973)	-	(31,973)
Project costs-USDA Loan	(42,022)	-	(42,022)
<b>Total nonoperating revenue (expenses)</b>	<b>(31,973)</b>	<b>444</b>	<b>(31,529)</b>
<b>Change in net position</b>	<b>(51,166)</b>	<b>(44,368)</b>	<b>(95,534)</b>
<b>Total net position, beginning</b>	<b>1,280,294</b>	<b>1,711,846</b>	<b>2,992,140</b>
<b>Total net position, ending</b>	<b>\$ 1,229,128</b>	<b>\$ 1,667,478</b>	<b>\$ 2,896,606</b>

**Town of Fallston  
Schedule of Cash Flows  
Water and Sewer Fund by Function  
For the Fiscal Year Ended June 30, 2021**

	<b>Water</b>	<b>Sewer</b>	<b>Total</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash received from customers	\$ 64,973	\$ 107,800	\$ 172,773
Cash paid for goods and services	(1,636)	(91,727)	(93,363)
Cash paid to or on behalf of employees for services	(7,473)	(4,450)	(11,923)
Customer deposits-net	-	-	-
Net cash provided (used) by operating activities	55,864	11,623	67,487
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Miscellaneous revenues (rounding)	-	-	-
Transfers (to) from other funds	-	-	-
Total cash flows from noncapital financing activities	-	-	-
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Capital grant-USDA	384,023	-	384,023
Sales Tax Refund on USDA Project	2,914	-	2,914
USDA loan issuance costs	(212,628)	-	(212,628)
Principal paid	(33,000)	-	(33,000)
Interest paid	(31,973)	-	(31,973)
Acquisition and construction of capital assets	-	-	-
Net cash provided (used) by capital and related financing activities	109,336	-	109,336
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest and dividends	-	444	444
Net increase (decrease) in cash and cash equivalents	165,200	12,067	177,267
Balances, beginning	149,232	73,194	222,426
Balances, ending	\$ 314,432	\$ 85,261	\$ 399,693
 Reconciliation of operating income to net cash provided by operating activities			
Operating income (loss)	\$ (19,193)	\$ (44,812)	\$ (64,005)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	74,803	76,552	151,355
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable	-	(20,112)	(20,112)
(Increase) decrease in due from other governments	-	-	-
(Increase) decrease in grant receivable-USDA	-	-	-
(Increase) decrease in prepaid items	390	-	390
Increase (decrease) in accounts payable and accrued liabilities	(136)	(5)	(141)
Increase (decrease) in customer deposits	-	-	-
Total adjustments	75,057	56,435	131,492
Net cash provided by operating activities	\$ 55,864	\$ 11,623	\$ 67,487

## Other Schedules

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This section contains additional information required on property taxes.

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

TOWN OF FALLSTON, NORTH CAROLINA  
SCHEDULE OF TAXES RECEIVABLE  
FISCAL YEAR ENDED JUNE 30, 2021

SCHEDULE 7

	<u>Balance 7/1/2020</u>	<u>2020 Levy</u>	<u>Collections</u>	<u>Discoveries Adjustments</u>	<u>Balance 6/30/2021</u>
2010 Levy	\$ 41		\$ -	\$ (41)	\$ -
2011 Levy	25		-	-	25
2012 Levy	54		2	-	52
2013 Levy	51		-	-	51
2014 Levy	91		-	-	91
2015 Levy	103		-	-	103
2016 Levy	6		-	-	6
2017 Levy	10		-	-	10
2018 Levy	101		93	(1)	7
2019 Levy	587		501	-	86
2020 Levy	<u>-</u>	<u>22,235</u>	<u>21,473</u>	<u>-</u>	<u>762</u>
Totals	<u>\$ 1,069</u>	<u>\$ 22,235</u>	<u>\$ 22,069</u>	<u>\$ (42)</u>	\$ 1,193
Less: Allowance for uncollectible accounts					434
Ad Valorem taxes receivable - net					<u>\$ 759</u>

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

Reconcilement with revenues:	
Ad valorem taxes - general fund	\$ 22,133
Reconciling items:	
Interest collected	(115)
Discounts allowed	51
Total Collections	<u>\$ 22,069</u>



TOWN OF FALLSTON, NORTH CAROLINA  
ANALYSIS OF CURRENT TAX LEVY  
TOWN WIDE LEVY  
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

SCHEDULE 8

	Town Wide			Total Levy	
	Property Valuation	Rate	Total Levy	Property excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Property taxed at current year's rate	\$ 44,470,000	\$ 0.05	\$ 22,235	\$ 19,064	\$ 3,171
Discoveries:					
Current year taxes	-	0.05	-	-	-
Prior year taxes	-	-	-	-	-
Penalties	-	-	-	-	-
Total	44,470,000		22,235	19,064	3,171
Abatements	-	0.05	-	-	-
Total property valuation	<u>\$ 44,470,000</u>				
Net Levy			22,235	19,064	3,171
Uncollected taxes at June 30, 2021			<u>762</u>	<u>753</u>	<u>9</u>
Current year's taxes collected			<u>\$ 21,473</u>	<u>\$ 18,311</u>	<u>\$ 3,162</u>
Current levy collection percentage			<u>96.57%</u>	<u>96.05%</u>	<u>99.72%</u>

Supplementary Information:

Compliance Section

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, the business-type activities, and each major fund, of Town of Fallston, North Carolina, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise Town of Fallston, North Carolina's basic financial statements and have issued our report thereon dated November 23, 2021.

**Internal Control Over Financial Reporting**

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

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

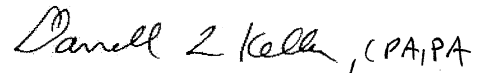
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations,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

**Compliance and Other Matters**

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

**Purpose of this Report**

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

A handwritten signature in black ink that reads "Darrell L. Keller, CPA, PA". The signature is written in a cursive style with a large initial "D".

Darrell L. Keller, CPA, PA  
Kings Mountain, North Carolina  
November 23, 2021