

**CITY OF MOUNT HOLLY
NORTH CAROLINA**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

CITY OF MOUNT HOLLY NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2019

CITY COUNCIL

Mayor
Bryan Hough

City Council Members

Perry Toomey
Carolyn Breyare
Charles McCorkle
Jeff Meadows
David Moore
Lauren Shoemaker

ADMINISTRATIVE AND FINANCIAL STAFF

Danny Jackson, City Manager
Miles Braswell, Assistant City Manager
Africa Otis, Finance Officer
Amy Hollingsworth, Deputy Finance Officer

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CITY OF MOUNT HOLLY, NORTH CAROLINA

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FINANCIAL SECTION

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MARTIN ♦ STARNES

& ASSOCIATES, CPAs, P.A.

"A Professional Association of Certified Public Accountants and Management Consultants"

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council
City of Mount Holly
Mount Holly, North Carolina

Report On the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Mount Holly, North Carolina, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the City of Mount Holly ABC Board, which represents 87%, 85%, and 96%, respectively, of the assets, net position, and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the City of Mount Holly ABC Board, is based solely on the report of other auditors. 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. The financial statements of the City of Mount Holly ABC Board were not audited in accordance with *Government Auditing Standards*.

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 City'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 City'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, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Mount Holly, North Carolina, as of June 30, 2019, and the respective changes in financial position and cash flows, where appropriate 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, the Law Enforcement Officers' Special Separation Allowance Schedules of the Changes in Total Pension Liability and Total Pension Liability as a Percentage of Covered Payroll, the Retiree Stipend Plan Schedules of the Changes in Total Pension Liability and Total Pension Liability as a Percentage of Covered Payroll, the Other Post-Employment Benefits' Schedule of Changes in Total OPEB Liability and Related Ratios, and the Local Government Employees' Retirement System's Schedules of Proportionate Share of the Net Pension Liability (Asset) and Contributions, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by 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 and the other auditors 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 basic financial statements of the City of Mount Holly, North Carolina. The combining and individual fund financial statements, budget and actual schedules, supplemental ad valorem tax 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, budget and actual schedules, supplemental ad valorem tax 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 by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, and the report of the other auditors, the combining and individual fund financial statements, budget and actual schedules, supplemental ad valorem tax 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 October 21, 2019, on our consideration of the City of Mount Holly'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 solely 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 the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Mount Holly's internal control over financial reporting and compliance.

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
Hickory, North Carolina
October 21, 2019

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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Management's Discussion and Analysis

As management of the City of Mount Holly, we offer readers of the City of Mount Holly's financial statements this narrative overview and analysis of the financial activities of the City of Mount Holly for the fiscal year ended June 30, 2019. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the City's financial statements, which follow this narrative.

Financial Highlights

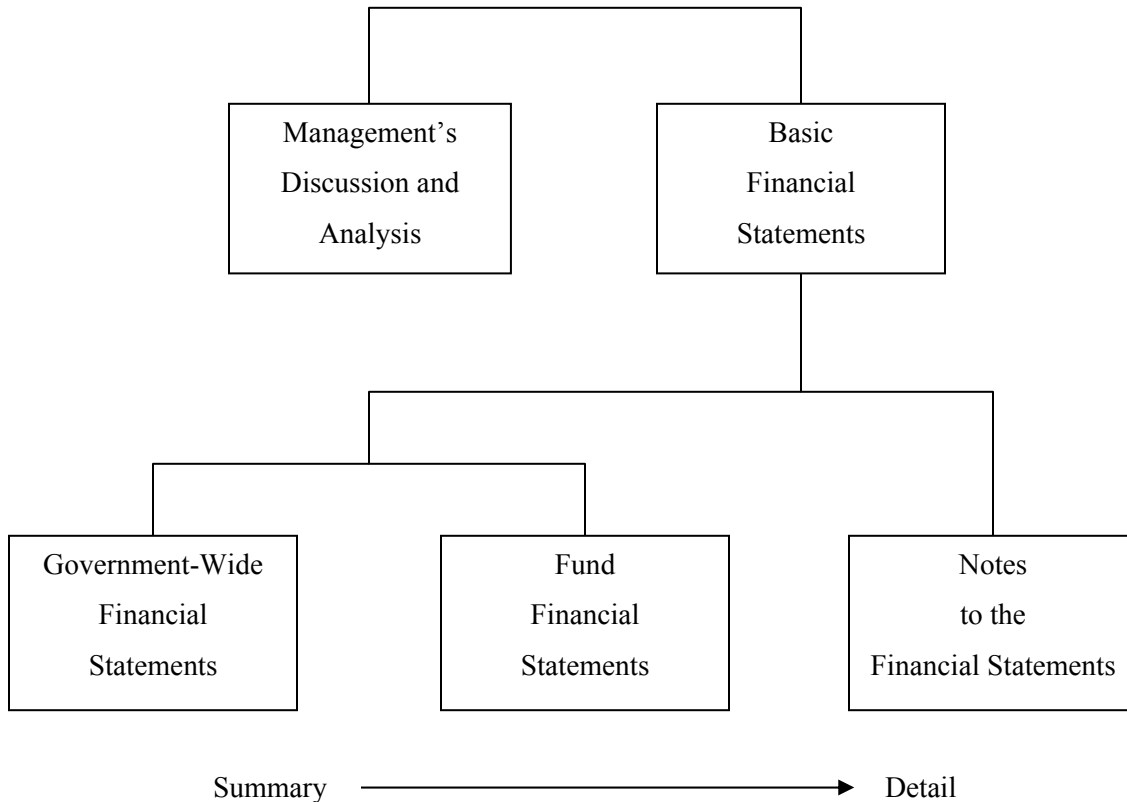
- The assets and deferred outflows of resources for the City of Mount Holly exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$58,215,711 (net position).
- The government's total net position increased by \$4,200,437, mainly due to an increase in the governmental activities' net position.
- As of the close of the current fiscal year, the City of Mount Holly's governmental funds reported combined ending fund balances of \$15,845,276, with a net increase of \$1,164,135 in fund balance. Approximately 20.31% of this total amount, or \$3,218,857, is non-spendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$8,200,338, or 65.20%, of total General Fund expenditures for the fiscal year.
- The City of Mount Holly's total governmental debt decreased by \$1,074,474 and business-type activities' debt decreased by \$294,424 during the current fiscal year.
- The City maintains its bond rating of an "AA-" from Standard & Poor's and an "Aa2" from Moody's Investors Services.

Overview of the Financial Statements

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

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

The first two statements (Exhibits A and B) in the basic financial statements are the **government-wide financial statements**. They provide both short and long-term information about the City's financial status.

The next statements (Exhibits C through I) are **fund financial statements**. These statements focus on the activities of the individual parts of the City's government. These statements provide more detail than the government-wide statements. There are three parts to the fund financial statements: 1) the governmental funds statements, 2) the budgetary comparison statements, and 3) the proprietary fund statements, and 4) the fiduciary fund statements.

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

Government-Wide Financial Statements

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

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

The government-wide statements are divided into three categories: 1) governmental activities, 2) business-type activities, and 3) component units. The governmental activities include most of the City's basic services such as general government, public safety, planning and zoning, transportation and environmental protection, garage, and culture and recreation. Property taxes and state and federal grant funds finance most of these activities. The business-type activities are those that the City charges customers to provide. This includes the water and sewer services offered by the City. The final category is the component units. Although legally separate from the City, the City of Mount Holly ABC Board is important to the City. The City exercises control over the Board by appointing its members and because the Board is required to distribute its profits to the City. The Mount Holly Tourism Development Authority is also a legal separate entity from the City. The members of the Authority's governing body are appointed by the City Council.

The government-wide financial statements are on Exhibits A and B of this report.

Fund Financial Statements

The fund financial statements (see Figure 1) provide a more detailed look at the City's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Mount Holly, 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 City's budget ordinance. All of the funds of the City of Mount Holly can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds. Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the City's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called modified accrual accounting which provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the City'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 City of Mount Holly 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 City, the management of the City, and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the City to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the City complied with the budget ordinance and whether or not the City succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented 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 City Council; 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. The City of Mount Holly 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 City of Mount Holly 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 follow Exhibit I of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the City of Mount Holly's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found following the notes to the financial statements of this report.

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

Government-Wide Financial Analysis

**City of Mount Holly's Net Position
Figure 2**

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Assets:						
Current and other assets	\$ 16,720,291	\$ 15,229,812	\$ 15,080,427	\$13,375,055	\$ 31,800,718	\$ 28,604,867
Capital assets	29,748,795	28,781,348	22,403,366	22,705,452	52,152,161	51,486,800
Total assets	<u>46,469,086</u>	<u>44,011,160</u>	<u>37,483,793</u>	<u>36,080,507</u>	<u>83,952,879</u>	<u>80,091,667</u>
Deferred outflows of resources:	<u>2,244,293</u>	<u>1,860,539</u>	<u>804,359</u>	<u>667,035</u>	<u>3,048,652</u>	<u>2,527,574</u>
Liabilities:						
Long-term liabilities						
outstanding	19,955,998	20,709,996	6,646,568	6,797,368	26,602,566	27,507,364
Other liabilities	546,479	365,583	334,488	375,025	880,967	740,608
Total liabilities	<u>20,502,477</u>	<u>21,075,579</u>	<u>6,981,056</u>	<u>7,172,393</u>	<u>27,483,533</u>	<u>28,247,972</u>
Deferred inflows of resources:	<u>1,022,124</u>	<u>271,025</u>	<u>280,163</u>	<u>84,970</u>	<u>1,302,287</u>	<u>355,995</u>
Net Position:						
Net investment in						
capital assets	19,050,880	17,253,004	18,928,460	19,353,025	37,979,340	36,606,029
Restricted:						
Stabilization by						
state statute	1,257,726	1,213,097	-	-	1,257,726	1,213,097
Streets	1,358,142	1,226,841	-	-	1,358,142	1,226,841
Public safety	531,368	873,897	-	-	531,368	873,897
Capacity Fees	-	-	1,308,971	-	1,308,971	-
Unrestricted	4,990,662	3,958,256	10,789,502	10,137,154	15,780,164	14,095,410
Total net position	<u>\$ 27,188,778</u>	<u>\$ 24,525,095</u>	<u>\$ 31,026,933</u>	<u>\$29,490,179</u>	<u>\$ 58,215,711</u>	<u>\$ 54,015,274</u>

As noted earlier, net position may serve, over time, as one useful indicator of a government's financial condition. The assets and deferred outflows of the City exceeded liabilities and deferred inflows by \$58,215,711 as of June 30, 2019. The City's net position increased by \$4,200,437 for the fiscal year ended June 30, 2019. However, the largest portion, (65.24%), reflects the City's net investment in capital assets (e.g., land, infrastructure, buildings, improvements, vehicles, and equipment). The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's net investment in capital assets is reported net of the outstanding 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 City's net position, \$4,456,207 represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$15,780,164 is unrestricted.

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

- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 99.34%, which is comparable to the State-wide average.
- Increase in revenues of property taxes and other taxes due to economic growth.

City of Mount Holly's Changes in Net Position
Figure 3

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Revenues:						
Program revenues:						
Charges for services	\$ 1,055,277	\$ 863,136	\$ 7,971,486	\$ 6,882,827	\$ 9,026,763	\$ 7,745,963
Operating grants and contributions	287,632	194,694	-	-	287,632	194,694
Capital grants and contributions	899,605	684,022	-	-	899,605	684,022
General revenues:						
Property taxes	7,256,854	7,098,281	-	-	7,256,854	7,098,281
Other taxes and licenses	4,228,666	3,976,547	-	-	4,228,666	3,976,547
Other revenues	1,045,969	567,011	418,550	138	1,464,519	567,149
Total revenues	<u>14,774,003</u>	<u>13,383,691</u>	<u>8,390,036</u>	<u>6,882,965</u>	<u>23,164,039</u>	<u>20,266,656</u>
Expenses:						
General government	1,803,875	1,128,433	-	-	1,803,875	1,128,433
Public safety	5,987,695	5,767,976	-	-	5,987,695	5,767,976
Planning and zoning	561,473	502,475	-	-	561,473	502,475
Transportation and environmental protection	2,407,468	2,327,523	-	-	2,407,468	2,327,523
Garage	104,863	63,564	-	-	104,863	63,564
Culture and recreation	935,458	794,175	-	-	935,458	794,175
Water and sewer	-	-	6,853,282	6,080,878	6,853,282	6,080,878
Interest and fees	309,488	323,139	-	-	309,488	323,139
Total expenses	<u>12,110,320</u>	<u>10,907,285</u>	<u>6,853,282</u>	<u>6,080,878</u>	<u>18,963,602</u>	<u>16,988,163</u>
Change in net position	<u>2,663,683</u>	<u>2,476,406</u>	<u>1,536,754</u>	<u>802,087</u>	<u>4,200,437</u>	<u>3,278,493</u>
Net Position:						
Beginning of year - July 1, as previously reported	24,525,095	24,689,424	29,490,179	29,664,681	54,015,274	54,354,105
Restatement	-	(2,640,735)	-	(976,589)	-	(3,617,324)
Beginning of year - July 1, as restated	<u>24,525,095</u>	<u>22,048,689</u>	<u>29,490,179</u>	<u>28,688,092</u>	<u>54,015,274</u>	<u>50,736,781</u>
End of year - June 30	<u>\$27,188,778</u>	<u>\$24,525,095</u>	<u>\$31,026,933</u>	<u>\$29,490,179</u>	<u>\$58,215,711</u>	<u>\$54,015,274</u>

Governmental Activities. Governmental activities increased the City's net position by \$2,663,683, thereby accounting for 63.41% of the total increase in the net position of the City of Mount Holly.

Key elements of this increase are as follows:

- Increase in property tax and other taxes and licenses revenues.
- Grant revenues received in the Capital Projects Fund.

Business-Type Activities. Business-type activities increased the City's net position by \$1,536,754, thereby accounting for 36.59% of the total increase in the net position of the City of Mount Holly.

Key elements to this increase are as follows:

- Increase in charges for services revenue due to the resumed collection of systems development fees.
- Increase in other revenues received due to gain on disposal of assets.

Financial Analysis of the City's Funds

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

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

The General Fund is the chief operating fund of the City of Mount Holly. At the end of the current fiscal year, the City's fund balance available in the General Fund was \$12,200,017 while total fund balance reached \$13,359,288. The City currently has an available fund balance of 97.00% of total General Fund expenditures, while total fund balance represents 106.22% of the same amount.

At June 30, 2019, the governmental funds of the City reported a combined fund balance of \$15,845,276, with a net increase in fund balance of \$1,164,135. The primary reason for this increase was a decrease in expenditures and increase in interest earned on investments.

General Fund Budgetary Highlights. During the fiscal year, the City revised the budget on several occasions. 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.

Amendments to the original budget during the year increased total expenditures by \$625,099. General government increased its budget to cover additional expenditures that occurred during the year in that function.

Proprietary Funds. The City's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the Water and Sewer Fund at the end of the fiscal year amounted to \$10,789,502. Restricted net position of \$1,308,971 accounts for system development fees on the water and sewer Capital Reserve Fund. The total change in net position for the Water and Sewer Fund was an increase of \$1,536,754. Other major factors concerning the finances of this fund have already been addressed in the discussion of the City's business-type activities above.

Capital Asset and Debt Administration

Capital Assets. The City's investment in capital assets for its governmental and business-type activities as of June 30, 2019, totals \$52,152,161 (net of accumulated depreciation). These assets include land, construction in progress, buildings, infrastructure, equipment, vehicles, etc. as noted below.

Major capital asset transactions during the year include the following:

- Purchase of a police cars
- Construction in progress of a new public works facility and fire station
- Purchases of water meters
- Repairs to infrastructure

**City of Mount Holly's Capital Assets
(net of depreciation)
Figure 4**

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Land	\$ 7,728,008	\$ 7,946,558	\$ 569,712	\$ 575,847	\$ 8,297,720	\$ 8,522,405
Construction in progress	1,465,805	5,743,231	-	2,239,260	1,465,805	7,982,491
Buildings	15,014,366	9,249,285	6,882,407	4,535,779	21,896,773	13,785,064
Infrastructure	3,651,942	3,756,223	-	-	3,651,942	3,756,223
Plant and distribution systems	-	-	13,876,486	14,289,211	13,876,486	14,289,211
Building Improvements	-	-	168,046	-	168,046	-
Land Improvements	251,156	263,351	210,053	215,124	461,209	478,475
Office furniture and equipment	126,056	159,338	667,875	805,796	793,931	965,134
Other equipment	622,127	674,297	-	-	622,127	674,297
Vehicles	889,335	989,065	28,787	44,435	918,122	1,033,500
Total	\$ 29,748,795	\$ 28,781,348	\$22,403,366	\$ 22,705,452	\$ 52,152,161	\$ 51,486,800

Additional information on the City's capital assets can be found in Note 2.A. of the basic financial statements.

Long-Term Debt. As of June 30, 2019, the City had total bonded debt outstanding of \$2,202,000.

City of Mount Holly's Long-term Debt

Figure 5

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Installment purchase- Direct placement	\$ 8,509,662	\$ 9,228,184	\$ 3,682,279	\$ 3,976,703	\$ 12,191,941	\$ 13,204,887
Bonds payable	2,202,000	2,518,000	-	-	2,202,000	2,518,000
Capital leases- Direct Placement	3,453	43,405	-	-	3,453	43,405
Total	<u>\$ 10,715,115</u>	<u>\$ 11,789,589</u>	<u>\$ 3,682,279</u>	<u>\$ 3,976,703</u>	<u>\$ 14,397,394</u>	<u>\$ 15,766,292</u>

The City's total long-term debt decreased by \$1,368,898 (9.51%) during the 2019 fiscal year.

As mentioned in the financial highlights section, the City maintains its bond rating of "AA-" from Standard and Poor's and "Aa2" rating from Moody's Investor Service. This bond rating is a clear indication of the sound financial condition of the City.

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. The legal debt margin for the City is approximately \$96,379,000.

Additional information regarding the City of Mount Holly's long-term debt can be found in Note 2.B. of the basic financial statements.

Economic Factors and Next Year's Budgets and Rates

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

- Construction of a new public works facility and fire station
- Continued development of the Mount Holly TDA
- Construction grants and incentives authorized by City Council for qualifying small business owners
- Continued operation of the U.S. National Whitewater Center across the Catawba River from the City. The park is estimated to bring 300,000 visitors a year to the area.
- Continued work toward a greenway system that will eventually include over 10 miles of greenways within the City limits
- Continued commercial growth in the South Gateway area of the City.

Budget Highlights for the Fiscal Year Ending June 30, 2020

Governmental Activities. Budgeted expenditures in the General Fund are expected to increase 13.03% to \$14,140,907.

The City is continuing construction of a new fire station and public works facility.

There was a decrease in the tax rate to revenue neutral due to a County Revaluation.

The City is pursuing a bond referendum for Parks & Recreation Facilities.

Business-Type Activities. There was no increase in utility rates.

The City continues to budget for system maintenance and repairs and replacement of old water and sewer lines.

The City is close to beginning construction on infrastructure that will bring Waste Water Treatment into a regionalization agreement with various surrounding jurisdictions.

Requests for Information

This report is designed to provide an overview of the City's finances for those with an interest in this area. Questions concerning any information found in this report or requests for additional information should be directed to the Finance Officer, City of Mount Holly, P.O. Box 406, Mount Holly, North Carolina 28120.

BASIC FINANCIAL STATEMENTS

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CITY OF MOUNT HOLLY, NORTH CAROLINA

STATEMENT OF NET POSITION
JUNE 30, 2019

				Component Units	
	Primary Government			City of	Mount Holly
	Governmental Activities	Business-Type Activities	Total	Mount Holly ABC Board	Tourism Development Authority
Assets:					
Current assets:					
Cash and cash equivalents	\$ 13,544,234	\$ 12,081,965	\$ 25,626,199	\$ 509,433	\$ 175,282
Taxes receivables, net	206,091	-	206,091	-	-
Accounts receivable, net	140,355	1,156,590	1,296,945	-	-
Due from other governments	1,141,369	-	1,141,369	-	6,845
Inventories	54,421	77,406	131,827	146,744	-
Prepays	-	-	-	4,351	-
Restricted assets:					
Cash and cash equivalents	1,633,821	1,764,466	3,398,287	-	-
Total current assets	16,720,291	15,080,427	31,800,718	660,528	182,127
Non-current assets:					
Capital assets:					
Land and construction in progress	9,193,813	569,712	9,763,525	168,000	-
Other capital assets, net of depreciation	20,554,982	21,833,654	42,388,636	408,894	-
Total capital assets	29,748,795	22,403,366	52,152,161	576,894	-
Total non-current assets	29,748,795	22,403,366	52,152,161	576,894	-
Total assets	46,469,086	37,483,793	83,952,879	1,237,422	182,127
Deferred Outflows of Resources					
OPEB deferrals	121,820	44,789	166,609	-	-
Pension deferrals	1,482,772	522,968	2,005,740	-	-
RSP deferrals	639,701	236,602	876,303	-	-
Total deferred outflows of resources	2,244,293	804,359	3,048,652	-	-
Liabilities:					
Current liabilities:					
Accounts payable and accrued liabilities	389,239	86,366	475,605	134,999	3,017
Accrued interest payable	54,429	-	54,429	-	-
Current portion of long-term liabilities	1,208,812	331,215	1,540,027	-	-
Distribution payable	-	-	-	91,670	-
Payable from restricted assets	102,811	248,122	350,933	-	-
Total current liabilities	1,755,291	665,703	2,420,994	226,669	3,017
Long-term liabilities:					
Net pension liability - LGERS	1,793,808	663,464	2,457,272	-	-
Total pension liability - LEOSSA	1,066,535	-	1,066,535	-	-
Total pension liability - RSP	5,178,486	1,915,330	7,093,816	-	-
Total OPEB liability	808,468	299,874	1,108,342	-	-
Due in more than one year	9,899,889	3,436,685	13,336,574	-	-
Total long-term liabilities	18,747,186	6,315,353	25,062,539	-	-
Total liabilities	20,502,477	6,981,056	27,483,533	226,669	3,017
Deferred Inflows of Resources					
OPEB deferrals	60,082	22,079	82,161	-	-
Pension deferrals	225,743	51,174	276,917	-	-
Unavailable revenue - grants	176,874	-	176,874	-	-
RSP deferrals	559,425	206,910	766,335	-	-
Total deferred inflows of resources	1,022,124	280,163	1,302,287	-	-
Net Position:					
Net investment in capital assets	19,050,880	18,928,460	37,979,340	576,894	-
Restricted for:					
Stabilization by state statute	1,257,726	-	1,257,726	-	6,845
Streets	1,358,142	-	1,358,142	-	-
Public safety	531,368	-	531,368	-	-
Capacity fees	-	1,308,971	1,308,971	-	-
Working capital	-	-	-	65,886	-
Tourism	-	-	-	-	172,265
Unrestricted	4,990,662	10,789,502	15,780,164	367,973	-
Total net position	\$ 27,188,778	\$ 31,026,933	\$ 58,215,711	\$ 1,010,753	\$ 179,110

The accompanying notes are an integral part of the financial statements.

CITY OF MOUNT HOLLY, NORTH CAROLINA

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019

		Program Revenues		
		Charges for	Operating	Capital
	Expenses	Services	Grants and	Grants and
			Contributions	Contributions
Function/Programs:				
Primary Government:				
Governmental Activities:				
General government	\$ 1,803,875	\$ 113,000	\$ 213,709	\$ -
Public safety	5,987,695	-	63,217	-
Planning and zoning	561,473	-	-	-
Transportation and environmental protection	2,407,468	842,157	10,706	448,839
Garage	104,863	-	-	-
Culture and recreation	935,458	100,120	-	450,766
Interest on long-term debt	309,488	-	-	-
Total governmental activities	<u>12,110,320</u>	<u>1,055,277</u>	<u>287,632</u>	<u>899,605</u>
Business-Type Activities:				
Water and Sewer	<u>6,853,282</u>	<u>7,971,486</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 18,963,602</u>	<u>\$ 9,026,763</u>	<u>\$ 287,632</u>	<u>\$ 899,605</u>
Component Units:				
ABC Board	\$ 2,239,919	\$ 2,223,164	\$ -	\$ -
Tourism Development Authority	<u>95,535</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total component units	<u>\$ 2,335,454</u>	<u>\$ 2,223,164</u>	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of the financial statements.

CITY OF MOUNT HOLLY, NORTH CAROLINA

Exhibit B
Page 2 of 2

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019

	Net (Expense) Revenue and Changes in Net Position			Component Units	
	Primary Government			City of Mount Holly ABC Board	Mount Holly Tourism Development Authority
	Governmental Activities	Business-Type Activities	Total		
Function/Programs:					
Primary Government:					
Governmental Activities:					
General government	\$ (1,477,166)	\$ -	\$ (1,477,166)		
Public safety	(5,924,478)	-	(5,924,478)		
Planning and zoning	(561,473)	-	(561,473)		
Transportation and environmental protection	(1,105,766)	-	(1,105,766)		
Garage	(104,863)	-	(104,863)		
Culture and recreation	(384,572)	-	(384,572)		
Interest on long-term debt	(309,488)	-	(309,488)		
Total governmental activities	(9,867,806)	-	(9,867,806)		
Business-Type Activities:					
Water and sewer	-	1,118,204	1,118,204		
Total primary government	(9,867,806)	1,118,204	(8,749,602)		
Component Units:					
ABC Board				\$ (16,755)	\$ -
Tourism Development Authority				-	(95,535)
Total component units				(16,755)	(95,535)
General Revenues:					
Taxes:					
Property taxes, levied for general purposes	7,256,854	-	7,256,854	-	-
Other taxes and licenses	4,228,666	-	4,228,666	-	90,040
Unrestricted investment earnings	539,803	-	539,803	3,176	-
Miscellaneous	506,166	418,550	924,716	-	-
Total general revenues	12,531,489	418,550	12,950,039	3,176	90,040
Change in net position	2,663,683	1,536,754	4,200,437	(13,579)	(5,495)
Net Position:					
Beginning of year - July 1	24,525,095	29,490,179	54,015,274	1,024,332	184,605
End of year - June 30	\$ 27,188,778	\$ 31,026,933	\$ 58,215,711	\$ 1,010,753	\$ 179,110

The accompanying notes are an integral part of the financial statements.

CITY OF MOUNT HOLLY, NORTH CAROLINA

BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2019

	Major Funds		Total	Total
	General Fund	Capital Projects Fund	Nonmajor Governmental Funds	Governmental Funds
Assets:				
Cash and cash equivalents	\$ 11,075,446	\$ 156,315	\$ 2,312,473	\$ 13,544,234
Receivables, net:				
Taxes receivable	206,091	-	-	206,091
Accounts receivable	140,355	-	-	140,355
Due from other governments	988,493	152,876	-	1,141,369
Inventories	54,421	-	-	54,421
Restricted cash and cash equivalents	1,616,621	17,200	-	1,633,821
Total assets	<u>\$ 14,081,427</u>	<u>\$ 326,391</u>	<u>\$ 2,312,473</u>	<u>\$ 16,720,291</u>
Liabilities, Deferred Inflows of Resources and Fund Balances:				
Liabilities:				
Accounts payable and accrued liabilities	\$ 389,239	\$ -	\$ -	389,239
Payable from restricted assets:				
Deposits	102,811	-	-	102,811
Total liabilities	<u>492,050</u>	<u>-</u>	<u>-</u>	<u>492,050</u>
Deferred Inflows of Resources:				
Unavailable revenue - grants	23,998	152,876	-	176,874
Unavailable revenue - property taxes receivable	206,091	-	-	206,091
Total deferred inflows of resources	<u>230,089</u>	<u>152,876</u>	<u>-</u>	<u>382,965</u>
Fund Balances:				
Non-spendable:				
Inventories	54,421	-	-	54,421
Restricted:				
Stabilization by state statute	1,104,850	152,876	-	1,257,726
Streets	1,358,142	-	-	1,358,142
Public safety	155,668	-	375,700	531,368
General government	-	17,200	-	17,200
Committed	498,093	3,439	1,936,773	2,438,305
Assigned	1,987,776	-	-	1,987,776
Unassigned	8,200,338	-	-	8,200,338
Total fund balances	<u>13,359,288</u>	<u>173,515</u>	<u>2,312,473</u>	<u>15,845,276</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 14,081,427</u>	<u>\$ 326,391</u>	<u>\$ 2,312,473</u>	<u>\$ 16,720,291</u>

The accompanying notes are an integral part of the financial statements.

CITY OF MOUNT HOLLY, NORTH CAROLINA

BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2019

Reconciliation of the Balance Sheet to the Statement of Net Position:

Amounts reported for governmental activities in the Statement of Net Position (Exhibit A) are different because:

Total fund balance - governmental funds	\$	15,845,276
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Gross capital assets at historical cost	\$	39,473,947
Accumulated depreciation		<u>(9,725,152)</u>
		29,748,795
Liabilities for earned revenues considered deferred inflows of resources in fund statements.		206,091
Long-term liabilities used in governmental activities are not financial uses and, therefore, are not reported in the funds.		
Accrued interest payable		(54,429)
Gross long-term debt		<u>(11,108,701)</u>
		(11,163,130)
Total pension liability - LEOSSA		(1,066,535)
Total pension liability - RSP		(5,178,486)
Total OPEB liability		(808,468)
Deferred outflows of resources related to OPEB are not reported in the funds.		121,820
Deferred inflows of resources related to OPEB are not reported in the funds.		(60,082)
Net pension liability - LGERS		(1,793,808)
Deferred outflows of resources related to pensions are not reported in the funds.		2,122,473
Deferred inflows of resources related to pensions are not reported in the funds.		<u>(785,168)</u>
Net position of governmental activities (Exhibit A)	\$	<u>27,188,778</u>

The accompanying notes are an integral part of the financial statements.

CITY OF MOUNT HOLLY, NORTH CAROLINA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2019

	Major Funds		Total Nonmajor Governmental Funds	Total Governmental Funds
	General Fund	Capital Projects Fund		
Revenues:				
Ad valorem taxes	\$ 7,302,657	\$ -	\$ -	\$ 7,302,657
Other taxes and licenses	127,216	-	-	127,216
Unrestricted intergovernmental	4,101,450	-	-	4,101,450
Restricted intergovernmental	673,254	450,766	63,217	1,187,237
Permits and fees	955,157	-	-	955,157
Sales and services	100,120	-	-	100,120
Investment earnings	500,680	53	39,070	539,803
Miscellaneous	357,044	-	-	357,044
Total revenues	<u>14,117,578</u>	<u>450,819</u>	<u>102,287</u>	<u>14,670,684</u>
Expenditures:				
Current:				
General government	1,965,288	198,425	-	2,163,713
Public safety	5,376,191	130,772	34,593	5,541,556
Planning and zoning	539,530	-	-	539,530
Transportation and environmental protection	2,311,444	-	-	2,311,444
Garage	108,508	-	-	108,508
Culture and recreation	919,806	1,132,394	-	2,052,200
Debt service:				
Principal	1,034,522	-	39,952	1,074,474
Interest and fees	321,902	-	1,963	323,865
Total expenditures	<u>12,577,191</u>	<u>1,461,591</u>	<u>76,508</u>	<u>14,115,290</u>
Revenues over (under) expenditures	<u>1,540,387</u>	<u>(1,010,772)</u>	<u>25,779</u>	<u>555,394</u>
Other Financing Sources (Uses):				
Transfers from (to) other funds	(788,368)	788,368	-	-
Special item - proceeds from property disposal	608,741	-	-	608,741
Total other financing sources (uses)	<u>(179,627)</u>	<u>788,368</u>	<u>-</u>	<u>608,741</u>
Net change in fund balances	1,360,760	(222,404)	25,779	1,164,135
Fund Balances:				
Beginning of year - July 1	<u>11,998,528</u>	<u>395,919</u>	<u>2,286,694</u>	<u>14,681,141</u>
End of year - June 30	<u>\$ 13,359,288</u>	<u>\$ 173,515</u>	<u>\$ 2,312,473</u>	<u>\$ 15,845,276</u>

The accompanying notes are an integral part of the financial statements.

CITY OF MOUNT HOLLY, NORTH CAROLINA

RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019

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

Net changes in fund balances - total governmental funds	\$ 1,164,135
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Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital outlay expenditures, which were capitalized	\$ 2,209,595	
Disposal of assets, net	(459,619)	
Depreciation expense for governmental assets	<u>(782,529)</u>	967,447

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

Change in unavailable revenue for tax revenues, etc.	<u>(45,803)</u>	(45,803)
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The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Principal payments on long-term debt	<u>1,074,474</u>	1,074,474
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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	(7,273)	
Accrued interest expense	14,377	
LEOSSA pension expense	9,167	
RSP pension expense	(394,627)	
Pension expense - LGERS	(59,480)	
Other post-employment benefits obligation	<u>(58,734)</u>	<u>(496,570)</u>

Total changes in net position of governmental activities (Exhibit B)	<u>\$ 2,663,683</u>
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The accompanying notes are an integral part of the financial statements.

CITY OF MOUNT HOLLY, NORTH CAROLINA

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2019

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
				Over/Under
Revenues:				
Ad valorem taxes	\$ 6,956,975	\$ 6,956,975	\$ 7,302,657	\$ 345,682
Other taxes and licenses	123,924	123,924	127,216	3,292
Unrestricted intergovernmental	3,541,859	3,541,859	4,101,450	559,591
Restricted intergovernmental	478,899	480,099	673,254	193,155
Permits and fees	728,084	728,084	955,157	227,073
Sales and services	93,409	93,409	100,120	6,711
Investment earnings	191,222	191,222	500,680	309,458
Miscellaneous	299,026	299,376	357,044	57,668
Total revenues	<u>12,413,398</u>	<u>12,414,948</u>	<u>14,117,578</u>	<u>1,702,630</u>
Expenditures:				
Current:				
General government	2,199,939	2,447,656	1,965,288	482,368
Public safety	5,512,746	5,484,580	5,376,191	108,389
Planning and zoning	605,342	635,342	539,530	95,812
Transportation and environmental protection	2,921,766	2,996,766	2,311,444	685,322
Garage	110,305	110,305	108,508	1,797
Culture and recreation	953,211	973,331	919,806	53,525
Debt service:				
Principal	853,354	1,034,522	1,034,522	-
Interest and fees	285,255	340,515	321,902	18,613
Total expenditures	<u>13,441,918</u>	<u>14,023,017</u>	<u>12,577,191</u>	<u>1,445,826</u>
Revenues over (under) expenditures	<u>(1,028,520)</u>	<u>(1,608,069)</u>	<u>1,540,387</u>	<u>3,148,456</u>
Other Financing Sources (Uses):				
Transfers to other funds	-	(788,368)	(788,368)	-
Special item - proceeds from property disposal	-	-	608,741	608,741
Fund balance appropriated	<u>1,028,520</u>	<u>2,396,437</u>	<u>-</u>	<u>(2,396,437)</u>
Total other financing sources (uses)	<u>1,028,520</u>	<u>1,608,069</u>	<u>(179,627)</u>	<u>(1,787,696)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>1,360,760</u>	<u>\$ 1,360,760</u>
Fund Balance:				
Beginning of year - July 1			<u>11,998,528</u>	
End of year - June 30			<u>\$ 13,359,288</u>	

The accompanying notes are an integral part of the financial statements.

CITY OF MOUNT HOLLY, NORTH CAROLINA

STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2019

	<u>Enterprise Fund</u> <u>Major Fund</u>
	<u>Water and</u> <u>Sewer</u> <u>Fund</u>
Assets:	
Current assets:	
Cash and cash equivalents	\$ 12,081,965
Accounts receivable, net	1,156,590
Inventories	77,406
Restricted assets:	
Cash and cash equivalents	1,764,466
Total current assets	<u>15,080,427</u>
Non-current assets:	
Capital assets:	
Land and other non-depreciable assets	569,712
Other capital assets, net of depreciation	21,833,654
Total non-current assets	<u>22,403,366</u>
Total assets	<u>37,483,793</u>
Deferred Outflows of Resources:	
OPEB deferrals	44,789
Pension deferrals	522,968
RSP deferrals	236,602
Total deferred outflows of resources	<u>804,359</u>
Liabilities, Deferred Inflows of Resources, and Net Position:	
Liabilities:	
Current liabilities:	
Accounts payable and accrued liabilities	86,366
Compensated absences - current	34,248
Other long-term debt - current	296,967
Payable from restricted assets:	
Customer deposits	248,122
Total current liabilities	<u>665,703</u>
Non-current liabilities:	
Net pension liability - LGERS	663,464
Total pension liability - RSP	1,915,330
Compensated absences	51,373
Total OPEB liability	299,874
Other long-term debt - non-current	3,385,312
Total non-current liabilities	<u>6,315,353</u>
Total liabilities	<u>6,981,056</u>
Deferred Inflows of Resources:	
OPEB deferrals	22,079
Pension deferrals	51,174
RSP deferrals	206,910
Total deferred inflows of resources	<u>280,163</u>
Net Position:	
Net investment in capital assets	18,928,460
Restricted	1,308,971
Unrestricted	10,789,502
Total net position	<u>\$ 31,026,933</u>

The accompanying notes are an integral part of the financial statements.

CITY OF MOUNT HOLLY, NORTH CAROLINA

STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET POSITION - PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2019

	Enterprise Fund
	Major Fund
	Water and Sewer Fund
Operating Revenues:	
Charges for services	\$ 5,804,414
Water and sewer taps and development fees	1,911,634
Other operating revenues	173,596
Total operating revenues	7,889,644
Operating Expenses:	
Water department operations	2,026,355
Sewer department operations	1,928,928
Storm water operations	186,349
Utilities operations	1,467,728
Depreciation	1,130,136
Total operating expenses	6,739,496
Operating income (loss)	1,150,148
Non-Operating Revenues (Expenses):	
Rental income	81,842
Gain (loss) on disposal of assets	418,550
Interest expense	(113,786)
Total non-operating revenues (expenses)	386,606
Change in net position	1,536,754
Net Position:	
Beginning of year - July 1	29,490,179
End of year - June 30	\$ 31,026,933

The accompanying notes are an integral part of the financial statements.

CITY OF MOUNT HOLLY, NORTH CAROLINA

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2019

	Enterprise Fund
	Major Fund
	Water and Sewer Fund
Cash Flows from Operating Activities:	
Cash received from customers	\$ 7,757,663
Cash paid for goods and services	(3,007,593)
Cash paid to or on behalf of employees for services	(2,471,587)
Customer deposits received (paid)	18,071
Net cash provided (used) by operating activities	2,296,554
Cash Flows from Non-Capital Financing Activities:	
Rental income	81,842
Cash Flows from Capital and Related Financing Activities:	
Acquisition and construction of capital assets	(834,185)
Proceeds from disposals of capital assets	424,685
Principal paid on long-term debt	(294,424)
Interest paid on long-term debt	(113,786)
Net cash provided (used) by capital and related financing activities	(817,710)
Net increase (decrease) in cash and cash equivalents	1,560,686
Cash and Cash Equivalents:	
Beginning of year - July 1	12,285,745
End of year - June 30	\$ 13,846,431
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities :	
Operating income (loss)	\$ 1,150,148
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	1,130,136
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	(131,981)
(Increase) decrease in inventory	(12,705)
(Increase) decrease in deferred outflows of resources for pensions	(138,207)
Increase (decrease) in deferred inflows of resources for pensions	197,614
Increase (decrease) in net pension liability - LGERS	215,587
Increase (decrease) in total pension liability - RSP	(107,037)
Increase (decrease) in accounts payable and accrued liabilities	(58,608)
Increase (decrease) in customer deposits	18,071
Increase (decrease) in OPEB liability	23,262
(Increase) decrease in deferred outflows of resources - OPEB	883
Increase (decrease) in deferred inflows of resources - OPEB	(2,421)
Increase (decrease) in accrued vacation pay	11,812
Total adjustments	1,146,406
Net cash provided (used) by operating activities	\$ 2,296,554

The accompanying notes are an integral part of the financial statements.

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CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

1. Summary of Significant Accounting Policies

The accounting policies of the City of Mount Holly (the “City”) and its discretely presented component units conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant accounting policies:

A. Reporting Entity

The City is a municipal corporation that is governed by an elected Mayor and a six-member Council. As required by generally accepted accounting principles, these financial statements present the City and its component units, legally separate entities for which the City is financially accountable. The discretely presented component units, presented below, are reported in separate columns in the City’s financial statements in order to emphasize that they are legally separate from the City.

City of Mount Holly ABC Board

The members of the ABC Board’s governing board are appointed by the City Council. In addition, the ABC Board is required by state statute to distribute its surpluses to the General Fund of the City. The ABC Board, which has a June 30 year-end, is presented as if it were a proprietary fund (discrete presentation). Complete financial statements for the ABC Board may be obtained from the entity’s administrative offices at City of Mount Holly ABC Board, P.O. Box 11178, Mount Holly, NC 28120.

Mount Holly Tourism Development Authority

The Mount Holly Tourism Development Authority (the “Authority”) was created to promote, solicit, and encourage tourism in the City of Mount Holly, North Carolina, and to provide such services as are related to tourism. The members of the Authority’s governing body are appointed by the City Council. The Authority has a June 30 year-end and is presented on the government-wide statements of this report as a discretely presented component unit. The balance sheet and budget and actual schedule of the Authority are also presented after the supplemental ad valorem tax schedules of this report. The Authority does not issue separate financial statements.

B. Basis of Presentation

Government-Wide Statements. The Statement of Net Position and the Statement of Activities display information about the primary government and its component units. 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 City. 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.

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

The Statement of Activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the Statement of Activities. Program revenues include (a) fees and charges paid by the recipients of goods 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 City's funds. Separate statements for each fund category – *governmental and proprietary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as non-major funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially 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 City reports the following major governmental funds:

General Fund. The General Fund is the general operating fund of the City. 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 administration, public safety, street maintenance and construction, and sanitation services.

Capital Projects Fund. This fund is used to account for the construction and improvements to various City projects.

The City reports the following nonmajor governmental funds:

Special Revenue Fund

Emergency Telephone System Fund. This fund is used to account for the fees charged to telephone customers to fund the 911 system.

Capital Project Fund

Capital Reserve Fund. This fund is used to account for the accumulation of funds to be used for future capital expenditures.

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

The City reports the following major Enterprise Fund:

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

C. Measurement Focus and Basis of Accounting

In accordance with North Carolina General Statutes, all funds of the City are maintained during the year using the modified 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 City 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 City's enterprise funds are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the water and sewer system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available.

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

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 City considers all revenues available if they are collected within 60 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as a revenue because the amount is not susceptible to accrual. At June 30, taxes receivable for property other than motor vehicles are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of September 1, 2013, state law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, the State of North Carolina is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts. Property taxes are due when vehicles are registered. The billed taxes are applicable to the fiscal year in which they are received. Uncollected taxes that were billed in periods prior to September 1, 2013, and for limited registration plates are shown as a receivable in these financial statements and are offset by deferred inflows of resources.

Sales taxes and certain intergovernmental revenues, such as the utilities franchise tax, collected and held by the state at year-end on behalf of the City are recognized as revenue. Sales taxes are considered a shared revenue for the City because the tax is levied by Gaston County and then remitted to and distributed by the state. Most intergovernmental revenue 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 City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

D. Budgetary Data

The City's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund, Emergency Telephone System Special Revenue Fund, Enterprise Fund, and the Tourism Development Authority. All annual appropriations lapse at the fiscal year-end.

Project ordinances are adopted for the Capital Projects Fund and the enterprise capital projects funds. The Enterprise Fund projects are consolidated with their respective operating fund for reporting purposes. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the departmental level for all annually budgeted funds and at the project level for the multi-year funds. Amendments are required for any revisions that alter total expenditures of any fund or that change departmental

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

appropriations. All amendments must be approved by the governing board, except as otherwise noted by Section 4 of the budget ordinance. 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

Deposits and Investments

All deposits of the City and the Authority are made in Board-designated official depositories and are secured as required by state law [G.S. 159-31]. The City and the Authority may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the City and the Authority 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 City and the Authority to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances; and the North Carolina Capital Management Trust (NCCMT).

The City's investments are reported at fair value. Non-participating interest earning contracts are accounted for at cost. The NCCMT-Government Portfolio, an SEC-registered (2a-7) government money market fund, is measured at fair value, which is the NCCMT's share price. The NCCMT- Term Portfolio's securities are valued at fair value.

Cash and Cash Equivalents

The City 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.

Restricted Assets

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed. Customer deposits held by the City before any services are supplied are restricted to the service for which the deposit was collected. Powell Bill funds in the General Fund are also classified as restricted cash because they can be expended only for the purposes outlined in G.S. 136-41.1 through 136-41.4. Drug forfeiture funds are classified as restricted because the funds are restricted by its source for public safety purposes. The unexpended debt proceeds are classified as restricted because their use is completely restricted to the purpose for which the debt was originally issued.

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

Governmental Activities:

General Fund:

Drug forfeiture	\$ 155,668
Powell Bill	1,358,142
Customer Deposits	102,811

Capital Projects Fund:

Unexpended debt proceeds	17,200
Total governmental activities	<u>1,633,821</u>

Business-Type Activities:

Water & Sewer Fund:

Customer deposits	248,122
Capital reserve - system development fees	1,308,971
Unexpended debt proceeds	<u>207,373</u>
Total business-type activities	<u>1,764,466</u>

Total restricted cash	<u><u>\$ 3,398,287</u></u>
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Ad Valorem Taxes Receivable

In accordance with state law [G.S. 105-347 and G.S. 159-13(a)], the City levies ad valorem taxes on property other than motor vehicles on July 1st, the beginning of the fiscal year. The taxes are due on September 1st (lien date); however, interest does not accrue until the following January 6th. These taxes are based on the assessed values as of January 1, 2018.

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.

Inventories and Prepaid Items

The inventory of the City are valued at cost (first –in, first out), which approximates market. The City’s General Fund inventory consist of expendable supplies that are recorded as expenditures as used rather than when purchased.

The inventory of the City’s enterprise funds consist of materials and supplies held for subsequent use. The cost of these inventories is expensed when consumed rather than when purchased.

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

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.

Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than certain cost and an estimated useful life in excess of two years. Minimum capitalization costs are \$5,000 for all asset categories. Donated capital assets received prior to June 30, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 30, 2015 are recorded at acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical cost. General infrastructure assets acquired prior to July 1, 2003, consist of the road network and water and sewer system assets that were acquired or that received substantial improvements subsequent to July 1, 1980, and are reported at estimated historical cost using deflated replacement cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	50 years
Buildings	50 years
Improvements	15 years
Vehicles	5 years
Equipment	10 years
Computer equipment	5 years

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The City has three items that meet this criteria, OPEB deferrals, RSP deferrals, and pension deferrals. In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The City has four items that meet the criteria for this category, OPEB deferrals, RSP deferrals, pension deferrals, and unavailable revenue- grants.

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

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 approximates the effective interest 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 sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Compensated Absences

The vacation policy of the City provides for the accumulation of up to thirty days earned vacation leave with such leave being fully vested when earned. For the City's government-wide and proprietary funds, an expense and a liability for compensated absences and the salary-related payments are recorded as the leave is earned. The City has assumed a first-in, first-out method of using accumulated compensated time. The portion of that time that is estimated to be used in the next fiscal year has been designated as a current liability in the government-wide financial statements.

The City's sick leave policy provides for an unlimited accumulation of earned sick leave. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since the City does not have any obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

Net Position/Fund Balances

Net Position

Net position in government-wide and proprietary fund financial statements is 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.

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

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.

Inventories – portion of fund balance that is not an available resource because it represents the year-end balance of ending inventories, which are not spendable resources.

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

Restricted for Stabilization by State Statute – portion of fund balances that are restricted by state statute [G.S. 159-8(a)].

Restricted for Streets – Powell Bill – portion of fund balance in the General Fund 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 Public Safety – In the General Fund, the portion of fund balance restricted by revenue source (drug forfeiture) for public safety purposes. In the Special Revenue Fund, the restricted fund balance represents the fund balance of the Emergency Telephone System Fund for operations of that fund. In the Capital Projects Fund, the restricted fund balance represents remaining unspent debt proceeds restricted for the purpose which the proceeds were issued.

Restricted net position on Exhibit A differs from restricted fund balance on Exhibit C by the amount of unspent debt proceeds of \$17,200 at June 30, 2019.

Committed Fund Balance. This classification represents the portion of fund balance that can only be used for specific purposes imposed by majority vote by quorum of the City of Mount Holly's governing body (highest level of decision-making authority, the City Council). 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.

Committed for General Government – portion of fund balance in the Capital Reserve Fund committed for future purposes in the amount of \$1,936,773. Portion of fund balance in the General Fund for annual debt service payments in the amount of \$498,093. Portion of Fund balance in the capital project fund for \$3,439.

Assigned Fund Balance. This classification represents the portion of fund balance that management of the City of Mount Holly's intends to use for specific purposes.

Subsequent Year's Expenditures – portion of fund balance, \$1,233,398, that is appropriated in the next year's budget that is not already classified in restricted or committed. The governing body approves the appropriation.

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

General Government – portion of fund balance, \$754,378, that is designated by management and Council for future expenditures. Of this \$754,378, \$417,784 is assigned for ABC and \$336,594 is assigned for Caramount.

Unassigned Fund Balance. This classification represents the portion of fund balance that has not been restricted, committed, or assigned to specific purposes or other funds. Only the General Fund may report a positive unassigned fund balance. In other governmental funds it is not appropriate to report a positive unassigned fund balance amount. However, in the Governmental Funds other than the General Fund, if expenditures incurred for specific purposes exceed the amounts that are restricted, committed, or assigned to these purposes, it may be necessary to report a negative fund balance.

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

The City of Mount Holly has not formally adopted a minimum fund balance policy.

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

Total fund balance - General Fund	\$ 13,359,288
Less:	
Inventories	54,421
Stabilization by state statute	<u>1,104,850</u>
Total available fund balance	<u><u>\$ 12,200,017</u></u>

F. Defined Benefit Cost-Sharing Plans

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense information about the fiduciary net position of the Local Government Employees' Retirement System (LGERS) and additions to/deductions from LGERS' fiduciary net position have been determined on the same basis as they are reported by LGERS. For this purpose, plan member contributions are recognized in the period in which the contributions are due. The City's employer contributions are recognized when due and the City has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of LGERS. Investments are reported at fair value.

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

G. Revenues, Expenditures, and Expenses

Other Resources

The General Fund provides the basis of local resources for other governmental funds. These transactions are recorded as “transfers-out” in the General Fund and “transfers-in” in the receiving fund.

Cost Allocation

The General Fund holds the debt service expenditure for the Municipal Building. At the end of the year, a cost allocation is presented between the General Fund and the Water and Sewer Fund to show the debt service allocation from the General Fund to the Water and Sewer Fund.

H. On Behalf of Firefighter’s and Rescue Squad Worker’s Pension Plan

For the fiscal year ended June 30, 2019, the City has recognized on-behalf payments for pension contributions made by the state as a revenue and an expenditure of \$360 for the 3 volunteer firefighters who perform firefighting and rescue squad duties for the City. The volunteers and employees elected to be members of the Firefighter’s and Rescue Squad Workers’ Pension Fund, a cost-sharing, multiple employer public employee retirement system established and administered by the State of North Carolina. The Plan is funded by a \$10 monthly contribution paid by each member, investment income, and a state appropriation.

I. Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from these estimates.

2. Detail Notes On All Funds

A. Assets

Deposits

All the deposits of the City and the Authority are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the City’s or the Authority’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 City and the Authority, these deposits are considered to be held by the City’s and the Authority’s agents in their names. The amount of the pledged is based on an approved

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

averaging method for non-interest-bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the City, the Authority, or the escrow agents. Because of the inability to measure the exact amounts of collateral pledged for the City and the Authority 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 City has no formal policy regarding custodial credit risk for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The City complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured. The Authority has no formal policy regarding custodial credit risk for deposits.

At June 30, 2019, the City's deposits had a carrying amount of \$1,759,015 and a bank balance of \$2,126,954. Of the bank balance, \$500,000 was covered by federal depository insurance and the remainder of \$1,626,954 was covered by collateral held under the Pooling Method.

The carrying amount of deposits for the Authority was \$175,282, and the bank balance was \$175,282. All of the bank balance was covered by federal depository insurance.

At June 30, 2019, the City's petty cash fund totaled \$250.

Investments

At June 30, 2019, the City had \$27,265,221 invested with the North Carolina Capital Management Trust's Government Portfolio, which carried a credit rating of AAAM by Standard and Poor's. The City has no policy regarding interest rate risk or credit risk.

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

Receivables – Allowance for Doubtful Accounts

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

General Fund:

Taxes receivable	\$ 261,252
Accounts receivable	<u>38,482</u>
Total General Fund	<u>299,734</u>

Enterprise Funds:

Water and Sewer Fund	<u>347,009</u>
Total enterprise funds	<u>347,009</u>

Total allowances	<u><u>\$ 646,743</u></u>
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Due from other governments on the Statement of Net Position for the year ended June 30, 2019 consists of:

Governmental Activities:

Other state shared revenues	\$ 272,960
Local option sales tax	481,865
Sales tax refund	121,811
Due from the state	66,370
Others	<u>198,363</u>
Total governmental funds	<u><u>\$ 1,141,369</u></u>
Total	<u><u>\$ 1,141,369</u></u>

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

Capital Assets

Primary Government

Capital asset activity for the primary government for the year ended June 30, 2019 was as follows:

	<u>July 1, 2018</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>June 30, 2019</u>
Governmental Activities:					
Non-Depreciable Capital Assets:					
Land	\$ 7,946,558	\$ 232,612	\$ 451,162	\$ -	\$ 7,728,008
Construction in progress	5,743,231	1,461,591	-	(5,739,017)	1,465,805
Total non-depreciable capital assets	<u>13,689,789</u>	<u>1,694,203</u>	<u>451,162</u>	<u>(5,739,017)</u>	<u>9,193,813</u>
Depreciable Capital Assets:					
Buildings	11,335,971	112,731	-	5,739,017	17,187,719
Infrastructure	4,723,748	-	-	-	4,723,748
Improvements	743,945	10,209	-	-	754,154
Office furniture and equipment and computer equipment	351,565	-	-	-	351,565
Other equipment	2,121,449	72,216	215,824	-	1,977,841
Vehicles	5,160,219	320,236	179,186	(16,162)	5,285,107
Total depreciable capital assets	<u>24,436,897</u>	<u>515,392</u>	<u>395,010</u>	<u>5,722,855</u>	<u>30,280,134</u>
Less Accumulated Depreciation:					
Buildings	2,086,686	86,667	-	-	2,173,353
Infrastructure	967,525	104,281	-	-	1,071,806
Improvements	480,594	22,404	-	-	502,998
Office furniture and equipment and computer equipment	192,227	33,282	-	-	225,509
Other equipment	1,447,152	115,929	207,367	-	1,355,714
Vehicles	4,171,154	419,966	179,186	(16,162)	4,395,772
Total accumulated depreciation	<u>9,345,338</u>	<u>\$ 782,529</u>	<u>\$ 386,553</u>	<u>\$ (16,162)</u>	<u>9,725,152</u>
Total depreciable capital assets, net	<u>15,091,559</u>				<u>20,554,982</u>
Governmental activities capital assets, net	<u>\$ 28,781,348</u>				<u>\$ 29,748,795</u>

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

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

General government	\$ 69,325
Public safety	428,238
Planning and zoning	1,321
Transportation and environmental protection	233,611
Garage	1,940
Cultural and recreational	<u>48,094</u>
Total	<u><u>\$ 782,529</u></u>

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

Business-Type Activities

Capital asset activity of the business-type activities for the year ended June 30, 2019 was as follows:

	<u>July 1, 2018</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>June 30, 2019</u>
Business-Type Activities:					
Water and Sewer Fund:					
Non-Depreciable					
Capital Assets:					
Land	\$ 575,847	\$ -	\$ 6,135	\$ -	\$ 569,712
Construction in progress	<u>2,239,260</u>	<u>265,240</u>	<u>-</u>	<u>(2,504,500)</u>	<u>-</u>
Total non-depreciable capital assets	<u>2,815,107</u>	<u>265,240</u>	<u>6,135</u>	<u>(2,504,500)</u>	<u>569,712</u>
Depreciable Capital Assets:					
Plant and distribution systems	26,662,564	200,464	-	-	26,863,028
Buildings	15,644,163	155,203	-	2,504,500	18,303,866
Building Improvements		170,408	-	-	170,408
Vehicles	574,422	-	21,144	16,162	569,440
FFC and other equipment	2,926,176	42,870	-	-	2,969,046
Land improvements	244,065	-	-	-	244,065
Operating manuals	<u>16,087</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,087</u>
Total depreciable capital assets	<u>46,067,477</u>	<u>568,945</u>	<u>21,144</u>	<u>2,520,662</u>	<u>49,135,940</u>
Less Accumulated					
Depreciation:					
Plant and distribution systems	12,373,353	613,189	-	-	12,986,542
Buildings	11,108,384	313,075	-	-	11,421,459
Building Improvements	-	2,362	-	-	2,362
Vehicles	529,987	15,648	21,144	16,162	540,653
FFC and other equipment	2,120,380	180,791	-	-	2,301,171
Land improvements	28,941	5,071	-	-	34,012
Operating manuals	<u>16,087</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,087</u>
Total accumulated depreciation	<u>26,177,132</u>	<u>\$ 1,130,136</u>	<u>\$ 21,144</u>	<u>\$ 16,162</u>	<u>27,302,286</u>
Total depreciable capital assets, net	<u>19,890,345</u>				<u>21,833,654</u>
Water and Sewer Fund capital assets, net	<u>\$ 22,705,452</u>				<u>\$ 22,403,366</u>

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

Construction Commitments

The government has active construction projects as of June 30, 2019. At year-end, the government's commitments with contractors are as follows:

Project	Spent-to-Date	Remaining Commitment
N Fire Station project	\$ 2,893,952	\$ 121,305
PW Campus project	4,825,661	285,178
Total	<u>\$ 7,719,613</u>	<u>\$ 406,483</u>

B. Liabilities

Payables

Payables at the government-wide level at June 30, 2019 were as follows:

	Vendors	Salaries and Benefits	Due to other Government	Total
Governmental Activities:				
General Fund	<u>\$ 208,550</u>	<u>\$ 180,689</u>	<u>\$ -</u>	<u>\$ 389,239</u>
Business-Type Activities:				
Water and sewer	<u>\$ 55,823</u>	<u>\$ 27,343</u>	<u>\$ 3,200</u>	<u>\$ 86,366</u>

Pension Plan and Other Post-Employment Obligations

Local Governmental Employees' Retirement System

Plan Description. The City of Mount Holly is a participating employer in the state-wide Local Governmental Employees' Retirement System (LGERS), a cost-sharing, multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS membership is comprised of general employees and local law enforcement officers (LEOs) of participating local government entities. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the State Senate, one appointed by the State House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. The Local Governmental Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The state's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454, or at www.osc.nc.gov.

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

Benefits Provided. LGERS provides retirement and survivor benefits. Retirement benefits are determined as 1.85% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. Plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. Plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service (age 55 for firefighters). Survivor benefits are available to eligible beneficiaries of members who die while in active service or within 180 days of their last day of service and who have either completed 20 years of creditable service regardless of age (15 years of creditable service for firefighters and rescue squad members who are killed in the line of duty) or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

LGERS plan members who are LEOs are eligible to retire with full retirement benefits at age 55 with five years of creditable service as an officer, or at any age with 30 years of creditable service. LEO plan members are eligible to retire with partial retirement benefits at age 50 with 15 years of creditable service as an officer. Survivor benefits are available to eligible beneficiaries of LEO members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed 15 years of service as a LEO and have reached age 50, or have completed five years of creditable service as a LEO and have reached age 55, or have completed 15 years of creditable service as a LEO if killed in the line of duty. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions.

Contributions. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. City employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The City's contractually required contribution rate for the year ended June 30, 2019, was 8.50% of compensation for law enforcement officers and 7.75% for general employees and firefighters, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the City were \$553,057 for the year ended June 30, 2019.

Refunds of Contributions. City employees who have terminated service as a contributing member of LGERS, may file an application for a refund of their contributions. By state law, refunds to members with at least five years of service include 4% interest. State law requires a 60-day waiting period after service termination before the refund may be paid. The acceptance of a refund payment cancels the individual's right to employer contributions or any other benefit provided by LGERS.

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2019, the City reported a liability of \$2,457,272 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2017. The total pension liability was then rolled forward to the measurement date of June 30, 2018 utilizing update procedures incorporating the actuarial assumptions. The City's proportion of the net pension liability was based on a projection of the City's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2018, the City's proportion was 0.104%, which was a decrease of 0.005% from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the City recognized pension expense of \$634,537. At June 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 379,099	\$ 12,721
Changes of assumptions	652,065	-
Net difference between projected and actual earnings on pension plan investments	337,310	-
Changes in proportion and differences between City contributions and proportionate share of contributions	-	115,243
City contributions subsequent to the measurement date	553,057	-
Total	<u>\$ 1,921,531</u>	<u>\$ 127,964</u>

\$553,057 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ending June 30, 2020.

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

Other amounts reported as deferred inflows and outflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending June 30</u>	<u>Amount</u>
2020	\$ 608,771
2021	392,509
2022	53,930
2023	185,300
2024	-
Thereafter	-
Total	<u>\$ 1,240,510</u>

Actuarial Assumptions. The total pension liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	3.5 to 8.10 percent, including inflation and productivity factor
Investment rate of return	7.0 percent, net of pension plan investment expense, including inflation

The plan currently uses mortality tables that vary by age, gender, employee group (i.e. general, law enforcement officer) and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2017 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

Future ad hoc COLA amounts are not considered to be substantively automatic and are, therefore, not included in the measurement.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2018 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed income	29.0%	1.4%
Global equity	42.0%	5.3%
Real estate	8.0%	4.3%
Alternatives	8.0%	8.9%
Credit	7.0%	6.0%
Inflation protection	6.0%	4.0%
Total	<u>100.00%</u>	

The information above is based on 30-year expectations developed with the consulting actuary for the 2018 asset, liability and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.00%. All rates of return and inflation are annualized.

Discount Rate. The discount rate used to measure the total pension liability was 7.0%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.0%, as well as what the City's proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.0%) or one percentage point higher (8.0%) than the current rate:

	<u>1% Decrease (6.0%)</u>	<u>Discount Rate (7.0%)</u>	<u>1% Increase (8.0%)</u>
City's proportionate share of the net pension liability (asset)	<u>\$ 5,902,580</u>	<u>\$ 2,457,272</u>	<u>\$ (421,681)</u>

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

Pension Plan Fiduciary Net Position. Detailed information about the pension plan's fiduciary net position is available in the separately issued Comprehensive Annual Financial Report (CAFR) for the State of North Carolina.

Law Enforcement Officers Special Separation Allowance

Plan Description. The City of Mount Holly administers a public employee retirement system (the "Separation Allowance"), a single-employer defined benefit pension plan that provides retirement benefits to the City's qualified sworn law enforcement officers under the age of 62 who have completed at least 30 years of creditable service or have attained 55 years of age and have completed five or more years of creditable service. The Separation Allowance is equal to .85% of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. A separate report was not issued for the Plan.

All full-time law enforcement officers of the City are covered by the Separation Allowance.

At December 31, 2017, the Separation Allowance's membership consisted of:

Retirees receiving benefits	2
Active plan members	<u>31</u>
Total	<u><u>33</u></u>

Summary of Significant Accounting Policies

Basis of Accounting. The City has chosen to fund the Separation Allowance on a pay-as-you-go basis. Pension expenditures are made from the General Fund, which is maintained on the modified accrual basis of accounting. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

The Separation Allowance has no assets accumulated in a trust that meets the following criteria, which are outlined in GASB 73.

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

Actuarial Assumptions

The entry age actuarial cost method was used in the December 31, 2017 valuation. The total pension liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 percent
Salary increases	3.50 to 7.35 percent, including inflation and productivity factor
Discount rate	3.64 percent

The discount rate used to measure the TPL is the S&P Municipal Bond 20 Year High Grade Rate Index.

The actuarial assumptions used in the December 31, 2017 valuation were based on the results of an experience study completed by the Actuary for the Local Government Employees' Retirement System for the five year period ending December 31, 2014.

Deaths After Retirement (Healthy): RP-2014 Healthy Annuitant base rates projected to 2015 using MP-2015, projected forward generationally from 2015 using MP-2015. Rates are adjusted by 104% for males and 100% for females.

Deaths Before Retirement: RP-2014 Employee base rates projected to 2015 using MP-2015, projected forward generationally from 2015 using MP-2015.

Deaths After Retirement (Beneficiary): RP-2014 Healthy Annuitant base rates projected to 2015 using MP-2015, projected forward generationally from 2015 using MP-2015. Rates are adjusted by 123% for males and females.

Deaths After Retirement (Disabled): RP-2014 Disabled Retiree base rates projected to 2015 using MP-2015, projected forward generationally from 2015 using MP-2015. Rates are adjusted by 103% for males and 99% for females.

Contributions. The City is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the amounts necessary to cover the benefits earned on a pay-as-you-go basis through appropriations made in the General Fund operation budget. There were no contributions made by the employees. The City's obligation to contribute to this Plan is established and may be amended by the North Carolina General Assembly. Administration costs of the Separation Allowance are financed through investment earnings. The City paid \$47,360 as benefits came due for the reporting period.

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2019, the City reported a total pension liability of \$1,066,535. The total pension liability was measured as of December 31, 2018 based on a December 31, 2017 actuarial valuation. The total pension liability was rolled forward to December 31, 2018 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2019, the City recognized pension expense of \$60,954.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 102,493
Changes of assumptions	43,529	46,460
City benefit payments and plan administrative expense made subsequent to the measurement date	40,680	-
Total	<u><u>\$ 84,209</u></u>	<u><u>\$ 148,953</u></u>

\$40,680 paid as benefits came due have been reported as deferred outflows of resources and will be recognized as a decrease of the total pension liability in the year ending June 30, 2020. Other amounts reported as deferred inflows and outflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30	Amount
2020	\$ (23,140)
2021	(23,140)
2022	(23,140)
2023	(20,843)
2024	(14,630)
Thereafter	<u>(531)</u>
Total	<u><u>\$ (105,424)</u></u>

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

Sensitivity of the City's Total Pension Liability to Changes in the Discount Rate. The following presents the City's total pension liability calculated using the discount rate of 3.64%, as well as what the City's total pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.64%) or 1-percentage-point higher (4.64%) than the current rate:

	1% Decrease	Discount Rate	1% Increase
	(2.64%)	(3.64%)	(4.64%)
Total pension liability	\$ 1,151,920	\$ 1,066,535	\$ 988,259

Schedule of Changes in Total Pension Liability Law Enforcement Officers' Special Separation Allowance

	2019
Beginning balance	\$ 1,109,712
Service cost	49,775
Interest on the total pension liability	34,319
Difference between expected and actual experience	
in the measurement of the total pension liability	(39,835)
Changes of assumptions or other inputs	(40,076)
Benefit payments	(47,360)
Ending balance of the total pension liability	\$ 1,066,535

The plan currently uses mortality tables that vary by age, and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2017 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

Supplemental Retirement Income Plan for Law Enforcement Officers

Plan Description. The City contributes to the Supplemental Retirement Income Plan (the "Plan"), a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Plan provides retirement benefits to law enforcement officers employed by the City. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Supplemental Retirement Income Plan for Law Enforcement Officers is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The state's CAFR includes the pension trust fund financial statements for the Internal Revenue Code Section 401(k) plan that includes the Supplemental Retirement Income Plan for Law Enforcement Officers. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

Funding Policy. Article 12E of G.S. Chapter 143 requires the City to contribute each month an amount equal to 5% of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan.

The City made contributions of \$80,857 for the reporting year. No amounts were forfeited.

Supplemental Retirement Income Plan – Employees Other Than Law Enforcement Officers

The City has elected to include all other employees in the plan and contribute an amount equal to five percent of each employee's salary for all employees who participate in the plan.

The City made contributions of \$223,960 for the reporting year. No amounts were forfeited.

Retiree Stipend Plan

Plan Description. Under the terms of a City resolution, the City administers a single-employer defined benefit plan (the "Retiree Stipend Plan"). The plan provides post-employment benefits to all retirees hired prior to 2009 and executive level employees hired after 2009; provided they participate in the North Carolina Local Governmental Employees' Retirement System (System). The City provides a monthly stipend equal to a portion of the single Medicare Eligible Premium as follows:

Retired Employees' Years of Continuous Service	Retiree Level Non-Executive	Executive
10-14 years	25% of medical premiums	0% of medical premiums
15-19 years	50% of medical premiums	50% of medical premiums
20-24 years	75% of medical premiums	75% of medical premiums
25+ years	100% of medical premiums	100% of medical premiums

The annual 2019 Single Medicare Premium is \$6,748. The use of these benefits is not restricted to healthcare. Coverage under this plan begins when a retiree becomes eligible for Medicare and terminates at time of death. The City Council may amend the benefit provisions. A separate report was not issued for the plan.

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

Membership of the Retiree Stipend plan consisted of the following at December 31, 2017, the date of the latest actuarial valuation:

Retirees receiving benefits	8
Active plan members	<u>64</u>
Total	<u><u>72</u></u>

Summary of Significant Accounting Policies

Basis of Accounting. The City has chosen to fund the Retiree Stipend plan on a pay-as-you-go basis. Pension expenditures are made from the General Fund which is maintained on the modified accrual basis of accounting. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

The Retiree Stipend Plan has no assets accumulated in a trust that meets the criteria which are outlined in GASB Statement 73.

Actuarial Assumptions

The entry age normal actuarial cost method was used in the December 31, 2017 valuation. The total pension liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 percent
Salary increases	3.50 to 7.75 percent, including inflation and productivity factor
Discount rate	3.64 percent

The discount rate used to measure the TPL is the S&P Municipal Bond 20-Year High Grade Rate Index.

The actuarial assumptions used in the December 31, 2017 valuation were based on the results of an experience study completed by the Actuary for the Local Government Employees' Retirement System for the five-year period ending December 31, 2014.

Deaths after Retirement (Healthy) Law Enforcement Officers: RP-2014 Healthy Annuitant base rates projected to 2015 using MP-2015, projected forward generationally from 2015 using MP-2015. Rates are adjusted by 104% for males and 100% for females.

Deaths after Retirement (Healthy) Firefighters: RP-2014 Healthy Annuitant base rates projected to 2015 using MP-2015, projected forward generationally from 2015 using MP-2015.

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

Deaths after Retirement (Healthy) General Employees: RP-2014 Healthy Annuitant case rates projected to 2015 using MP-2015, projected forward generationally from 2015 using MP-2015. Rates are adjusted by 115% for males and 79% for females for ages under 78 and by 135% for males and 116% for females for age 78 and older.

Deaths before Retirement: RP-2014 Employee base rates projected to 2015 using MP-2015, projected forward generationally from 2015 using MP-2015.

Deaths after Retirement (Beneficiary): RP-2014 Healthy Annuitant base rates projected to 2015 using MP-2015, projected forward generationally from 2015 using MP-2015. Rates are adjusted by 123% for males and females.

Deaths after Retirement (Disabled): RP-2014 Disabled Retiree base rates projected to 2015 using MP-2015, projected forward generationally from 2015 using MP-2015. Rates are adjusted by 103% for males and 99% for females.

Contributions. The City is required under a City's resolution to provide these retirement benefits and has chosen to fund the amounts necessary to cover the benefits earned on a pay-as-you-go basis through appropriations made in the General Fund operation budget. There were no contributions made by the employees. The City's obligation to contribute to this plan is established and may be amended by the City Council. Administration costs of the Separation Allowance are financed through investment earnings. The City paid \$49,114 as benefits came due for the reporting period.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2019, the City reported a total pension liability of \$7,093,816. The total pension liability was measured as of December 31, 2018 based on a December 31, 2017 actuarial valuation. For the year ended June 30, 2019, the City recognized pension expense of \$602,499.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	\$ 842,184	\$ 766,335
City benefit payments made subsequent to the measurement date	34,119	-
Total	<u>\$ 876,303</u>	<u>\$ 766,335</u>

\$34,119 paid as benefits came due have been reported as deferred outflows of resources and will be recognized as a decrease of the total pension liability in the year ending June 30, 2020.

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

Other amounts reported as deferred inflows and outflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending	
June 30	Amount
2020	\$ 46,392
2021	46,392
2022	46,392
2023	46,392
2024	(28,834)
Thereafter	(80,885)
Total	<u>\$ 75,849</u>

Sensitivity of the City's Total Pension Liability to Changes in the Discount Rate. The following presents the City's total pension liability calculated using the discount rate of 3.64%, as well as what the City's total pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.64%) or 1-percentage-point higher (4.64%) than the current rate:

	1% Decrease (2.64%)	Discount Rate (3.64%)	1% Increase (4.64%)
Total pension liability	<u>\$ 9,137,418</u>	<u>\$ 7,093,816</u>	<u>\$ 5,579,905</u>

Schedule of Changes in Total Pension Liability Retiree Stipend Plan

	<u>2019</u>
Beginning balance	\$ 7,490,248
Service cost	320,191
Interest on the total pension liability	235,916
Changes of assumptions or other inputs	(903,425)
Benefit payments	<u>(49,114)</u>
Ending balance of the total pension liability	<u>\$ 7,093,816</u>

Changes of Assumptions. Changes of assumptions and other inputs reflect a change in the discount rate from 3.16 percent at December 31, 2017 to 3.64 percent at December 31, 2018.

Changes in Benefit Terms. Reported compensation adjusted to reflect the assumed rate of pay as of the valuation date.

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

The plan currently uses mortality tables that vary by age, and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2017 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

Pensions Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The net pension liability for LGERS was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The total pension liability for LEOSSA was measured as of December 31, 2018, with an actuarial valuation date of December 31, 2017. The City's proportion of the net pension liability was based on the City's share of contributions to the pension plan relative to the contribution of all participating entities. The total pension liability for RSP was measured as of December 31, 2018, with an actuarial valuation date as of that date. Following is information related to the proportionate share and pension expense:

	<u>LGERS</u>	<u>LEOSSA</u>	<u>RSP</u>	<u>Total</u>
Proportionate share of net pension liability (asset)	0.10358%	n/a	n/a	
Pension liability	\$ 2,457,272	\$ 1,066,535	\$ 7,093,816	\$ 10,617,623
Pension expense	634,537	60,954	602,499	1,297,990

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

At June 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>LGERS</u>	<u>LEOSSA</u>	<u>RSP</u>	<u>Total</u>
<u>Deferred Outflows of Resources</u>				
Pensions - difference between expected and actual experience	\$ 379,099	\$ -	\$ -	\$ 379,099
Net difference between projected and actual investment earnings	337,310	-	-	337,310
Changes of assumptions	652,065	43,529	842,184	1,537,778
Benefit payments and administration costs subsequent to the measurement date	<u>553,057</u>	<u>40,680</u>	<u>34,119</u>	<u>627,856</u>
Total	<u>\$ 1,921,531</u>	<u>\$ 84,209</u>	<u>\$ 876,303</u>	<u>\$ 2,882,043</u>

<u>Deferred Inflows of Resources</u>				
Pensions - difference between expected and actual experience	\$ 12,721	\$ 102,493	\$ -	\$ 115,214
Changes of assumptions	-	46,460	766,335	812,795
Pensions - change in proportion and differences between employer contributions and proportionate share of contributions	<u>115,243</u>	<u>-</u>	<u>-</u>	<u>115,243</u>
Total	<u>\$ 127,964</u>	<u>\$ 148,953</u>	<u>\$ 766,335</u>	<u>\$ 1,043,252</u>

Other Post-Employment Benefits

Healthcare Benefits

Plan Description. Under the terms of a City resolution, the City administers a single-employer defined benefit healthcare benefits plan (the "Post-Retirement Health Plan"). As of July 1, 2007, the plan provides post-employment healthcare benefits to retirees of the City, provided they participate in the North Carolina Local Governmental Employees' Retirement System (System). The City offers for pre-Medicare retirees the same medical plan options as those offered to active employees. Upon reaching Medicare eligibility, these retirees are removed from the City's medical plans and are given a monthly stipend equivalent to the employee only amount paid for active employees. For non-Executive level employees, hired prior to July 2009, the City pays the following amount of the single medical premium for the High Deductible plan. Non-Executive level retirees between 10 and 14 years of continuous service at retirement, 25% of the medical premiums; between 15 and 19 years of continuous service at retirement, 50% of the medical premiums; between 20 and 24 years of continuous service at retirement, 75% of medical premiums; with 25 years or more of continuous service at retirement, 100% of the medical premiums. For Executive level employees hired before and after 2009, the City pays the following amount of the single medical premium for the High

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

Deductible plan. Executive level retirees between 10 and 14 years of service, 0% of medical premiums; between 15 and 19 years of continuous service at retirement, 50% of the medical premiums; between 20 and 24 years of continuous service at retirement, 75% of medical premiums; with 25 years or more of continuous service at retirement, 100% of medical premiums. Coverage under this plan does not terminate when the retiree becomes eligible for Medicare, but at time of death. The City Council may amend the benefit provisions. A separate report was not issued for the plan.

<u>Retired Employees' Years of Continuous Service</u>	<u>Retiree Level Non-Executive</u>	<u>Executive</u>
10-14 years	25% of medical premiums	0% of medical premiums
15-19 years	50% of medical premiums	50% of medical premiums
20-24 years	75% of medical premiums	75% of medical premiums
25+ years	100% of medical premiums	100% of medical premiums

Membership of the Post-Retirement Health plan consisted of the following at July 1, 2018, the date of the latest actuarial valuation:

Retirees receiving benefits	9
Active plan members	<u>66</u>
Total	<u><u>75</u></u>

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

Total OPEB Liability

The City's total OPEB liability of \$1,108,342 was measured as of June 30, 2019 and was determined by an actuarial valuation as of July 1, 2018.

Actuarial Assumptions and Other Inputs. The total OPEB liability in the July 1, 2018 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement unless otherwise specified:

Inflation	3.00 percent
Salary increases	4.00 percent, including inflation and productivity factor
Discount rate	2.79 percent

<u>Changes in the Total OPEB Liability</u>	
	<u>2019</u>
Beginning balance	\$ 1,022,188
Service cost	65,585
Interest on the total OPEB liability	30,098
Changes of assumptions or other inputs	14,389
Benefit payments	(24,366)
Other changes	<u>447</u>
Ending balance of the total pension liability	<u><u>\$1,108,342</u></u>

The City does not have a dedicated Trust to pay retiree healthcare benefits. Per GASB 75, the discount rate should be a yield or index rate for 20-year, tax –exempt general obligation municipal bonds with an average rating of AA/Aa or higher (or equivalent quality on another rating scale).

A rate of 2.79% is used, which is the S&P Municipal Bond 20-Year High-Grade Rate Index as of June 30, 2019.

The demographic actuarial assumptions for retirement, disability incidence, withdrawal, and salary increases used in the July 1, 2018 valuation were based on the results of an actuarial experience study for the period January 1, 2010 – December 31, 2014, adopted by the LGERS.

The remaining actuarial assumptions (e.g., initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the July 1, 2018 valuation were based on a review of recent plan experience done concurrently with the July 1, 2018 valuation.

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate. The following presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (1.79 percent) or 1-percentage-point higher (3.79 percent) than the current discount rate:

	1% Decrease	Discount Rate	1% Increase
	(1.79%)	(2.79%)	(3.79%)
Total OPEB liability	<u>\$ 1,033,370</u>	<u>\$ 1,108,342</u>	<u>\$ 1,184,718</u>

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates. The following presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1%		1%
	Decrease	Current	Increase
Total OPEB liability	<u>\$ 974,930</u>	<u>\$ 1,108,342</u>	<u>\$ 1,266,403</u>

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2019, the City recognized OPEB expense of \$104,824. At June 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 103,406	\$ -
Changes of assumptions	63,203	82,161
Total	<u>\$ 166,609</u>	<u>\$ 82,161</u>

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

Amounts reported as deferred inflows and outflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending	
June 30	Amount
2020	\$ 9,141
2021	9,141
2022	9,141
2023	9,141
2024	9,141
Thereafter	38,743
Total	<u>\$ 84,448</u>

Other Employment Benefits

The City has elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, state-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump-sum death benefit payments to beneficiaries are equal to the employee's 12 highest months' salary in a row during the 24 months prior to the employee's death, but the benefit may not exceed \$50,000 or be less than \$25,000. Because all death benefit payments are made from the Death Benefit Plan and not by the City, the City does not determine the number of eligible participants. The City has no liability beyond the payment of monthly contributions. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount. Contributions are determined as a percentage of monthly payroll based on rates established annually by the State. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. The City considers these contributions to be immaterial.

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

Deferred Outflows and Inflows of Resources

Deferred outflows of resources are comprised of the following:

<u>Source</u>	<u>Amount</u>
OPEB deferrals	\$ 166,609
Pension deferrals	2,005,740
RSP deferrals	876,303
Total	<u>\$ 3,048,652</u>

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

<u>Source</u>	<u>Amount</u>
Taxes receivable, net - General Fund	\$ 206,091
Unavailable revenue - grants	176,874
OPEB deferrals	82,161
Pension deferrals	276,917
RSP deferrals	766,335
Total	<u>\$ 1,508,378</u>

Risk Management

The City 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 City carries commercial insurance for these risks of loss and has the following types of major coverage for the amounts of risk noted; general liability (\$6,000,000), property (\$31,198,460), and workers' compensation (\$1,000,000). There have been no significant reductions in insurance coverage in the prior year, and settled claims have not exceeded coverage in the past three fiscal years.

The City carries flood insurance through the National Flood Insurance Plan (NFIP). Because the City is in an area of the state that has been mapped and designated an "A" area (an area close to a river, lake, or stream) by the Federal Emergency Management Agency, the City is eligible to purchase coverage of \$500,000 per structure through the NFIP.

In accordance with G.S. 159-29, the City's employees that have access to \$100 or more at any given time of the City's funds are performance bonded through a commercial surety bond. The Finance Officer is individually bonded for \$125,000. The remaining employees that have access to funds are bonded either under a blanket bond for \$10,000 or individual bonds of \$50,000.

The Finance Officer of the Mount Holly Tourism Development Authority, who is also the Finance Officer for the City, is bonded under a separate bond for the Authority's operations of \$50,000.

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

Claims, Judgments and Contingent Liabilities

The City periodically is subject to claims and lawsuits that arise in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits, if any, will not have a material adverse effect on the financial position of the City.

Long-Term Obligations

Capital Leases

The City has entered into an agreement to lease certain equipment. The lease agreement qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception.

The agreement was executed on May 23, 2014, to lease a telephone system and requires sixty monthly payments of \$3,473, with the first payment due in January 2015. The City has title to the asset.

The following is an analysis of the assets acquired under capital leases as of June 30, 2019:

<u>Property</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Emergency telephone system	<u>\$ 180,796</u>	<u>\$ 16,267</u>	<u>\$ 164,529</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2019 were as follows:

<u>Year Ending June 30</u>	<u>Amount</u>
2020	<u>\$ 3,473</u>
Total minimum lease payments	3,473
Less: amount representing interest	<u>(20)</u>
Present value of minimum lease payments	<u><u>\$ 3,453</u></u>

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

The City's outstanding capital lease from direct placement for the Emergency Telephone system of \$3,473 is secured by the Emergency Telephone System. This borrowing contains provisions that in the event of a default, the bank may exercise the following remedies:

- (a) Terminate a schedule or schedules by providing written notice to the Lessee.
- (b) By notice to lessee, and to the extent permitted by law, declare immediately due and payable and recover from Lessee, as liquidated damages and not as a penalty, the sum of the casualty value set forth on the Schedule as of the date of default, or if casualty values or not shown on such schedule, all payments due during the remainder of the Schedule Term; all payments and other amounts due and payable on or before the date of default; and costs, fees (including all attorney's fees and court costs), and expenses; and interest on and from the date of default at 0.5% per month or portion thereof (or the highest rate allowable by law, if less); and on from the date Lessor incurs such fees, costs, or expenses.
- (c) Take any court action at law or in equity to enforce performance of the obligations or covenants of the Schedule and to recover damages for the breach thereof.

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

Installment Purchases

Serviced by the General Fund:

On March 27, 2017, the City modified an installment purchase contract for \$6,035,000 to finance the remodeling and refurbishing of a building acquired from American and Efird to be used as a new City Hall to house all general administrative offices of the City. The financing contract bears interest at a fixed annual rate of 3.00%, with interest only to be paid quarterly beginning May 1, 2017, final payment on May 1, 2027.

\$ 3,345,885

On May 10, 2017, the City entered into an installment purchase contract for \$5,862,500 to finance the cost of constructing a public works facility and equipping and furnishing a fire station. The financing contract bears interest at a fixed annual rate of 2.53%, with interest only to be paid semi-annually beginning November 1, 2017, and continuing through May 1, 2032. Beginning May 1, 2018, annual payments ranging from \$344,295 to \$437,146, final payment on May 1, 2032.

5,163,777

Total General Fund installment purchases- Direct Placement

\$ 8,509,662

Serviced by the Water and Sewer Fund:

On July 17, 2017, the City modified an installment purchase contract for \$3,000,000 to finance the construction of a new water tower and booster station. The financing contract requires quarterly payments of \$31,463, beginning August 6, 2017, plus accrued interest at a fixed rate of 4.34%, final payment February 6, 2029.

\$ 1,227,056

On May 10, 2017, the City entered into an installment purchase contract for \$2,787,500 to finance the cost of constructing, equipping and furnishing a public works facility. The financing contract bears interest at a fixed annual rate of 2.53%, with interest only to be paid semi-annually beginning November 1, 2017, and continuing through May 1, 2032. Beginning May 1, 2018, annual payments ranging from \$163,705 to \$207,854, final payment on May 1, 2032.

2,455,223

Total Water and Sewer Fund installment purchases- Direct Placement

\$ 3,682,279

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

Year Ending June 30	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2020	\$ 734,925	\$ 228,460	\$ 296,967	\$ 113,323
2021	752,819	207,561	299,867	103,532
2022	770,819	186,401	302,767	93,667
2023	788,509	164,720	305,345	83,729
2024	807,132	142,646	308,245	73,726
2025-2029	3,365,023	385,610	1,555,524	215,959
2030-2032	1,290,436	65,656	613,564	31,218
Total	<u>\$ 8,509,662</u>	<u>\$ 1,381,053</u>	<u>\$ 3,682,279</u>	<u>\$ 715,155</u>

The City's outstanding installment purchase from direct placement related to the new City Hall of \$3,345,885 is secured by a deed of trust. This borrowing contains provisions that in the event of a default, the bank may exercise any one or more of the following remedies:

- (a) Upon default, including failure to pay upon final maturity, the total sum due under the agreement will continue to accrue interest at the interest rate under the agreement. If judgement is entered in connection with the agreement, interest will continue to accrue after the date of judgement at the rate in effect at the time judgement is entered.
- (b) Upon default, lender may declare the entire unpaid principal balance under this agreement and all accrued unpaid interest immediately due, and then the City of Mount Holly will pay that amount. Notwithstanding any other procedures in the agreement, it is the intent of the parties to comply with Section 160A 20 of the General Statutes of North Carolina, as amended. No deficiency judgement may be entered against the City of Mount Holly in favor of the lender in violation of Section 160a 20 of the General Statutes of North Carolina, as amended, including without limitation, any deficiency judgement for amounts that may be owed when the sale of all or any portion of the collateral is insufficient to produce enough money to pay in full all remaining obligations under the agreement.

The City's outstanding installment purchase from direct placement related to the new public works facility of \$5,163,777 from the General Fund and \$2,455,223 from the Water and Sewer Fund is secured by a deed of trust. This borrowing contains provisions that in the event of a default, the bank may exercise any one or more of the following remedies:

- (a) Declare the unpaid portion of the then outstanding principal components of the installment payments immediately due and payable, without notice or demand to the City.
- (b) Proceed by appropriate court action to enforce the performance by the City of the applicable covenants of the contract or to recover for any breach thereof.
- (c) Exercise or direct the Deed of Trust Trustee to exercise all the rights and remedies of a secured party or creditor under the Uniform Commercial Code of the state and the general laws of the state with respect to the enforcement of the security interest granted or reserved hereunder and under the Deed of Trust including, without limitation, to the extent permitted by law, re-enter and take possession of the Mortgaged Property without any court order or

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

other process of law and without liability for entering the premises and to sell, lease, sublease or many other disposition of the same in a commercially reasonable manner for the account of the City, and apply the proceeds of any such sale, lease, sublease, or other disposition, after deducting all costs and expenses, including court costs and attorneys' fees, incurred with the recovery, repair, storage and other sale, lease, sublease or other disposition, toward the balance due under the contract and, thereafter to pay any remaining proceeds to the City.

- (d) Enforce its security interest in the Mortgaged property or direct the Deed of Trust Trustee to institute foreclosure proceedings under the Deed of Trust and see the mortgaged property.
- (e) Pursue any other remedy available at law or equity to the Bank.
- (f) All remedies of the Bank are cumulative and may be exercised concurrently or separately. The exercise of any one remedy shall not be deemed an election of such remedy or preclude the exercise of any other remedy.

The City's outstanding installment purchase from direct placement related to the new water tower and booster station of \$1,227,056 is secured by a Deed of Trust. This borrowing contains provisions that in the event of a default, the bank may exercise the following remedy:

- (a) BB&T may withdraw any balance remaining in the Project Fund and apply such balance against outstanding required payments.

General Obligation Bonds

General obligation bonds were issued to finance the Streetscape and various parks and recreation projects, along with the construction of facilities utilized in the operations of the water and sewer system, and which are being retired by its resources, is reported as long-term debt in the General Fund. All general obligation bonds are collateralized by the full faith, credit and taxing power of the City. Principal and interest requirements are appropriated when due.

Advance Refunding

On March 15, 2017, the City issued the \$1,938,000 General Obligation Refunding Bond Series 2017 for the purpose of an advance refunding of the General Obligation Bond Series 2005A in the amount of \$1,900,000. As a result, the General Obligation Bond Series 2005A is considered to be defeased, and the liability has been removed from the governmental activities column of the Statement of Net Position. This advance refunding was undertaken to reduce total debt service payments over the next nine years by \$146,473 and resulted in an economic gain of \$133,732.

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

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

Serviced by the General Fund:

\$1,938,000 2017 General Obligation Refunding Bonds issued March 15, 2017
due in annual payments of ranging from \$87,000 - \$245,000 through
May 1, 2026; interest at 1.95%. \$ 1,452,000

\$1,400,000 General Obligation Recreation Bonds issued August 1, 2010, Series
2010, due in annual installments of \$50,000 February 1, 2011, \$75,000
February 1, 2012 - 2025, inclusive, and \$100,000 February 1, 2026 - 2028;
interest at 2.00% - 4.00%. 750,000

Total General Fund general obligation bonds \$ 2,202,000

Year Ending June 30	Governmental Activities	
	Principal	Interest
2020	\$ 313,000	\$ 64,264
2021	309,000	56,939
2022	305,000	49,486
2023	301,000	42,110
2024	296,000	34,813
2025-2029	678,000	73,511
2030-2032	-	-
Total	<u>\$ 2,202,000</u>	<u>\$ 321,123</u>

At June 30, 2019, the City had a legal debt margin of approximately \$96,379,000.

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

Changes in Long-Term Liabilities

Compensated absences for governmental activities typically have been liquidated in the General Fund and are accounted for on a FIFO basis. Other post-employment and pension benefits are typically liquidated in the General Fund and the Water and Sewer Fund.

	<u>July 1, 2018</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2019</u>	<u>Current Portion</u>
Governmental Activities:					
Bonds payable	\$ 2,518,000	\$ -	\$ 316,000	\$ 2,202,000	\$ 313,000
Installment purchase- Direct Placement	9,228,184	-	718,522	8,509,662	734,925
Capitalized lease- Direct Placement	43,405	-	39,952	3,453	3,453
Net pension liability (LGERS)	1,210,925	582,883	-	1,793,808	-
Total pension liability (LEOSSA)	1,109,712	-	43,177	1,066,535	-
Total pension liability (RSP)	5,467,881	-	289,395	5,178,486	-
Total OPEB liability	745,576	62,892	-	808,468	-
Compensated absences	386,313	235,813	228,540	393,586	157,434
Total governmental activities	<u>20,709,996</u>	<u>881,588</u>	<u>1,635,586</u>	<u>19,955,998</u>	<u>1,208,812</u>
Business-Type Activities:					
Water and Sewer Fund:					
Installment purchase- Direct Placement	3,976,703	-	294,424	3,682,279	296,967
Net pension liability (LGERS)	447,877	215,587	-	663,464	-
Total pension liability (RSP)	2,022,367	-	107,037	1,915,330	-
Total OPEB liability	276,612	23,262	-	299,874	-
Compensated absences	73,809	55,249	43,437	85,621	34,248
Total Water and Sewer Fund	<u>6,797,368</u>	<u>294,098</u>	<u>444,898</u>	<u>6,646,568</u>	<u>331,215</u>
Total	<u>\$ 27,507,364</u>	<u>\$ 1,175,686</u>	<u>\$ 2,080,484</u>	<u>\$ 26,602,566</u>	<u>\$ 1,540,027</u>

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

C. Net Investment in Capital Assets

Net investment in capital assets at June 30, 2019 is computed as follows:

	Governmental Activities	Business-Type Activities
Capital assets, net of accumulated depreciation	\$ 29,748,795	\$ 22,403,366
Less:		
Capital debt	(10,715,115)	(3,682,279)
Add:		
Unspent debt proceeds	17,200	207,373
Net investment in capital assets	<u>\$ 19,050,880</u>	<u>\$ 18,928,460</u>

3. Joint Ventures

The City and the members of the City's fire department each appoint two members to the five-member local Board of Trustees for the Firemen's Relief Fund. The State Insurance Commissioner appoints one additional member to the local Board of Trustees. The Firemen's Relief Fund is funded by a portion of the fire and lightening insurance premiums which insurers remit to the state. The state passes these monies to the local Board of the Firemen's Relief Fund. The funds are used to assist firefighters in various ways. The City obtains an ongoing financial benefit from the Fund for the "on-behalf of" payments for salaries and fringe benefits made to members of the City's Fire Department by the Board of Trustees. The participating governments do not have any equity interest in the joint venture, so no equity has been reflected in the financial statements at June 30, 2019. The Firemen's Relief Fund does not issue separate audited financial statements. Instead, the local Board of Trustees files an annual financial report with the State Firemen's Association. This report can be obtained from the Association at 323 West Jones Street, Suite 40, Raleigh, NC 27603.

4. Summary Disclosure of Significant Contingencies

Federal and State-Assisted Programs

The City has received proceeds from several federal and state grants. Periodic audits of these grants are required, and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant monies 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 monies.

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

5. Related Party Transactions

A City Council member works for a company that the City contracts with to maintain ballfields. For the year ending June 30, 2019, the City paid \$14,588 to that contractor.

6. Subsequent Events

The City is a defendant in two lawsuits related to system development fees paid to Mount Holly. At the time of the report release, an amount is not reasonably estimable for payment, therefore, no provision has been made in the financial statements. The cases are scheduled for mediation in December 2019, and the first quarter of 2020.

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REQUIRED SUPPLEMENTAL FINANCIAL DATA

This section contains additional information required by generally accepted accounting principles.

- Schedule of Changes in Total Pension Liability for the Law Enforcement Officers' Special Separation Allowance
- Schedule of Total Pension Liability as a Percentage of Covered Payroll for the Law Enforcement Officers' Special Separation Allowance
- Schedule of Changes in Total Pension Liability for the Retiree Stipend Plan
- Schedule of Total Pension Liability as a Percentage of Covered Payroll for the Retiree Stipend Plan
- Schedule of Changes in the Total OPEB Liability and Related Ratios
- City's Proportionate Share of Net Pension Liability (Asset) for Local Government Employees' Retirement System
- City of Mount Holly's Contributions for Local Government Employees' Retirement System

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CITY OF MOUNT HOLLY, NORTH CAROLINA

SCHEDULE OF CHANGES IN TOTAL PENSION LIABILITY
LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE
REQUIRED SUPPLEMENTARY INFORMATION
LAST THREE FISCAL YEARS *

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Beginning balance	\$ 1,109,712	\$ 1,092,995	\$ 1,057,665
Service cost	49,775	43,087	45,753
Interest on the total pension liability	34,319	41,609	37,343
Difference between expected and actual experience in the measurement of the total pension liability	(39,835)	(101,997)	-
Changes of assumptions or other inputs	(40,076)	64,111	(24,506)
Benefit payments	(47,360)	(30,093)	(23,260)
Ending balance of the total pension liability	<u>\$1,066,535</u>	<u>\$1,109,712</u>	<u>\$1,092,995</u>

The amounts presented for each fiscal year were determined as of the prior December 31.

* This schedule is intended to show information for ten years.

Additional years' information will be displayed as it becomes available.

CITY OF MOUNT HOLLY, NORTH CAROLINA

**SCHEDULE OF TOTAL PENSION LIABILITY AS A PERCENTAGE OF COVERED PAYROLL
 LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE
 REQUIRED SUPPLEMENTARY INFORMATION
 LAST THREE FISCAL YEARS ***

	<u>2019</u>		<u>2018</u>		<u>2017</u>
Total pension liability	\$ 1,066,535	\$	1,109,712	\$	1,092,995
Covered payroll	1,646,772		1,716,766		1,754,577
Total pension liability as a percentage of covered payroll	64.77%		64.64%		62.29%

Notes to the Schedules:

City of Mount Holly has no assets accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 73 to pay related benefits.

* This schedule is intended to show information for ten years.
 Additional years' information will be displayed as it becomes available.

CITY OF MOUNT HOLLY, NORTH CAROLINA

SCHEDULE OF CHANGES IN TOTAL PENSION LIABILITY
RETIREE STIPEND PLAN
REQUIRED SUPPLEMENTARY INFORMATION
LAST THREE FISCAL YEARS *

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Beginning balance	\$ 7,490,248	\$ 5,856,523	\$ 5,735,867
Service cost	320,191	239,496	105,392
Interest on the total pension liability	235,916	225,293	70,448
Changes of assumptions or other inputs	(903,425)	1,209,148	-
Benefit payments	<u>(49,114)</u>	<u>(40,212)</u>	<u>(55,184)</u>
Ending balance of the total pension liability	<u>\$ 7,093,816</u>	<u>\$ 7,490,248</u>	<u>\$ 5,856,523</u>

The amounts presented for each fiscal year were determined as of the prior July 1.

* This schedule is intended to show information for ten years.
 Additional years' information will be displayed as it becomes available.

CITY OF MOUNT HOLLY, NORTH CAROLINA

**SCHEDULE OF TOTAL PENSION LIABILITY
AS A PERCENTAGE OF COVERED PAYROLL
RETIREE STIPEND PLAN
REQUIRED SUPPLEMENTARY INFORMATION
LAST THREE FISCAL YEARS ***

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total pension liability	\$ 7,093,816	\$ 7,490,248	\$ 5,856,523
Covered payroll	3,707,210	3,707,210	3,569,598
Total pension liability as a percentage of covered payroll	191.35%	202.05%	164.07%

Notes to the Schedules:

City of Mount Holly has no assets accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 73 to pay related benefits.

* This schedule is intended to show information for ten years.
Additional years' information will be displayed as it becomes available.

CITY OF MOUNT HOLLY, NORTH CAROLINA

**SCHEDULE OF CHANGES IN THE TOTAL OPEB
LIABILITY AND RELATED RATIOS
REQUIRED SUPPLEMENTARY INFORMATION
LAST TWO FISCAL YEARS***

Schedule of Changes in Total OPEB Liability and Related Ratios

	2019	2018
Total OPEB Liability		
Service cost at end of year	\$ 65,585	\$ 61,910
Interest	30,098	30,132
Differences between expected and actual experience	-	125,978
Changes of assumptions or other inputs	14,389	(88,950)
Benefit payments and implicit subsidy credit	(24,366)	(22,125)
Other changes	447	49,472
Net change in total OPEB liability	86,153	156,417
Total OPEB liability - beginning	<u>1,022,188</u>	<u>865,771</u>
Total OPEB liability - ending	<u>\$ 1,108,342</u>	<u>\$ 1,022,188</u>
 Covered payroll	 \$ 3,680,715	 \$ 3,800,032
Total OPEB liability as a percentage of covered payroll	30%	27%

Notes to the Schedule:

Changes of Assumptions: Changes of assumptions and other inputs reflect the effects of changes in the discount rate of each period. The following are the discount rates used in each period:

Fiscal Year	Rate
2019	2.79%
2018	2.98%

*This schedule is intended to show information for ten years.
Additional years' information will be displayed as it becomes available.

CITY OF MOUNT HOLLY, NORTH CAROLINA

CITY'S PROPORTIONATE SHARE OF NET PENSION LIABILITY (ASSET)
REQUIRED SUPPLEMENTARY INFORMATION
LAST SIX FISCAL YEARS*

LOCAL GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
City's proportion of the net pension liability (asset) (%)	0.10358%	0.10858%	0.11251%	0.11310%	0.11435%	0.11270%
City's proportion of the net pension liability (asset) (\$)	\$ 2,457,272	\$ 1,658,802	\$ 2,387,839	\$ 507,810	\$ (674,375)	\$ 1,358,468
City's covered payroll	\$ 6,513,863	\$ 6,271,423	\$ 6,035,349	\$ 5,805,626	\$ 5,741,436	\$ 5,418,715
City's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	37.72%	26.45%	39.56%	8.75%	-11.75%	25.07%
Plan fiduciary net position as a percentage of the total pension liability **	91.63%	94.18%	91.47%	98.09%	102.64%	94.35%

* The amounts presented for each fiscal year were determined as of the prior fiscal year ended June 30.

** This will be the same percentage for all participant employers in the LGERS plan.

This schedule will show ten years as the data becomes available.

CITY OF MOUNT HOLLY, NORTH CAROLINA**CITY OF MT. HOLLY'S CONTRIBUTIONS
REQUIRED SUPPLEMENTARY INFORMATION
LAST SIX FISCAL YEARS****LOCAL GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM**

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 553,057	\$ 503,749	\$ 470,372	\$ 413,424	\$ 415,575	\$ 408,178
Contributions in relation to the contractually required contribution	<u>553,057</u>	<u>503,749</u>	<u>470,372</u>	<u>413,424</u>	<u>415,575</u>	<u>408,178</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered payroll	\$ 6,937,144	\$ 6,513,863	\$ 6,271,423	\$ 6,035,349	\$ 5,805,626	\$ 5,741,436
Contributions as a percentage of covered payroll	7.97%	7.73%	7.50%	6.85%	7.16%	7.11%

This schedule will show ten years as the data becomes available.

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SUPPLEMENTARY INFORMATION

**COMBINING AND INDIVIDUAL FUND FINANCIAL
STATEMENTS AND SCHEDULES**

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THE GENERAL FUND

The General Fund accounts for resources traditionally associated with government that are not required legally or by sound financial management to be accounted for in other funds.

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CITY OF MOUNT HOLLY, NORTH CAROLINA

GENERAL FUND SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL FOR THE YEAR ENDED JUNE 30, 2019

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues:			
Ad Valorem Taxes:			
Taxes	\$ 6,942,975	\$ 7,295,000	\$ 352,025
Interest	14,000	7,657	(6,343)
Total	<u>6,956,975</u>	<u>7,302,657</u>	<u>345,682</u>
Other Taxes and Licenses:			
Occupancy tax and other	74,875	83,369	8,494
Motor vehicle license tags	49,049	43,747	(5,302)
Privilege licenses	-	100	100
Total	<u>123,924</u>	<u>127,216</u>	<u>3,292</u>
Unrestricted Intergovernmental:			
Local option sales taxes	2,444,714	2,724,844	280,130
Telecommunications sales tax	93,740	84,922	(8,818)
Utility franchise tax	781,690	788,137	6,447
Piped natural gas tax	35,270	64,515	29,245
Video franchise fee	123,136	118,519	(4,617)
Beer and wine tax	63,309	66,359	3,050
ABC distribution	-	254,154	254,154
Total	<u>3,541,859</u>	<u>4,101,450</u>	<u>559,591</u>
Restricted Intergovernmental:			
Powell Bill allocation	405,000	448,839	43,839
Solid waste disposal tax	15,616	10,706	(4,910)
Other federal/state grants	59,483	213,709	154,226
Total	<u>480,099</u>	<u>673,254</u>	<u>193,155</u>
Permits and Fees:			
Zoning permits	65,257	113,000	47,743
Recycle and solid waste fees	206,349	367,560	161,211
Tipping fees	456,478	474,597	18,119
Total	<u>728,084</u>	<u>955,157</u>	<u>227,073</u>
Sales and Services:			
Recreation department fees	93,034	100,106	7,072
Concessions and vending sales	375	14	(361)
Total	<u>93,409</u>	<u>100,120</u>	<u>6,711</u>
Investment Earnings	<u>191,222</u>	<u>500,680</u>	<u>309,458</u>

CITY OF MOUNT HOLLY, NORTH CAROLINA

**GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2019**

	Budget	Actual	Variance Over/Under
Miscellaneous:			
Rents	109,183	122,217	13,034
Public contributions	9,590	1,000	(8,590)
Miscellaneous revenue	52,780	184,913	132,133
Miscellaneous fire revenue	-	3,930	3,930
Miscellaneous police revenue	127,823	44,984	(82,839)
Total	<u>299,376</u>	<u>357,044</u>	<u>57,668</u>
 Total revenues	 <u>12,414,948</u>	 <u>14,117,578</u>	 <u>1,702,630</u>
 Expenditures:			
General Government:			
Mayor and Council:			
Governing body compensation	60,069	64,607	(4,538)
Operating expenditures	150,225	128,101	22,124
Total	<u>210,294</u>	<u>192,708</u>	<u>17,586</u>
 Administration:			
Salaries and employee benefits	863,795	824,593	39,202
Operating expenditures	941,251	834,152	107,099
Capital outlay	550,530	232,049	318,481
Costs allocated to the Water and Sewer Fund	(118,214)	(118,214)	-
Debt service	245,735	236,428	9,307
Total	<u>2,483,097</u>	<u>2,009,008</u>	<u>474,089</u>
 Total general government	 <u>2,693,391</u>	 <u>2,201,716</u>	 <u>491,675</u>
 Public Safety:			
Police:			
Salaries and employee benefits	3,004,643	2,962,484	42,159
Operating expenditures	474,430	413,833	60,597
Capital outlay	131,620	128,245	3,375
Costs allocated to the Water and Sewer Fund	(118,214)	(118,214)	-
Debt service	245,735	236,428	9,307
Total	<u>3,738,214</u>	<u>3,622,776</u>	<u>115,438</u>

CITY OF MOUNT HOLLY, NORTH CAROLINA

GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2019

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Fire:			
Salaries and employee benefits	1,695,248	1,693,760	1,488
Operating expenditures	279,853	279,450	403
Capital outlay	17,000	16,633	367
Debt service	277,611	277,612	(1)
Total	<u>2,269,712</u>	<u>2,267,455</u>	<u>2,257</u>
 Total public safety	 <u>6,007,926</u>	 <u>5,890,231</u>	 <u>117,695</u>
Planning and Zoning:			
Salaries and employee benefits	317,542	307,110	10,432
Operating expenditures	297,800	232,420	65,380
Capital outlay	<u>20,000</u>	<u>-</u>	<u>20,000</u>
Total planning and zoning	<u>635,342</u>	<u>539,530</u>	<u>95,812</u>
Transportation and Environmental Protection:			
Streets and Highways:			
Salaries and employee benefits	1,089,948	946,899	143,049
Operating expenditures	775,600	837,348	(61,748)
Capital outlay	200,000	198,428	1,572
Debt service	355,900	355,900	-
Total	<u>2,421,448</u>	<u>2,338,575</u>	<u>82,873</u>
Powell Bill Street Funds:			
Operating expenditures	<u>931,218</u>	<u>328,769</u>	<u>602,449</u>
Total transportation and environmental protection	<u>3,352,666</u>	<u>2,667,344</u>	<u>685,322</u>
Garage:			
Salaries and employee benefits	58,730	54,829	3,901
Operating expenditures	43,400	46,155	(2,755)
Capital outlay	8,175	7,524	651
Debt service	<u>75,302</u>	<u>75,302</u>	<u>-</u>
Total garage	<u>185,607</u>	<u>183,810</u>	<u>1,797</u>

CITY OF MOUNT HOLLY, NORTH CAROLINA

GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2019

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Culture and Recreation:			
Parks and Recreation:			
Salaries and employee benefits	527,411	517,766	9,645
Operating expenditures	393,800	354,165	39,635
Capital outlay	52,120	47,875	4,245
Debt service	174,754	174,754	-
Total culture and recreation	<u>1,148,085</u>	<u>1,094,560</u>	<u>53,525</u>
Total expenditures	<u>14,023,017</u>	<u>12,577,191</u>	<u>1,445,826</u>
Revenues over (under) expenditures	<u>(1,608,069)</u>	<u>1,540,387</u>	<u>3,148,456</u>
Other Financing Sources (Uses):			
Transfers to other funds:			
Capital Projects Fund	(788,368)	(788,368)	-
Special item - proceeds from property disposal	-	608,741	608,741
Fund balance appropriated	<u>2,396,437</u>	<u>-</u>	<u>(2,396,437)</u>
Total other financing sources (uses)	<u>1,608,069</u>	<u>(179,627)</u>	<u>(1,787,696)</u>
Net change in fund balance	<u>\$ -</u>	<u>1,360,760</u>	<u>\$ 1,360,760</u>
Fund Balance:			
Beginning of year - July 1		<u>11,998,528</u>	
End of year - June 30		<u>\$ 13,359,288</u>	

OTHER MAJOR GOVERNMENTAL FUND

General Capital Projects Fund – accounts for local funds and financing proceeds used to fund the City's construction projects.

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CITY OF MOUNT HOLLY, NORTH CAROLINA

**CAPITAL PROJECTS FUND - MAJOR
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2019**

		Actual			
	Project Authorization	Prior Years	Current Year	Total to Date	Variance Over/Under
Revenues:					
Grant revenues - federal and state	\$ 800,000	\$ 253,389	\$ 393,735	\$ 647,124	\$ (152,876)
Local grants	80,000	22,969	57,031	80,000	-
Investment earnings	-	292	53	345	345
Total revenues	<u>880,000</u>	<u>276,650</u>	<u>450,819</u>	<u>727,469</u>	<u>(152,531)</u>
Expenditures:					
N Fire Station Project:					
Construction and improvements	3,015,257	2,763,180	130,772	2,893,952	121,305
PW Campus Project:					
Construction and improvements	2,323,339	2,122,736	198,425	2,321,161	2,178
Greenway Project:					
Construction and improvements	<u>1,668,368</u>	<u>333,411</u>	<u>1,132,394</u>	<u>1,465,805</u>	<u>202,563</u>
Total expenditures	<u>7,006,964</u>	<u>5,219,327</u>	<u>1,461,591</u>	<u>6,680,918</u>	<u>326,046</u>
Revenues over (under) expenditures	<u>(6,126,964)</u>	<u>(4,942,677)</u>	<u>(1,010,772)</u>	<u>(5,953,449)</u>	<u>173,515</u>
Other Financing Sources (Uses):					
Transfers from other fund:					
General Fund	788,368	-	788,368	788,368	-
Transfers to other fund:					
General Fund	(523,904)	(523,904)	-	(523,904)	-
Proceeds from debt	<u>5,862,500</u>	<u>5,862,500</u>	<u>-</u>	<u>5,862,500</u>	<u>-</u>
Total other financing sources (uses)	<u>6,126,964</u>	<u>5,338,596</u>	<u>788,368</u>	<u>6,126,964</u>	<u>-</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 395,919</u>	<u>(222,404)</u>	<u>\$ 173,515</u>	<u>\$ 173,515</u>
Fund Balance:					
Beginning of year - July 1			<u>395,919</u>		
End of year - June 30			<u>\$ 173,515</u>		

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NONMAJOR GOVERNMENTAL FUNDS

Emergency Telephone Systems Fund – accounts for the funds received for the operation of the City's Emergency 911 Communications Center.

Capital Reserve Fund – accounts for the accumulation of undedicated resources to fund future projects of the City.

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CITY OF MOUNT HOLLY, NORTH CAROLINA

NONMAJOR GOVERNMENTAL FUNDS

COMBINING BALANCE SHEET

JUNE 30, 2019

	Special Revenue Fund	Capital Project Fund	
	Emergency Telephone System Fund	Capital Reserve Fund	Total Nonmajor Governmental Funds
Assets:			
Cash and cash equivalents	\$ 375,700	\$ 1,936,773	\$ 2,312,473
Fund Balances:			
Restricted for public safety	\$ 375,700	\$ -	\$ 375,700
Committed	-	1,936,773	1,936,773
Total fund balances	\$ 375,700	\$ 1,936,773	\$ 2,312,473

CITY OF MOUNT HOLLY, NORTH CAROLINA

NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2019

	<u>Special Revenue Fund</u>	<u>Capital Project Fund</u>	
	<u>Emergency Telephone System Fund</u>	<u>Capital Reserve Fund</u>	<u>Total Nonmajor Governmental Funds</u>
Revenues:			
Restricted intergovernmental	\$ 63,217	\$ -	\$ 63,217
Investment earnings	9,597	29,473	39,070
Total revenues	<u>72,814</u>	<u>29,473</u>	<u>102,287</u>
Expenditures:			
Public safety	<u>76,508</u>	<u>-</u>	<u>76,508</u>
Net change in fund balances	(3,694)	29,473	25,779
Fund Balances:			
Beginning of year - July 1	<u>379,394</u>	<u>1,907,300</u>	<u>2,286,694</u>
End of year - June 30	<u>\$ 375,700</u>	<u>\$ 1,936,773</u>	<u>\$ 2,312,473</u>

CITY OF MOUNT HOLLY, NORTH CAROLINA

SPECIAL REVENUE FUND - EMERGENCY TELEPHONE SYSTEM FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND

CHANGES IN BALANCE - BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2019

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues:			
Restricted intergovernmental:			
Wireless 911 funds	\$ 66,436	\$ 63,217	\$ (3,219)
Investment earnings	-	9,597	9,597
Total revenues	<u>66,436</u>	<u>72,814</u>	<u>6,378</u>
Expenditures:			
Wireless expenditures:			
Contract services	21,074	22,182	(1,108)
Furniture, fixtures, & equipment	5,000	3,839	1,161
Telephone	8,643	8,572	71
Travel and training	500	-	500
Equipment rental/lease	44,500	41,915	2,585
Total expenditures	<u>79,717</u>	<u>76,508</u>	<u>3,209</u>
Revenues over (under) expenditures	(13,281)	(3,694)	9,587
Other Financing Sources (Uses)			
Appropriated fund balance	<u>13,281</u>	<u>-</u>	<u>(13,281)</u>
Net change in fund balance	<u>\$ -</u>	<u>(3,694)</u>	<u>\$ (3,694)</u>
Fund Balance:			
Beginning of year - July 1		<u>379,394</u>	
End of year - June 30		<u>\$ 375,700</u>	

CITY OF MOUNT HOLLY, NORTH CAROLINA

CAPITAL PROJECT FUND - CAPITAL RESERVE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2019

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues:			
Investment earnings	\$ 15,000	\$ 29,473	\$ 14,473
Other Financing Sources (Uses)			
Transfers to other funds:			
General Fund	(15,000)	-	15,000
Net change in fund balance	<u>\$ -</u>	29,473	<u>\$ 29,473</u>
Fund Balance:			
Beginning of year - July 1		<u>1,907,300</u>	
End of year - June 30		<u>\$ 1,936,773</u>	

ENTERPRISE FUNDS

Enterprise Funds account for the operations financed and operated in a manner similar to private business enterprises – where the intent of the government’s board is that the costs of providing goods or services to the general public on a continuing basis be financed primarily through user charges.

Individual Fund Descriptions:

Water and Sewer Fund – accounts for the City’s water and sewer operations.

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CITY OF MOUNT HOLLY, NORTH CAROLINA

WATER AND SEWER FUND
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2019

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues:			
Operating Revenues:			
Water sales:			
Water sales	\$ 2,776,437	\$ 2,998,316	\$ 221,879
Sewer charges	2,178,264	2,360,272	182,008
Water and sewer taps and development fees	823,382	162,663	(660,719)
Stormwater fees	253,503	260,819	7,316
Late fees and reconnection charges	165,311	185,007	19,696
Total operating revenues	<u>6,196,897</u>	<u>5,967,077</u>	<u>(229,820)</u>
Non-Operating Revenues:			
Rental income	77,571	81,842	4,271
Other revenue	113,643	598,281	484,638
Total non-operating revenues	<u>191,214</u>	<u>680,123</u>	<u>488,909</u>
Total revenues	<u>6,388,111</u>	<u>6,647,200</u>	<u>259,089</u>
Expenditures:			
Water Treatment and Distribution:			
Water treatment plant:			
Salaries and employee benefits	1,076,298	1,031,079	45,219
Supplies	99,000	90,174	8,826
Other operating expenditures	471,350	462,314	9,036
Repairs and maintenance	48,500	59,312	(10,812)
Utility service fee	185,000	211,273	(26,273)
Costs allocated from the General Fund	118,214	118,214	-
Interest and other charges	142,510	85,451	57,059
Principal retirement	197,963	231,498	(33,535)
Capital outlay - equipment	200,000	166,393	33,607
Total	<u>2,538,835</u>	<u>2,455,708</u>	<u>83,127</u>
Waste Collection and Treatment:			
Salaries and employee benefits	957,858	960,376	(2,518)
Supplies	50,500	49,653	847
Other operating expenditures	826,165	714,600	111,565
Repairs and maintenance	54,500	54,130	370
Costs allocated from the General Fund	118,214	118,214	-
Interest and other charges	74,190	28,335	45,855
Principal retirement	47,963	62,926	(14,963)
Capital outlay - equipment	120,000	119,160	840
Total	<u>2,249,390</u>	<u>2,107,394</u>	<u>141,996</u>
Stormwater:			
Salaries and employee benefits	55,034	54,578	456
Other operating expenditures	33,150	28,292	4,858
Repairs and maintenance	224,000	101,085	122,915
Total	<u>312,184</u>	<u>183,955</u>	<u>128,229</u>

CITY OF MOUNT HOLLY, NORTH CAROLINA

**WATER AND SEWER FUND
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2019**

	Final Budget	Actual	Variance Over/Under
Utilities:			
Salaries and employee benefits	615,526	627,047	(11,521)
Other operating expenditures	812,250	452,157	360,093
Repairs and maintenance	455,618	371,002	84,616
Capital outlay - equipment	240,000	187,759	52,241
Total	<u>2,123,394</u>	<u>1,637,965</u>	<u>485,429</u>
 Total expenditures	 <u>7,223,803</u>	 <u>6,385,022</u>	 <u>838,781</u>
 Revenues over (under) expenditures	 <u>(835,692)</u>	 <u>262,178</u>	 <u>1,097,870</u>
 Other Financing Sources (Uses):			
Transfer from other funds:			
Capital Reserve Fund	440,000	440,000	-
Fund balance appropriated	<u>395,692</u>	<u>-</u>	<u>(395,692)</u>
Total other financing sources (uses)	<u>835,692</u>	<u>440,000</u>	<u>(395,692)</u>
 Revenues and other financing sources over (under) expenditures and other financing uses	 <u>\$ -</u>	 <u>\$ 702,178</u>	 <u>\$ 702,178</u>
 Reconciliation from Budgetary Basis (Modified Accrual) to Full Accrual:			
 Revenues and other financing sources over (under) expenditures and other financing uses		<u>\$ 702,178</u>	
 Reconciling items:			
Principal retirement		294,424	
Capital outlay		568,945	
Depreciation		(1,130,136)	
Change in net pension liability - LGERS		(215,587)	
Change in total pension liability - RSP		107,037	
Change in deferred outflows of resources - pensions		138,207	
Change in deferred inflows of resources - pensions		(197,614)	
Change in compensated absences		(11,812)	
Change in other post-employment benefits		(23,262)	
Change in deferred outflows of resources - OPEB		(883)	
Change in deferred inflows of resources - OPEB		2,421	
Capital Reserve Fund revenues		1,748,971	
Gain (loss) on disposal of assets		(6,135)	
Transfers from Capital Reserve Fund		<u>(440,000)</u>	
Total reconciling items		<u>834,576</u>	
 Change in net position (Exhibit H)		<u>\$ 1,536,754</u>	

CITY OF MOUNT HOLLY, NORTH CAROLINA

WATER AND SEWER CAPITAL PROJECTS FUND
 SCHEDULE OF REVENUES AND EXPENDITURES -
 BUDGET AND ACTUAL (NON-GAAP)
 FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2019

		Actual			
	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Current Year</u>	<u>Total to Date</u>	<u>Variance Over/Under</u>
Revenues:					
Investment earnings	\$ -	\$ 138	\$ -	\$ 138	\$ 138
Expenditures:					
PW Campus Project:					
Construction	<u>2,787,500</u>	<u>2,239,260</u>	<u>265,240</u>	<u>2,504,500</u>	<u>283,000</u>
Revenues over (under) expenditures	(2,787,500)	(2,239,122)	(265,240)	(2,504,362)	283,138
Other Financing Sources (Uses):					
Proceeds from debt	<u>2,787,500</u>	<u>2,787,500</u>	<u>-</u>	<u>2,787,500</u>	<u>-</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ 548,378</u>	<u>\$ (265,240)</u>	<u>\$ 283,138</u>	<u>\$ 283,138</u>

CITY OF MOUNT HOLLY, NORTH CAROLINA

WATER AND SEWER - CAPITAL RESERVE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2019

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues:			
System development fees	\$ 442,000	\$ 1,748,971	\$ 1,306,971
Other Financing Sources (Uses)			
Transfers to other funds:			
Water & Sewer Fund	(442,000)	(440,000)	2,000
Net change in fund balance	\$ -	1,308,971	\$ 1,308,971
Fund Balance:			
Beginning of year - July 1		-	
End of year - June 30		\$ 1,308,971	

OTHER SCHEDULES

This section contains additional information on taxes receivable, the current year tax levy, and the balance sheet and budget to actual schedule for the City of Mount Holly Tourism Development Authority as of June 30, 2019.

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CITY OF MOUNT HOLLY, NORTH CAROLINA

SCHEDULE OF AD VALOREM TAXES RECEIVABLE
JUNE 30, 2019

Fiscal Year	Uncollected Balance July 1, 2018	Additions	Collections and Credits	Uncollected Balance June 30, 2019
2018-2019	\$ -	\$ 7,346,529	\$ 7,303,103	\$ 43,426
2017-2018	57,736	-	31,939	25,797
2016-2017	145,134	-	6,975	138,159
2015-2016	72,550	-	3,900	68,650
2014-2015	44,041	-	3,726	40,315
2013-2014	45,682	-	4,577	41,105
2012-2013	37,389	-	2,611	34,778
2011-2012	31,034	-	2,333	28,701
2010-2011	24,134	-	1,987	22,147
2009-2010	25,712	-	1,447	24,265
2008-2009	21,807	-	21,807	-
Total	\$ 505,219	\$ 7,346,529	\$ 7,384,405	467,343
Less allowance for uncollectible accounts:				
General Fund				<u>261,252</u>
Ad valorem taxes receivable, net				<u>\$ 206,091</u>
Reconcilement with Revenues:				
Ad valorem taxes - General Fund				<u>\$ 7,302,657</u>
Reconciling items:				
Interest collected				(7,657)
Taxes written off				21,807
Miscellaneous items				<u>67,598</u>
Total reconciling items				<u>81,748</u>
Total collections and credits				<u>\$ 7,384,405</u>

CITY OF MOUNT HOLLY, NORTH CAROLINA

ANALYSIS OF CURRENT TAX LEVY
CITY-WIDE LEVY
FOR THE YEAR ENDED JUNE 30, 2019

	City-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	\$ 1,385,219,811	\$ 0.53	\$ 7,341,665	\$ 6,569,478	\$ 772,187
Penalties	-		7,560	7,560	-
Total	<u>1,385,219,811</u>		<u>7,349,225</u>	<u>6,577,038</u>	<u>772,187</u>
Discoveries - Current Year Taxes	<u>774,151</u>		<u>4,103</u>	<u>3,999</u>	<u>104</u>
Abatements	<u>(1,282,830)</u>		<u>(6,799)</u>	<u>(6,771)</u>	<u>(28)</u>
Total property valuation	<u>\$ 1,384,711,132</u>				
Net Levy			7,346,529	6,574,266	772,263
Uncollected taxes at June 30, 2019			<u>43,426</u>	<u>43,426</u>	<u>-</u>
Current Year's Taxes Collected			<u>\$ 7,303,103</u>	<u>\$ 6,530,840</u>	<u>\$ 772,263</u>
Current Levy Collection Percentage			99.41%	99.34%	100.00%

CITY OF MOUNT HOLLY, NORTH CAROLINA

SECONDARY MARKET DISCLOSURES
FOR THE YEAR ENDED JUNE 30, 2019Secondary Market Disclosures:**Assessed Valuation:**

Assessment ratio	<u>100.00%</u>
Real property	\$ 1,190,925,068
Personal property	125,843,334
Public service companies	<u>67,942,730</u>
Total assessed valuation	<u>\$ 1,384,711,132</u>
Tax rate per \$100	0.53
Levy (includes discoveries, releases, adjustments, and penalties)	<u>\$ 7,346,529</u>

CITY OF MOUNT HOLLY, NORTH CAROLINA

SCHEDULE OF PRINCIPAL TAXPAYERS
FOR THE YEAR ENDED JUNE 30, 2019

Taxpayer	Type of Business	2019 Assessed Valuation	Percentage of Total Assessed Valuation
Daimler Trucks/Freightliner North America	Truck Manufacturing	\$ 68,428,448	4.94%
Duke Energy Corporation	Utilities	62,085,805	4.48%
Clariant Corporation	Chemical Manufacturing	23,575,845	1.70%
American & Efird, Inc.	Textiles	18,700,145	1.35%
Lake Wylie MF LLC	Building Products Manufacturing	12,580,554	0.91%
Triangle Real Estate Gast Inc.	Real Estate	10,393,127	0.75%
Lennar Carolina's	Building Construction	8,351,002	0.60%
D R Horton Inc	Building Construction	7,772,835	0.56%
Abbey Court Apartment Assoc.	Apartments	7,755,691	0.56%
New, NGC Inc.	Building Products Manufacturing	6,313,403	0.46%
Total		<u>\$ 225,956,855</u>	<u>16.32%</u>

CITY OF MOUNT HOLLY, NORTH CAROLINA

DISCRETELY PRESENTED COMPONENT UNIT
MOUNT HOLLY TOURISM DEVELOPMENT AUTHORITY
BALANCE SHEET
JUNE 30, 2019

	<u>Authority</u>
Assets:	
Cash and cash equivalents	\$ 175,282
Accounts receivable	6,845
Total assets	<u>\$ 182,127</u>
Liabilities:	
Liabilities:	
Accounts payable and accrued liabilities	<u>\$ 3,017</u>
Fund Balance:	
Restricted for:	
Stabilization by state statute	6,845
Tourism	172,265
Total fund balance	<u>179,110</u>
Total liabilities and fund balance	<u>\$ 182,127</u>

CITY OF MOUNT HOLLY, NORTH CAROLINA

DISCRETELY PRESENTED COMPONENT UNIT
MOUNT HOLLY TOURISM DEVELOPMENT AUTHORITY
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2019

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues:			
Occupancy tax revenues	\$ 74,875	\$ 90,040	\$ 15,165
Expenditures:			
Operating:			
Professional services	-	538	(538)
Contracted services	-	1,600	(1,600)
Advertising and marketing	33,000	20,288	12,712
TDA stipends	5,000	3,500	1,500
Supplies	2,550	-	2,550
Travel/training	5,500	214	5,286
Incentive grants	45,000	46,500	(1,500)
Miscellaneous	28,825	22,895	5,930
Total expenditures	<u>119,875</u>	<u>95,535</u>	<u>24,340</u>
Revenues over (under) expenditures	(45,000)	(5,495)	39,505
Other Financing Sources (Uses):			
Fund balance appropriated	<u>45,000</u>	<u>-</u>	<u>(45,000)</u>
Net change in fund balance	<u>\$ -</u>	<u>(5,495)</u>	<u>\$ (5,495)</u>
Fund Balance:			
Beginning of year - July 1		<u>184,605</u>	
End of year - June 30		<u>\$ 179,110</u>	

CITY OF MOUNT HOLLY, NORTH CAROLINA**EMERGENCY TELEPHONE SYSTEM UNSPENT BALANCE
PSAP RECONCILIATION
FOR THE YEAR ENDED JUNE 30, 2019**

Amounts reported on the Emergency Telephone System Fund budget
to actual are different from the PSAP revenue - expenditure report because:

Ending fund balance, reported on budget to actual	\$ 375,700
Cumulative prior period net revenues and expenditures not reported in the fund (difference in beginning fund balance - budget to actual vs. PSAP report)	(12,746)
Additional revenues reported in Emergency Telephone System Fund not reported on PSAP report	<u>(292)</u>
Ending balance, PSAP revenue - expenditure report	<u>\$ 362,662</u>

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COMPLIANCE SECTION

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MARTIN ♦ STARNES & ASSOCIATES, CPAs, P.A.

"A Professional Association of Certified Public Accountants and Management Consultants"

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

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
City of Mount Holly
Mount Holly, North Carolina

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Mount Holly, North Carolina, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City of Mount Holly's basic financial statements, and have issued our report thereon dated October 21, 2019. Our report includes a reference to other auditors who audited the financial statements of the City of Mount Holly ABC Board, as described in our report on the City of Mount Holly's financial statements. The financial statements of the City of Mount Holly ABC Board were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Mount Holly'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 the City of Mount Holly's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Mount Holly'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 City's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or 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 internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Mount Holly's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance 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 non-compliance 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 result of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
Hickory, North Carolina
October 21, 2019

CITY OF MOUNT HOLLY, NORTH CAROLINA

SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED JUNE 30, 2019

1. Summary of Auditor's Results

Financial Statements

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

Internal control over financial reporting:

- | | |
|---|---------------|
| • Material weakness(es) identified? | No |
| • Significant deficiency(ies) identified? | None reported |

Non-compliance material to financial statements noted?	No
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CITY OF MOUNT HOLLY, NORTH CAROLINA

SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED JUNE 30, 2019

2. Financial Statement Findings

None reported.

CITY OF MOUNT HOLLY, NORTH CAROLINA

**SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2019**

Finding 2018-001:

Status: Corrected.

Finding 2018-002:

Status: Corrected.

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