

REVIEWED

By SLGFD at 8:19 am, Oct 15, 2021

**Town of Harmony
Harmony, North Carolina
For the year ended
June 30, 2021**

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

Governance

Town Aldermen Members

D. Lee Matney, Mayor

**Julia Clanton
N. Sankey Gaither
Scotty Harris
Douglas Galliher**

Administrative Staff

Wanda Edwards, Finance Officer

Town of Harmony
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June 30, 2021

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Harmony, 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's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Harmony, 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 of the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

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

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

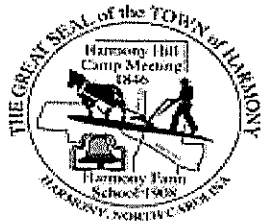
Emphasis of Matter

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

Eddie Carrick CPA, PC

A handwritten signature in black ink, appearing to read "Eddie Carrick" with a stylized flourish at the end.

Lexington, North Carolina
September 16, 2021



TOWN OF HARMONY

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Mayor

D. Lee Matney

Finance Officer

Wanda Edwards

Councilman

Julia Clanton
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Douglas Galliher
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Management's Discussion and Analysis

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

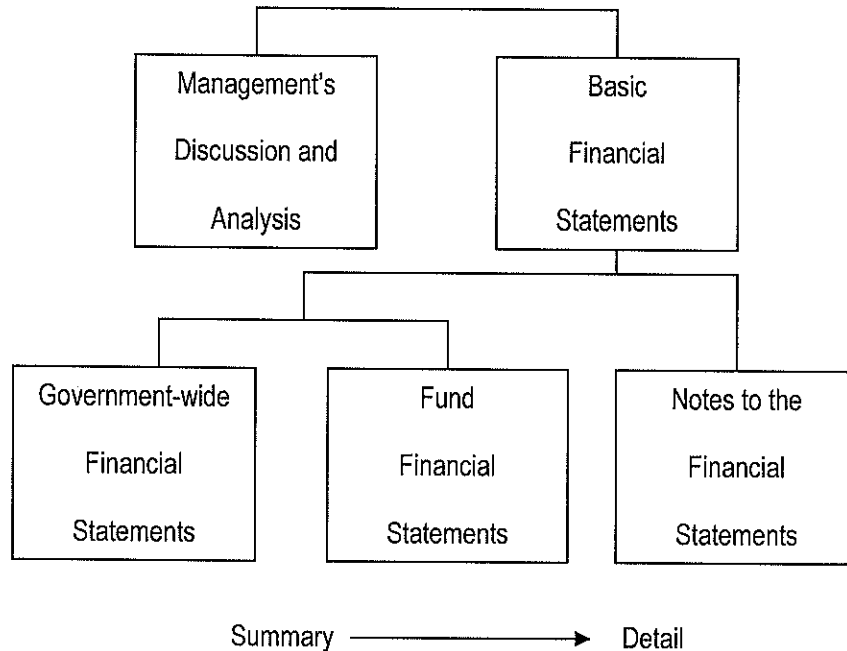
Financial highlights

- The assets of the Town of Harmony exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$5,136,748 (*net position*).
- The Town's total net position decreased by \$126,106 primarily due to decreases in the business-type activities net position.
- As of the close of the current fiscal year, the Town of Harmony's governmental fund reported combined ending fund balance of \$1,268,557 with a net increase of \$94,743 in fund balance. Approximately 4 percent of this total amount, or \$54,229, is non-spendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$1,214,329, or 558 percent of total General Fund expenditures for the fiscal year.
- The Town's total debt decreased by \$4,004 due to principal payments on a USDA loan for sewer improvements.

Overview of the Financial Statements

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

Required Components of Annual Financial Report
Figure 1



Basic Financial Statements

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

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

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

Government-Wide Financial Statements

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

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

The government-wide statements are divided into two categories: 1) governmental activities and 2) business-type activities. The governmental activities include most of the Town's basic services such as public safety, parks and recreation, and general administration. Property taxes finance most of these activities. The business-type activities are those that municipalities generally charge fees for.

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

Fund Financial Statements

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

Governmental Funds – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the Town's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting* which provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him determine if there are more or less financial resources available to finance the Town's programs. The relationship between governmental activities (reported in the Statement of Net position and the Statement of Activities) and governmental funds is described in a reconciliation that is part of the fund financial statements.

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

Management Discussion and Analysis
Town of Harmony

The budgetary statement provided for the General Fund demonstrates how well the Town complied with the budget ordinance and whether or not the Town succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented in the same format, language and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the Board; 2) the final budget as amended by the Board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the differences or variance between the final budget and actual resources and charges. To account for the difference between the budgetary basis of accounting and the modified accrual basis, a reconciliation showing the differences in the reporting activities is shown at the end of the budgetary statement.

Proprietary Funds – The Town of Harmony has only one kind of proprietary fund. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town of Harmony uses enterprise funds to account for its sewer activity and operations. These funds are the same as those functions shown in the business-type activities in the Statement of Net position and the Statement of Activities.

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

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

Management Discussion and Analysis
Town of Harmony

Town of Harmony's Net Position (Figure 2)

June 30, 2021 and June 30, 2020

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>	
	<i>2021</i>	<i>2020</i>	<i>2021</i>	<i>2020</i>	<i>2021</i>	<i>2020</i>
Current and other assets	\$ 1,277,254	\$ 1,192,766	\$ 480,089	\$ 535,252	\$ 1,757,342	\$ 1,728,018
Capital assets	664,948	678,096	2,941,630	3,083,071	3,606,578	3,761,167
Total assets	1,942,202	1,870,862	3,421,718	3,618,323	5,363,920	5,489,185
Current liabilities	7,136	8,614	17,035	10,713	24,171	19,327
Long-term Liabilities	-	-	203,000	207,004	203,000	207,004
Total liabilities	7,136	8,614	220,035	217,717	227,171	226,331
Net position:						
Net investment in						
capital assets	664,948	678,096	2,734,630	2,872,067	3,399,578	3,550,163
Restricted for:						
Stabilization by State Statute	42,963	35,270	-	-	42,963	35,270
Streets	-	-	-	-	-	-
Debt service	-	-	13,231	13,231	13,231	13,231
Unrestricted	1,227,155	1,148,882	453,822	515,308	1,680,977	1,664,190
Total net position	\$ 1,935,066	\$ 1,862,248	\$ 3,201,683	\$ 3,400,606	\$ 5,136,748	\$ 5,262,854

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets of the Town of Harmony exceeded liabilities and deferred inflows by \$5,136,748 as of June 30, 2021. The Town's net position decreased by \$126,106 for the fiscal year ended June 30, 2021. However, the largest portion (66%) reflects the Town's net investment in capital assets (e.g. land, buildings, machinery, and equipment). The Town of Harmony uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Harmony's net investment in capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Town of Harmony's net position, \$56,194, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$1,680,977 is unrestricted.

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

- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 98.61%.

Management Discussion and Analysis
Town of Harmony

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

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>	
	<i>2021</i>	<i>2020</i>	<i>2021</i>	<i>2020</i>	<i>2021</i>	<i>2020</i>
Revenues						
Program revenues:						
Charges for services	\$ 19,675	\$ 6,400	\$ 116,566	\$ 150,707	\$ 136,241	\$ 157,107
Operating grants and revenues	14,215	14,880	-	-	14,215	14,880
General revenues:						
Property taxes	34,679	35,398	-	-	34,679	35,398
Other taxes	190,385	162,803	-	-	190,385	162,803
Unrestricted intergovernmental revenues	31,597	32,582	-	-	31,597	32,582
Restricted intergovernmental revenues	-	-	-	-	-	-
Sales & services	-	-	-	-	-	-
Investment earnings	8,846	16,678	55	55	8,901	16,733
Miscellaneous income	2,245	3,038	1,700	20	3,945	3,058
Total revenues	<u>301,642</u>	<u>271,779</u>	<u>118,321</u>	<u>150,782</u>	<u>419,963</u>	<u>422,561</u>
Expenses:						
General government	183,018	197,570	-	-	183,018	197,570
Transportation	29,833	84,141	-	-	29,833	84,141
Environmental protection	18,014	20,793	-	-	18,014	20,793
Sewer	-	-	315,205	280,756	315,205	280,756
Total expenses	<u>230,865</u>	<u>302,503</u>	<u>315,205</u>	<u>280,756</u>	<u>546,070</u>	<u>583,259</u>
Increase (decrease)	70,777	(30,723)	(196,884)	(129,974)	(126,106)	(160,697)
Transfer in (out)	2,040	-	(2,040)	-	-	-
Net position July 1	1,862,248	1,892,971	3,400,606	3,530,579	5,262,854	5,423,550
Net position June 30	<u>\$ 1,935,066</u>	<u>\$ 1,862,248</u>	<u>\$ 3,201,683</u>	<u>\$ 3,400,606</u>	<u>\$ 5,136,748</u>	<u>\$ 5,262,854</u>

Governmental activities – Governmental activities increased the Town's net position by \$72,818, thereby accounting for 100% of the total increase in the net position of the Town of Harmony. The increase in net position was the result of a concerted effort to control costs and manage expenditures. Town management reduced non-essential programs to a minimum and implemented cost saving strategies across Town departments. Increased efforts to maximize tax collections also contributed to the favorable net position. Town management acknowledges that 2021 was a successful year and plans on improving upon these approaches as a long-term strategy to realize continued fiscal health.

Management Discussion and Analysis
Town of Harmony

Governmental activities (continued)

Key elements of this increase are as follows:

- Increase in Local Option Sales Tax collections.

Business-type activities – Business-type activities decreased the Town's net position by \$198,923, accounting for 0% of the total increase in the Town's net position. Key elements of this decrease are as follows:

- A decrease in sewer billing collections as well as an increase in repairs and maintenance.
- Increase in sewer rate schedule

Financial Analysis of the Town's Funds

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

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

The General Fund is the chief operating fund of the Town. At the end of the current fiscal year, the Town of Harmony's fund balance available in the General Fund was \$1,214,329, while total fund balance reached \$1,268,557. The Town currently has an available fund balance of 558% of general fund expenditures, while total fund balance represents 583% of the same amount.

At June 30, 2021 the governmental funds of the Town of Harmony reported a combined fund balance of \$1,268,557, a 2% percent increase from last year. The General Fund is included in this combined amount.

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

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

Proprietary Funds. The Town of Harmony's proprietary fund provides the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the Sewer Fund at the end of the fiscal year amounted to \$453,822. The total change in net position for the Sewer fund decreased net position by \$198,923. The change in net position in the Sewer Fund is a result of actual expenses, which includes depreciation, exceeding revenues.

Management Discussion and Analysis
Town of Harmony

Capital Asset and Debt Administration

Capital Assets. The Town's investment in capital assets for its governmental activities and business-type activities as of June 30, 2021, totals \$3,606,578 (net of accumulated depreciation). These assets include buildings, land, equipment, and sewer system.

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

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>	
	<i>2021</i>	<i>2020</i>	<i>2021</i>	<i>2020</i>	<i>2021</i>	<i>2020</i>
Land	\$ 254,493	\$ 254,493	\$ 130,000	\$ 130,000	\$ 384,493	\$ 384,493
Buildings and system	348,541	359,943	-	-	348,541	359,943
Improvements other than buildings	50,662	55,728	-	-	50,662	55,728
Machinery and equipment	11,252	7,931	905	1,811	12,157	9,742
Plant & distribution systems	-	-	2,810,725	2,951,260	2,810,725	2,951,260
	<u>\$ 664,948</u>	<u>\$ 678,096</u>	<u>\$ 2,941,630</u>	<u>\$ 3,083,071</u>	<u>\$ 3,606,578</u>	<u>\$ 3,761,166</u>

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

Long-term Debt

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

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>	
	<i>2021</i>	<i>2020</i>	<i>2021</i>	<i>2020</i>	<i>2021</i>	<i>2020</i>
General Obligation						
Bonds - USDA	\$ -	\$ -	\$ 207,000	\$ 211,004	\$ 207,000	\$ 211,004
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 207,000</u>	<u>\$ 211,004</u>	<u>\$ 207,000</u>	<u>\$ 211,004</u>

Town of Harmony's Outstanding Debt

The Town's total debt decreased by \$4,004 due to principal payments on a USDA loan for sewer improvements. The Town incurred no new debt during 2021.

Town of Harmony's Outstanding Debt (*continued*)

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for the Town of Harmony is \$2,784,640.

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

Economic Factors and Next Year's Budgets and Rates

- Harmony's population growth has continued to be moderate. Harmony is continuing to see small business growth with the addition of several new businesses. The Town has applied for an infrastructure assessment grant. The Town expects notification of an approval decision in mid-February of 2022.

Budget Highlights for the Fiscal Year Ending June 30, 2022

Governmental Activities: Property tax revenue is expected to increase this year due to a .02 per \$100 valuation increase. The Town will use these revenues to finance programs currently in place. Potentially, tax revenue should increase with the addition of new businesses in the Town.

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

The Town has chosen not to appropriate fund balance for the 2021-22 budget. Management believes that increased revenues and continued restrictions on spending will maintain the Town's financial position. As the Town considers future revenue sources, it has determined that a \$0.01 increase in the property tax rate will result in additional revenues of approximately \$3,432 at current values and collection rate. Though management believes current growth will generate enough revenue to support Town operations, a careful analysis of property tax revenue will be considered in future years' budgets.

Business-type Activities: In October of 2021, the Town will be working with Rural Water to conduct a rate study prior to increasing sewer rates. The Town will be reviewing sewer income and expenses to determine an acceptable sewer rate increase.

Requests for Information

This report is designed to provide an overview of the Town's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Town Clerk, Town of Harmony, P.O. Box 118, Harmony, NC 28634 or (704) 546-2339. You can also visit our website at townofharmony.org or send an email to harmonync@yadtel.net for more information.

Town of Harmony, North Carolina
Statement of Net Position
June 30, 2021

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Cash & cash equivalents - unrestricted	\$ 1,221,464	\$ 439,590	\$ 1,661,054
Receivables (net):			
Property tax	1,560	-	1,560
Other taxes	41,941	-	41,941
Refund	1,022	2,533	3,555
Accounts	-	18,129	18,129
Prepaid expenses	11,266	-	11,266
Long-term receivable - current	-	-	-
Restricted cash & cash equivalents	-	19,836	19,836
	<u>1,277,254</u>	<u>480,089</u>	<u>1,757,342</u>
Non-Current assets:			
Long-term receivable	-	-	-
Capital assets:			
Land	254,493	130,000	384,493
Capital assets, net of depreciation	410,455	2,811,630	3,222,085
	<u>664,948</u>	<u>2,941,630</u>	<u>3,606,578</u>
Total assets	<u>1,942,202</u>	<u>3,421,718</u>	<u>5,363,920</u>
LIABILITIES			
Current liabilities:			
Accounts payable	7,136	6,430	13,566
Current portion of long-term liabilities	-	4,000	4,000
Payable from restricted assets	-	6,605	6,605
	<u>7,136</u>	<u>17,035</u>	<u>24,171</u>
Long-term liabilities:			
Due in more than one year	-	203,000	203,000
Total liabilities	<u>7,136</u>	<u>220,035</u>	<u>227,171</u>
DEFERRED INFLOWS OF RESOURCES			
None	-	-	-
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>
NET POSITION			
Net investment in capital assets	664,948	2,734,630	3,399,578
Restricted for:			
Stabilization by State Statute	42,963	-	42,963
Streets	-	-	-
Debt service	-	13,231	13,231
Unrestricted net position	<u>1,227,155</u>	<u>453,822</u>	<u>1,680,977</u>
Total net position	<u>\$ 1,935,066</u>	<u>\$ 3,201,683</u>	<u>\$ 5,136,748</u>

The accompanying notes are an integral part of the financial statements

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

Programs Activities	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
General government and administration	\$ 183,018	\$ 19,675	\$ -	\$ -	\$ (163,343)	\$ -	\$ (163,343)
Transportation	29,833	-	14,215	-	(15,618)	-	(15,618)
Environmental protection	18,014	-	-	-	(18,014)	-	(18,014)
Total governmental activities	<u>230,865</u>	<u>19,675</u>	<u>14,215</u>	<u>-</u>	<u>(196,975)</u>	<u>-</u>	<u>(196,975)</u>
Business-type activities:							
Sewer	315,205	116,566	-	-	-	(198,638)	(198,638)
Total business-type activities	<u>315,205</u>	<u>116,566</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(198,638)</u>	<u>(198,638)</u>
Total Government	<u>\$ 546,070</u>	<u>\$ 136,241</u>	<u>\$ 14,215</u>	<u>\$ -</u>	<u>(196,975)</u>	<u>(198,638)</u>	<u>(395,613)</u>
General revenues:							
Taxes:							
Ad valorem					34,679		34,679
Other					190,385		190,385
Unreserved intergovernmental revenues					31,597		31,597
Investment earnings					8,846	55	8,902
Miscellaneous					2,245	1,700	3,945
Total general revenues not including transfers					<u>267,752</u>	<u>1,755</u>	<u>269,508</u>
Transfers					<u>2,040</u>	<u>(2,040)</u>	<u>-</u>
Change in net position					<u>72,818</u>	<u>(198,923)</u>	<u>(126,106)</u>
Net position beginning					<u>1,862,248</u>	<u>3,400,606</u>	<u>5,262,854</u>
Net position ending					<u>\$ 1,935,066</u>	<u>\$ 3,201,683</u>	<u>\$ 5,136,748</u>

The accompanying notes are an integral part of the financial statements

Town of Harmony, North Carolina
Balance Sheet
Governmental Funds
June 30, 2021

	<u>Major Fund</u>	<u>Total Governmental Fund</u>
	<u>General</u>	
Assets		
Cash & investments - unrestricted	\$ 1,221,464	\$ 1,221,464
Restricted cash	-	-
Property taxes receivable	1,560	1,560
Other taxes receivable	41,941	41,941
Refund receivable	1,022	1,022
Prepays	11,266	11,266
Total assets	<u>\$ 1,277,254</u>	<u>\$ 1,277,254</u>
LIABILITIES AND FUND BALANCE		
Liabilities:		
Accounts payable	\$ 7,136	\$ 7,136
Total liabilities	<u>7,136</u>	<u>7,136</u>
DEFERRED INFLOWS OF RESOURCES		
Property taxes receivable	1,560	1,560
Total deferred inflows of resources	<u>1,560</u>	<u>1,560</u>
Fund balance:		
Non Spendable:		
Prepaid expenses	11,266	11,266
Restricted:		
Stabilization by State Statute	42,963	42,963
Streets	-	-
Assigned:		
None	-	-
Unassigned	1,214,329	1,214,329
Total fund balance	<u>1,268,557</u>	<u>1,268,557</u>
Total liabilities and fund balance	<u>\$ 1,277,254</u>	
Amounts reported for governmental activities in the statement of net position (Exhibit 1) are different because:		
Long-term receivables used in governmental activities are not financial resources and therefore are not reported in the funds.		\$ -
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Governmental capital assets	\$ 995,886	
Less accumulated depreciation	<u>(330,938)</u>	664,948
Liabilities for earned revenues considered deferred inflows of resources in fund statements		<u>1,560</u>
Net position of governmental activities		<u>\$ 1,935,066</u>

The accompanying notes are an integral part of the financial statements

Town of Harmony, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2021

	<u>Major Fund</u>	<u>Total</u>
	<u>General</u>	<u>Governmental</u>
		<u>Funds</u>
Revenues:		
Ad valorem taxes	\$ 34,820	\$ 34,820
Other taxes	190,385	190,385
Unrestricted intergovernmental revenues	31,597	31,597
Restricted intergovernmental revenues	14,215	14,215
Sales and services	19,675	19,675
Investment earnings	8,846	8,846
Miscellaneous	2,245	2,245
Total revenues	<u>301,783</u>	<u>301,783</u>
Expenditures:		
General government	167,977	167,977
Transportation	24,767	24,767
Capital outlay	6,959	6,959
Environmental protection	18,014	18,014
Total expenditures	<u>217,717</u>	<u>217,717</u>
Excess of revenues over (under) expenditures	84,066	84,066
Other sources (uses):		
Long-term receivable principal payment	8,637	8,637
Transfer from (to) enterprise fund	2,040	2,040
Total other sources (uses)	<u>10,677</u>	<u>10,677</u>
Net change in fund balance	94,743	94,743
Fund balance - beginning of year	<u>1,173,814</u>	<u>1,173,814</u>
Fund balance - end of year	<u>\$ 1,268,557</u>	<u>\$ 1,268,557</u>

The accompanying notes are an integral part of the financial statements

Exhibit 4
(continued)

Town of Harmony, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2021

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

Net changes in fund balances - total governmental funds	\$	94,743
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Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period

Capital outlay	\$	6,959	
Depreciation		<u>(20,107)</u>	(13,148)

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

Long-term receivable principal payment	(8,637)
Change in unavailable revenue for tax revenues	<u>(141)</u>

Total changes in net position of governmental activities	<u>\$</u>	<u>72,818</u>
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Town of Harmony, North Carolina

General Fund

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

	Original	Final	Actual	Variance Positive (Negative)
Revenues:				
Ad valorem taxes	\$ 36,000	\$ 38,900	\$ 34,820	\$ (4,080)
Other taxes	170,000	190,000	190,385	385
Unrestricted intergovernmental revenues	32,500	32,500	31,597	(903)
Restricted intergovernmental revenues	14,870	14,370	14,215	(155)
Sales and services	13,690	22,690	19,675	(3,015)
Investment earnings	3,600	2,100	8,846	6,746
Miscellaneous	2,260	1,960	2,245	285
Total revenues	<u>272,920</u>	<u>302,520</u>	<u>301,783</u>	<u>(737)</u>
Expenditures:				
General government	217,120	228,620	174,936	53,684
Transportation and utilities	33,800	39,800	24,767	15,033
Environmental protection	22,000	22,000	18,014	3,986
Total expenditures	<u>272,920</u>	<u>290,420</u>	<u>217,717</u>	<u>72,703</u>
Revenues over (under) expenditures	<u>-</u>	<u>12,100</u>	<u>84,066</u>	<u>71,966</u>
Other sources (uses):				
Long-term receivable principal payment	-	-	8,637	8,637
Transfer from (to) enterprise fund	-	2,040	2,040	-
Appropriated fund balance	-	(14,140)	-	14,140
	<u>-</u>	<u>(12,100)</u>	<u>10,677</u>	<u>22,777</u>
Revenues and other financing sources over (under) expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>94,743</u>	<u>\$ 94,742</u>
Fund balance, beginning of year			<u>1,173,814</u>	
Fund balance, end of year			<u>\$ 1,268,557</u>	

The accompanying notes are an integral part of the financial statements

Town of Harmony, North Carolina
Statement of Fund Net Position
Proprietary Fund
June 30, 2021

	<u>Sewer Fund</u>
ASSETS	
Current assets:	
Cash & cash equivalents - unrestricted	\$ 439,590
Restricted cash & cash equivalents	19,836
Accounts receivable (net)	18,129
Refund receivable (net)	2,533
	<u>480,089</u>
Capital assets:	
Land and improvements	130,000
Other capital assets, net of accumulated depreciation	2,811,630
Net capital assets	<u>2,941,630</u>
 Total assets	 <u>3,421,718</u>
 LIABILITIES	
Current liabilities:	
Accounts payable & accrued expenses	6,430
Current portion of long-term debt	4,000
Liabilities payable from restricted assets:	
Customer deposits	6,605
	<u>17,035</u>
Long-term liabilities:	
Long-term debt - USDA	
Due in more than one year	203,000
Total long-term liabilities	<u>203,000</u>
 Total liabilities	 <u>220,035</u>
 NET POSITION	
Net investment in capital assets	2,734,630
Restricted for debt service	13,231
Unrestricted net position	453,822
 Total net position	 <u>\$ 3,201,683</u>

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

	<u>Sewer Fund</u>
Operating revenues:	
Charges for services	\$ 115,069
Other operating charges	<u>1,497</u>
Total operating revenue	<u>116,566</u>
 Operating expenses:	
Waste collection & treatment	164,536
Depreciation	<u>141,442</u>
Total operating expenses	<u>305,977</u>
 Operating income (loss)	 <u>(189,411)</u>
 Nonoperating revenues(expenses):	
Investment earnings	55
Miscellaneous income	1,700
Interest expense	<u>(9,227)</u>
Total nonoperating revenues (expenses)	<u>(7,472)</u>
 Income (loss) before other sources (uses)	 (196,883)
 Other sources (uses):	
Transfer from general fund	<u>(2,040)</u>
 Change in net position	 (198,923)
 Net position beginning of year	 <u>3,400,606</u>
 Net position end of year	 <u><u>\$ 3,201,683</u></u>

The accompanying notes are an integral part of the financial statements

Town of Harmony, North Carolina
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2021

	<u>Sewer Fund</u>
Cash flows from operating activities:	
Cash received from customers	\$ 114,014
Cash paid for goods and services	(28,917)
Cash paid for salaries and benefits	<u>(130,916)</u>
Net Cash Used By Operating Activities	<u>(45,819)</u>
Cash flows from non-capital financing activities:	
Transfer to general fund	(2,040)
Other revenues received	-
Net Cash Provided By Non-Capital and Related Financing Activities	<u>(2,040)</u>
Cash flows from capital and related financing activities:	
Interest paid	(9,227)
Purchase of capital assets	-
Payments on notes payable	<u>(4,004)</u>
Net Cash Used By Capital and Related Financing Activities	<u>(13,231)</u>
Cash flows from investing activities:	
Interest earnings	<u>55</u>
Net Cash Provided by Investing Activities	<u>55</u>
Net Increase (Decrease) In Cash	(61,035)
Cash - Beginning of Year, July 1	<u>520,461</u>
Cash - End of Year, June 30	<u><u>\$ 459,426</u></u>
Adjustments to Reconcile Net Operating Income to Net Cash Provided by Operating Activities:	
Net Operating Income (Loss)	<u>\$ (189,411)</u>
Adjustments to reconcile net operating income to net cash used by operating activities:	
Depreciation & amortization	141,442
Changes in Current Assets and Liabilities:	
Other income	1,700
(Increase) decrease in accounts receivable	(5,871)
Increase (Decrease) in accounts payable	4,703
Increase (Decrease) in customer deposits	<u>1,619</u>
Total adjustments	<u>143,593</u>
Net Cash Used By Operating Activities	<u><u>\$ (45,819)</u></u>
Interest paid	<u><u>\$ (9,227)</u></u>

The accompanying notes are an integral part of the financial statements

Town of Harmony, North Carolina

***NOTES TO FINANCIAL STATEMENTS
As of or for the Year Ended June 30, 2021***

I. Summary of Significant Accounting Policies

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

A. Reporting entity

The Town of Harmony is a municipal corporation governed by an elected mayor and a four-member council. As required by generally accepted accounting principles, these financial statements present the Town and its component unit, a legally separate entity for which the Town is financially accountable. For the year ended June 30, 2021, the Town had no component unit.

B. Basis of presentation

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

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

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

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

Notes to the Financial Statements (continued)

B. Basis of presentation (continued)

The Town reports the following major governmental funds:

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

The Town reports the following major enterprise funds:

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

Notes to the Financial Statements (continued)

C. Measurement Focus and Basis of Accounting (continued)

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

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

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

D. Budgetary data

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund and the Enterprise Fund. All annual appropriations lapse at the fiscal-year end. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the departmental level for all annually budgeted funds. The Town Manager is authorized by the budget ordinance to transfer appropriations between functional areas within a fund up to \$2,500; however, any revisions that alter total expenditures of any fund or that change functional appropriations by more than \$2,500 must be approved by the governing board.

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

1. Deposits and Investments

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

Notes to the Financial Statements (continued)

1. Deposits and Investments (continued)

State law (G.S. 159-30(c)) authorizes the Town to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain nonguaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances, and the North Carolina Capital Management Trust (NCCMT). The Town's investments are reported at fair value. Non-participating interest earning investment contracts are accounted for at cost. The NCCMT Government Portfolio, a SEC-registered (2a-7) money market mutual fund, is measured at fair value. The NCCMT- Term Portfolio is bond fund, has no rating and is measured at fair value. Because the NCCMT Government Portfolios have a weighted average maturity of less than 90 days, it is presented as an investment with a maturity of less than 6 months. The Town does not have a formal investment or credit risk policy.

2. Cash and Cash Equivalents

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

3. Restricted Assets

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

Town of Harmony Restricted Cash

Governmental Activities		
General Fund	Streets	\$ -
Total governmental activities		-
Business-type Activities		
Water and Sewer Fund	Customer deposits	6,605
	Debt service	13,231
Total Business-type Activities		19,836
Total Restricted Cash		\$ 19,836

4. Ad Valorem Taxes Receivable

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

Notes to the Financial Statements (continued)

5. Allowances for Doubtful Accounts

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

6. Inventory and Prepaid Items

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

7. Capital Assets

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

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

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

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

8. Deferred Outflows/Inflows of Resources

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

9. Long-Term Obligations

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

Notes to the Financial Statements (continued)

9. Long-Term Obligations (continued)

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

10. Net Position/ Fund Balances

Net Position

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

Fund Balances

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

The governmental fund types classify fund balances as follows:

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

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

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

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

Notes to the Financial Statements (continued)

10. Net Position/ Fund Balances (continued)

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

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

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

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

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

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

II. Stewardship, Compliance, and Accountability:

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

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

III. Detail Notes on All Funds:

A. Assets:

1. Deposits

All the deposits of the Town are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the Town's agents in these units' names. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town, these deposits are considered to be held by the Town's agents in their names. The amount of the pledged collateral is based on an approval averaging method for non-interest bearing

Notes to the Financial Statements (continued)

1. Deposits (continued)

deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Town or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Town under the Pooling Method, the potential exists to undercollateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Town has no formal policy regarding custodial credit risk for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The Town complies with provisions of GS 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2021, the Town's deposits had a carrying amount of \$1,680,690 and a bank balance of \$1,696,988. Of the bank balance, \$946,988 was covered by collateral held under the Pooling Method and \$750,000 was covered by federal depository insurance. At June 30, 2021, the Town's petty cash totaled \$200.

At June 30, 2021, the Town held no investments. The Town has no policy regarding credit risk.

2. Receivable - Allowances for Doubtful Accounts

The amounts presented in the Balance Sheet and the Statement of Net Position for the year ended June 30, 2021 is net of the following allowances for doubtful accounts:

<u>Fund</u>	<u>Amount</u>
General Fund	\$ -
Enterprise Fund	<u>1,471</u>
Total	<u>\$ 1,471</u>

3. Receivables – Long Term

On March 1, 2018, the Town issued a promissory note to a local not for profit corporation in the amount of \$50,000. The Town agreed to receive \$865 per month, including interest at 1.5% per annum, beginning April 1, 2021 with the final payment of all sums due March 1, 2023. The note was paid in full during the current year. The note is secured by a deed of trust on property.

Notes to the Financial Statements (continued)

4 Capital assets

Primary Government

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

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 254,493	\$ -	\$ -	\$ 254,493
Total capital assets not being depreciated:	<u>254,493</u>	<u>-</u>	<u>-</u>	<u>254,493</u>
Capital assets being depreciated:				
Buildings	530,377	-	-	530,377
Equipment	113,112	6,959	-	120,071
Paving and improvements	90,943	-	-	90,943
Total capital assets being depreciated:	<u>734,432</u>	<u>6,959</u>	<u>-</u>	<u>741,391</u>
Less, accumulated depreciation for:				
Buildings	170,435	11,403	-	181,838
Equipment	105,181	3,638	-	108,819
Paving and improvements	35,215	5,066	-	40,281
Total accumulated depreciation	<u>310,821</u>	<u>20,107</u>	<u>-</u>	<u>330,938</u>
Total capital assets being depreciated, net	<u>423,603</u>			<u>410,453</u>
Governmental activity capital assets, net	<u><u>\$ 678,096</u></u>			<u><u>\$ 664,948</u></u>

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

Transportation	\$ 5,066
General government	<u>15,041</u>
	\$ 20,107

Notes to the Financial Statements (continued)

4 Capital assets (continued)

Capital assets activity for the Business-type Activities for the year ending June 30, 2021:

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 130,000	\$ -	\$ -	\$ 130,000
Capital assets being depreciated:				
Plant and distribution system	4,216,086	-	-	4,216,086
Equipment and vehicles	6,338	-	-	6,338
Total capital assets being depreciated:	4,222,424	-	-	4,222,424
Less, accumulated depreciation for:				
Plant and distribution system	1,264,827	140,536	-	1,405,363
Equipment and vehicles	4,527	905	-	5,432
Total accumulated depreciation	1,269,354	141,441	-	1,410,795
Total capital assets being depreciated, net	2,953,071			2,811,629
Business-type activity capital assets, net	\$ 3,083,071			\$ 2,941,630

B. Liabilities:

1. Pension Plan Obligations:

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

2. Deferred Outflows and Inflows of Resources

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

	Unavailable Revenues	Unearned Revenues
Taxes Receivable, net	\$ 1,560	\$ -
	<u>\$ 1,560</u>	<u>\$ -</u>

Notes to the Financial Statements (continued)

3. Risk Management

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

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

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

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

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

4. Claims and Judgments

At June 30, 2021, the Town was unaware of any pending or threatened litigation, claims or assessments which could have a material adverse effect on the Town's financial position.

5. Long-Term Obligations:

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

Notes to the Financial Statements (continued)

5. Long-Term Obligations (continued):

Bonds payable at June 30, 2021 are comprised of the following individual issues:

a. General Obligation Bonds

Serviced by the Sewer fund

\$240,004, 2009 Sanitary Sewer Bonds due annually on June 1 in installments of principal plus interest through June 1, 2049; interest at 4.375% \$207,000

Annual debt service requirements to maturity for long-term obligation, including \$153,869 of interest, are as follows:

Year Ending June 30	Sewer Fund	
	Principal	Interest
2022	\$ 4,000	9,056
2023	4,000	8,881
2024	4,000	8,706
2025	5,000	8,531
2026	5,000	8,313
2027-31	27,000	38,238
2032-36	33,000	31,806
2037-41	42,000	23,800
2042-46	51,000	13,913
2047-49	32,000	2,625
	<u>\$ 207,000</u>	<u>\$ 153,869</u>

At June 30, 2021, the Town of Harmony had bonds authorized but un-issued of \$-0- and a legal debt margin of \$2,784,640.

b. Changes in Long-term Liabilities

For the year ended June 30, 2021, the Town's changes in debt consisted of the following:

	Balance June 30, 2020	Increases	(Decreases)	Balance June 30, 2021	Current Portion of Balance
Proprietary activities:					
General Obligation Bonds	<u>\$ 211,004</u>	<u>\$ -</u>	<u>\$ (4,004)</u>	<u>\$ 207,000</u>	<u>\$ 4,000</u>

Notes to the Financial Statements (continued)

6. Interfund Receivables and Payables

At June 30, 2021, the following Interfund receivables / payable were outstanding:

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

Transfers to/from other funds at June 30, 2021, consist of the following:

From the Proprietary Fund to the General Fund to

reimburse for paid sales tax refund	<u>\$ 2,040</u>
Total	<u><u>\$ 2,040</u></u>

Transfers are used to move unrestricted revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts provided matching funds for various grant programs.

During the 2021 fiscal year, the Town made a one-time transfer from the Proprietary Fund of \$2,040 to the General Fund to reimburse for paid sales tax refund.

C. Net Investment in Capital Assets

	Governmental	Business-type
Capital Assets	\$ 664,948	\$ 2,941,630
less: long-term debt	-	207,000
add: unexpended debt proceeds	-	-
Net investment in capital assets	<u><u>\$ 664,948</u></u>	<u><u>\$ 2,734,630</u></u>

D. Fund Balance

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

<u>Total fund balance - General Fund</u>	<u>\$ 1,268,557</u>
Less:	
Prepaid expenses	11,266
Stabilization by State Statute	42,963
Subsequent year's expenditures	-
Streets - Powell Bill	-
Remaining Fund Balance	<u><u>\$ 1,214,329</u></u>

Notes to the Financial Statements (continued)

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

<i>Encumbrances</i>	<i>General Fund</i>	<i>Non-Major Funds</i>
	\$0	

IV. Jointly Governed Organization

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

V. Summary Disclosure of Significant Contingencies

Federal and State Assisted Programs

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

VI. Significant Effects of Subsequent Events

Subsequent events occurring after the statement of financial position date have been evaluated through September 16, 2021, which is the date the financial statements were available to be issued.

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

Town of Harmony, North Carolina
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the Year Ended June 30, 2021
(With Comparative Actual Amounts for the Year Ended June 30, 2020)

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>Actual Year ended June 30, 2020</u>
REVENUES:				
Ad valorem taxes				
Current year		\$ 29,935		\$ 31,320
Vehicle taxes		4,885		3,941
Penalties and interest		-		45
	<u>\$ 38,900</u>	<u>34,820</u>	<u>\$ (4,080)</u>	<u>35,306</u>
Other taxes & licenses				
Local option sales tax		190,385		162,803
	<u>190,000</u>	<u>190,385</u>	<u>385</u>	<u>162,803</u>
Unrestricted intergovernmental				
Utility franchise tax		29,276		30,219
Beer & wine tax		2,321		2,364
	<u>32,500</u>	<u>31,597</u>	<u>(903)</u>	<u>32,582</u>
Restricted intergovernmental				
Investment earnings - Powell Bill		-		2
Powell Bill allocation		14,215		14,878
	<u>14,370</u>	<u>14,215</u>	<u>(155)</u>	<u>14,880</u>
Sales and services				
Cemetery lots		13,500		3,900
Rental income		6,175		2,500
	<u>22,690</u>	<u>19,675</u>	<u>(3,015)</u>	<u>6,400</u>
Investment earnings	<u>2,100</u>	<u>8,846</u>	<u>6,746</u>	<u>16,678</u>
Miscellaneous				
Paid sales tax refund		1,729		-
Interest earnings		26		379
Other		490		2,659
	<u>1,960</u>	<u>2,245</u>	<u>285</u>	<u>3,038</u>
Total revenues	<u>302,520</u>	<u>301,783</u>	<u>(737)</u>	<u>271,689</u>

Town of Harmony, North Carolina
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the Year Ended June 30, 2021
(With Comparative Actual Amounts for the Year Ended June 30, 2020)

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>Actual Year ended June 30, 2020</u>
EXPENDITURES:				
General Government:				
Salaries and employee benefits		\$ 38,202		\$ 37,766
Other operating expenditures		73,189		78,843
Professional services		9,751		10,932
Donations		1,000		1,000
Cemetery maintenance		15,821		11,920
Repairs and maintenance		17,161		26,160
Utilities		12,854		12,593
Advance to nonprofit		-		-
Capital outlay		6,959		-
	<u>\$ 228,620</u>	<u>174,936</u>	<u>\$ 53,684</u>	<u>179,215</u>
Transportation and Utilities				
Street & sidewalk maintenance :				
Repairs and maintenance		4,150		64,194
Powell Bill - expense		20,617		14,880
- capital outlay		-		-
	<u>39,800</u>	<u>24,767</u>	<u>15,033</u>	<u>79,075</u>
Environmental Protection				
Solid waste disposal	<u>22,000</u>	<u>18,014</u>	<u>3,986</u>	<u>20,793</u>
Total expenditures	<u>290,420</u>	<u>217,717</u>	<u>72,703</u>	<u>279,082</u>
Revenues over (under) expenditures	<u>12,100</u>	<u>84,066</u>	<u>71,966</u>	<u>(7,394)</u>
Other sources (uses) of funds				
Long-term receivable payment	-	8,637	8,637	20,873
Transfer from (to) enterprise fund	2,040	2,040	-	-
Appropriated fund balance	<u>(14,140)</u>	<u>-</u>	<u>14,140</u>	<u>-</u>
	<u>(12,100)</u>	<u>10,677</u>	<u>22,777</u>	<u>20,873</u>
Net change in fund balance	<u>\$ -</u>	<u>94,743</u>	<u>\$ 94,743</u>	<u>13,479</u>
Fund balances - beginning of year		<u>1,173,814</u>		<u>1,160,335</u>
Fund balances - end of year		<u>\$ 1,268,557</u>		<u>\$ 1,173,814</u>

Town of Harmony, North Carolina
Proprietary Fund Type - Enterprise Fund
Schedule of Revenue and Expenditures - Budget and Actual (Non-GAAP)
For the Year Ended June 30, 2021
(With Comparative Actual Amounts for the Year Ended June 30, 2020)

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>Actual Year ended June 30, 2020</u>
Revenues:				
Operating revenues:				
Sewer charges, net of bad debts		\$ 115,069		\$ 143,563
Sewer charges - other		-		5,335
Other charges		1,497		1,809
	<u>\$ 134,750</u>	<u>116,566</u>	<u>\$ 18,184</u>	<u>150,707</u>
Non-operating Revenues:				
Investment earnings		55		55
Miscellaneous income		1,700		20
	<u>1,755</u>	<u>1,755</u>	<u>-</u>	<u>75</u>
Total revenues	<u>136,505</u>	<u>118,322</u>	<u>18,184</u>	<u>150,782</u>
Expenditures:				
Sewer Operations:				
Salaries & benefits - operations		33,620		32,171
Utilities		32,268		31,143
Chemicals		438		914
Testing		6,737		7,068
Permits & licenses		1,010		1,010
Repairs and maintenance		79,706		52,670
Miscellaneous		10,757		4,932
Capital outlays		-		-
	<u>164,745</u>	<u>164,536</u>	<u>209</u>	<u>129,908</u>
Other budgetary appropriations:				
Debt service:				
Principal		4,004		4,000
Interest		9,227		9,406
	<u>13,500</u>	<u>13,231</u>	<u>269</u>	<u>13,406</u>
Total expenditures	<u>178,245</u>	<u>177,767</u>	<u>478</u>	<u>143,314</u>
Other sources (uses) of funds				
Contingency	43,780	-	43,780	-
Transfer from (to) General Fund	<u>(2,040)</u>	<u>(2,040)</u>	<u>-</u>	<u>-</u>
	<u>41,740</u>	<u>(2,040)</u>	<u>43,780</u>	<u>-</u>
Revenues and other sources over (under) expenditures and other sources	<u>\$ -</u>	<u>\$ (61,485)</u>	<u>\$ (61,485)</u>	<u>\$ 7,468</u>

Town of Harmony, North Carolina
Proprietary Fund Type - Enterprise Fund
Schedule of Revenue and Expenditures - Budget and Actual (Non-GAAP)
For the Year Ended June 30, 2021
(With Comparative Actual Amounts for the Year Ended June 30, 2020)

	<u>2021</u>	<u>2020</u>
Reconciliation from budgetary basis (modified accrual) to full accrual basis:		
Excess Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ (61,485)	\$ 7,468
Budgetary appropriations:		
Capital outlay	-	-
Debt service - principal portion	4,004	4,000
Depreciation & amortization	<u>(141,442)</u>	<u>(141,442)</u>
Change in net position	<u><u>\$ (198,923)</u></u>	<u><u>\$ (129,974)</u></u>

Town of Harmony, North Carolina
Schedule of Ad Valorem Taxes Receivable
For the Year Ended June 30, 2021

<u>Fiscal Year</u>	<u>Uncollected Balance June 30, 2020</u>	<u>Additions</u>	<u>Collections and Credits</u>	<u>Uncollected Balance June 30, 2021</u>
2020-21		\$ 34,808	\$ 34,324	\$ 484
2019-20	\$ 533		148	385
2018-19	296		96	200
2017-18	227		104	123
2016-17	162		74	88
2015-16	120		74	46
2014-15	17		-	17
2013-14	63		1	62
2012-13	82		-	82
2011-12	73		-	73
2010-11	128		128	-
	<u>\$ 1,701</u>	<u>\$ 34,808</u>	<u>\$ 34,949</u>	<u>1,560</u>
Less - allowance for doubtful Ad Valorem taxes receivable				<u>-</u>
Ad Valorem taxes receivable (net)				<u><u>\$ 1,560</u></u>
Reconciliation with revenues:				
Ad Valorem Tax - General Fund				\$ 34,820
Amounts written off for tax year 2010-11 per statute of limitations				128
Penalties and interest				<u>-</u>
Total Collections & Credits				<u><u>\$ 34,949</u></u>

Town of Harmony, North Carolina
Analysis of Current Tax Levy
Town-Wide Levy
For the Year Ended June 30, 2021

	Town-Wide			Total Levy	
	Total Property Valuation	Rate	Amount of Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Real property	\$ 34,634,000	0.10	\$ 34,634	\$ 29,580	\$ 5,054
Penalties	45,000		45	45	-
Total levy	34,679,000		34,679	29,625	5,054
Discoveries	129,000	0.10	129	129	-
Abatements	-	0.10	-	-	-
Total Property Valuation	<u>\$ 34,808,000</u>				
Net Levy			34,808	29,754	5,054
Less: Uncollected Tax at June 30, 2021			<u>484</u>	<u>484</u>	<u>-</u>
Current Year Tax Collected			<u>\$ 34,324</u>	<u>\$ 29,270</u>	<u>\$ 5,054</u>
Percent current year collected			<u>98.61%</u>	<u>98.37%</u>	<u>100.00%</u>