

**CITY OF MOUNT HOLLY
NORTH CAROLINA**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

CITY OF MOUNT HOLLY NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2020

CITY COUNCIL

Mayor
Bryan Hough

City Council Members

Phyllis Harris
Charles McCorkle
Jeff Meadows
David Moore
Christina Pawlish
Lauren Shoemaker

ADMINISTRATIVE AND FINANCIAL STAFF

Miles Braswell, City Manager
Michelle Wood, Finance Director
Becky Conder, Deputy Finance Director

This page left blank intentionally.

CITY OF MOUNT HOLLY, NORTH CAROLINA

FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

TABLE OF CONTENTS

<u>Exhibit</u>		<u>Page</u>
	Independent Auditor's Report	1-3
	Management's Discussion and Analysis	4-13
	Basic Financial Statements:	
	Government-Wide Financial Statements:	
A	Statement of Net Position	14
B	Statement of Activities	15-16
	Fund Financial Statements:	
C	Balance Sheet - Governmental Funds	17-18
D	Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	19
E	Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds to the Statement of Activities	20
F	Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund	21
G	Proprietary Fund: Statement of Net Position - Proprietary Fund	22
H	Statement of Revenues, Expenses, and Changes in Fund Net Position - Proprietary Fund	23
I	Statement of Cash Flows - Proprietary Fund	24
	Notes to the Financial Statements	25-61

CITY OF MOUNT HOLLY, NORTH CAROLINA

FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

TABLE OF CONTENTS

<u>Schedule</u>		<u>Page</u>
	Required Supplemental Financial Data:	
A-1	Law Enforcement Officers' Special Separation Allowance - Schedule of Changes in Total Pension Liability	62
A-2	Law Enforcement Officers' Special Separation Allowance - Schedule of Total Pension Liability as a Percentage of Covered Payroll	63
A-3	Retiree Stipend Plan - Schedule of Changes in Total Pension Liability	64
A-4	Retiree Stipend Plan - Schedule of Total Pension Liability as a Percentage of Covered Payroll	64
A-5	Schedule of Changes in the Total OPEB Liability and Related Ratios	65
A-6	Local Government Employees' Retirement System - City's Proportionate Share of Net Pension Liability (Asset)	66
A-7	Local Government Employees' Retirement System - City of Mount Holly's Contributions	67
	Supplementary Information:	
	Individual Fund Statements and Schedules:	
	Major Governmental Fund:	
1	Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund	69-72
	Nonmajor Governmental Funds:	
2	Combining Balance Sheet	73
3	Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	74

CITY OF MOUNT HOLLY, NORTH CAROLINA

FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

TABLE OF CONTENTS

<u>Schedule</u>		<u>Page</u>
	Special Revenue Fund:	
4	Emergency Telephone System Fund - Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual	75
	Capital Project Fund:	
5	Capital Reserve Fund - Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual	76
6	Capital Projects Fund - Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual	77
	Enterprise Fund:	
7	Water and Sewer Fund - Schedule of Revenues and Expenditures - Budget and Actual - (Non-GAAP)	78-79
8	Water and Sewer Capital Projects Fund Schedule of Revenues and Expenditures - Budget and Actual - (Non-GAAP)	80
9	Water and Sewer Capital Reserve Fund Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - (Non-GAAP)	81
	Supplemental Financial Data:	
10	Schedule of Ad Valorem Taxes Receivable	82
11	Analysis of Current Tax Levy - City-Wide Levy	83
12	Secondary Market Disclosures	84
13	Schedule of Principal Taxpayers	85
14	Mount Holly Tourism Development Authority - Discretely Presented Component Unit - Balance Sheet	86

CITY OF MOUNT HOLLY, NORTH CAROLINA

FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

TABLE OF CONTENTS

<u>Schedule</u>		<u>Page</u>
	Supplemental Financial Data (continued):	
15	Mount Holly Tourism Development Authority - Discretely Presented Component Unit - Schedule of Revenues and Expenditures - Budget and Actual	87
16	Emergency Telephone System Unspent Balance - PSAP Reconciliation	88
	Compliance Section:	
	Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	89-90
	Schedule of Findings and Responses	91-95
	Corrective Action Plan	96-97
	Schedule of Prior Year Audit Findings	98

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, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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 98%, 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, 2020, 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 April 28, 2021, 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
April 28, 2021

This page left blank intentionally.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This page left blank intentionally.

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, 2020. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the City's financial statements, which follow this narrative.

Financial Highlights

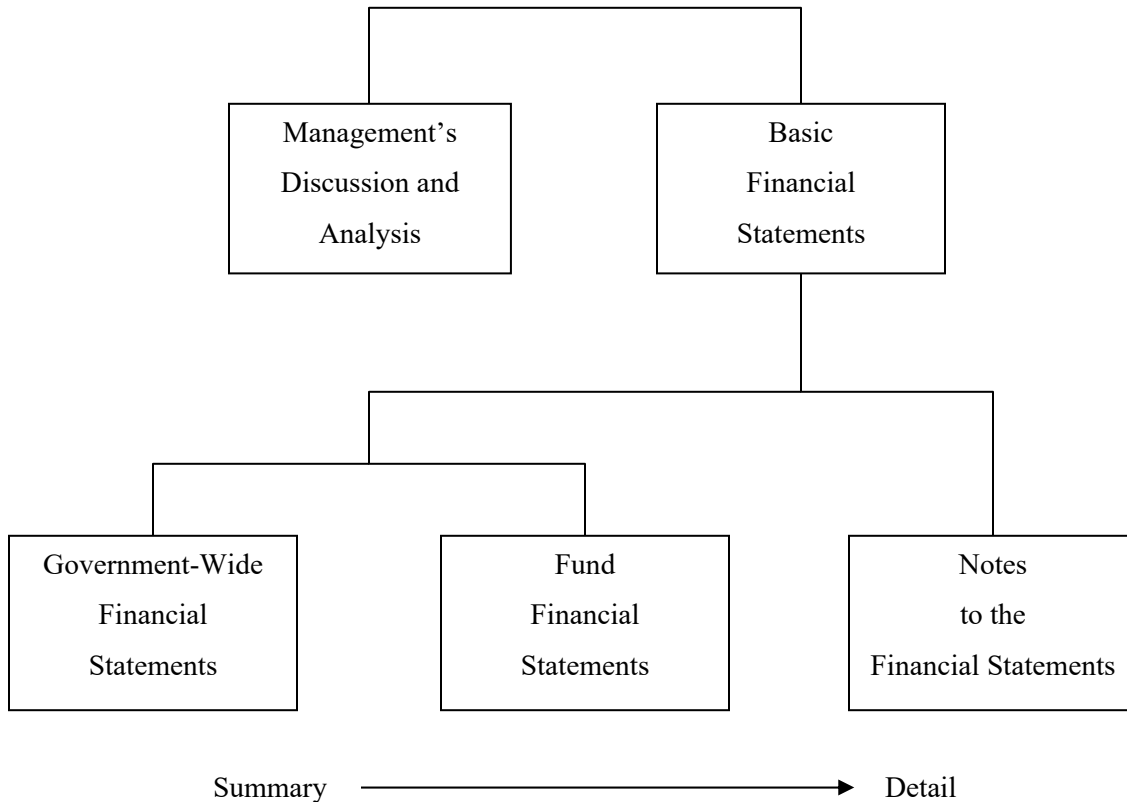
- The assets and deferred outflows of resources for the City of Mount Holly exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$62,932,175 (net position).
- The government's total net position increased by \$4,716,464, mainly due to an increase in the governmental 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 \$16,194,956, with a net increase of \$349,680 in fund balance. Approximately 19.64% of this total amount, or \$3,181,107, is non-spendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$8,403,035, or 62.12%, of total General Fund expenditures for the fiscal year.
- The City of Mount Holly's total governmental debt decreased by \$1,051,378 and business-type activities' debt decreased by \$296,966 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	
	2020	2019	2020	2019	2020	2019
Assets:						
Current and other assets	\$ 17,524,541	\$ 16,720,291	\$ 16,630,857	\$ 15,080,427	\$ 34,155,398	\$ 31,800,718
Capital assets	29,051,056	29,748,795	21,924,797	22,403,366	50,975,853	52,152,161
Total assets	46,575,597	46,469,086	38,555,654	37,483,793	85,131,251	83,952,879
Deferred Outflows of Resources	1,539,081	2,244,293	537,856	804,359	2,076,937	3,048,652
Liabilities:						
Long-term liabilities						
outstanding	16,795,449	19,955,998	5,523,337	6,646,568	22,318,786	26,602,566
Other liabilities	660,040	546,479	476,379	334,488	1,136,419	880,967
Total liabilities	17,455,489	20,502,477	5,999,716	6,981,056	23,455,205	27,483,533
Deferred Inflows of Resources	613,862	1,022,124	206,946	280,163	820,808	1,302,287
Net Position:						
Net investment in						
capital assets	19,387,319	19,050,880	18,539,484	18,928,460	37,926,803	37,979,340
Restricted:						
Stabilization by						
state statute	1,065,411	1,257,726	-	-	1,065,411	1,257,726
Streets	1,553,084	1,358,142	-	-	1,553,084	1,358,142
Public safety	509,009	531,368	-	-	509,009	531,368
Capacity fees	-	-	1,789,188	1,308,971	1,789,188	1,308,971
Unrestricted	7,530,504	4,990,662	12,558,176	10,789,502	20,088,680	15,780,164
Total net position	\$ 30,045,327	\$ 27,188,778	\$ 32,886,848	\$ 31,026,933	\$ 62,932,175	\$ 58,215,711

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 \$62,932,175 as of June 30, 2020. The City's net position increased by \$4,716,464 for the fiscal year ended June 30, 2020. However, the largest portion, (60.27%), 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, \$4,916,662 represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$20,088,680 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 99.07%, 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	
	2020	2019	2020	2019	2020	2019
Revenues:						
Program revenues:						
Charges for services	\$ 1,001,323	\$ 1,055,277	\$ 8,574,513	\$ 7,971,486	\$ 9,575,836	\$ 9,026,763
Operating grants and contributions	162,649	287,632	-	-	162,649	287,632
Capital grants and contributions	987,987	899,605	-	-	987,987	899,605
General revenues:						
Property taxes	7,999,631	7,256,854	-	-	7,999,631	7,256,854
Other taxes and licenses	4,348,581	4,228,666	-	-	4,348,581	4,228,666
Other revenues	765,482	1,045,969	-	418,550	765,482	1,464,519
Total revenues	<u>15,265,653</u>	<u>14,774,003</u>	<u>8,574,513</u>	<u>8,390,036</u>	<u>23,840,166</u>	<u>23,164,039</u>
Expenses:						
General government	1,987,611	1,803,875	-	-	1,987,611	1,803,875
Public safety	5,460,220	5,987,695	-	-	5,460,220	5,987,695
Planning and zoning	490,420	561,473	-	-	490,420	561,473
Transportation and environmental protection	2,098,391	2,407,468	-	-	2,098,391	2,407,468
Garage	86,680	104,863	-	-	86,680	104,863
Culture and recreation	1,217,279	935,458	-	-	1,217,279	935,458
Water and sewer	-	-	7,460,598	6,853,282	7,460,598	6,853,282
Interest and fees	322,503	309,488	-	-	322,503	309,488
Total expenses	<u>11,663,104</u>	<u>12,110,320</u>	<u>7,460,598</u>	<u>6,853,282</u>	<u>19,123,702</u>	<u>18,963,602</u>
Increase in net position before transfers	3,602,549	2,663,683	1,113,915	1,536,754	4,716,464	4,200,437
Transfers in (out)	<u>(746,000)</u>	<u>-</u>	<u>746,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in net position	2,856,549	2,663,683	1,859,915	1,536,754	4,716,464	4,200,437
Net Position:						
Beginning of year - July 1,	<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>
End of year - June 30	<u>\$ 30,045,327</u>	<u>\$ 27,188,778</u>	<u>\$ 32,886,848</u>	<u>\$ 31,026,933</u>	<u>\$ 62,932,175</u>	<u>\$ 58,215,711</u>

Governmental Activities. Governmental activities increased the City's net position by \$2,856,549, thereby accounting for 60.57% 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 due to revaluation and other taxes and licenses revenues

Business-Type Activities. Business-type activities increased the City's net position by \$1,859,915, thereby accounting for 39.43% of the total increase in the net position of the City of Mount Holly.

Key elements to this increase are as follows:

- Additional fees adopted for future water and sewer line replacements
- Increase in other revenues received due to rate increase per the rate plan

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 \$13,410,161 while total fund balance reached \$14,529,175. The City currently has an available fund balance of 99.13% of total General Fund expenditures, while total fund balance represents 107.41% of the same amount.

At June 30, 2020, the governmental funds of the City reported a combined fund balance of \$16,194,956, with a net increase in fund balance of \$349,680. The primary reason for this increase was a decrease in expenditures and increase in tax revenues.

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 \$1,570,035. 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 \$12,558,176. Restricted net position of \$1,789,188 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 \$1,859,915. 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, 2020, totals \$50,975,853 (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:

- Parking lot renovation
- Construction in progress of a new public works facility and fire station
- Purchases of new equipment in the Enterprise Fund
- Upgrades to infrastructure

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

	Governmental Activities		Business-Type Activities		Total	
	2020	2019	2020	2019	2020	2019
Land	\$ 7,954,365	\$ 7,728,008	\$ 569,712	\$ 569,712	\$ 8,524,077	\$ 8,297,720
Construction in progress	62,398	1,465,805	278,036	-	340,434	1,465,805
Buildings	15,913,160	15,014,366	6,570,703	6,882,407	22,483,863	21,896,773
Infrastructure	3,547,375	3,651,942	-	-	3,547,375	3,651,942
Plant and distribution systems	-	-	13,264,358	13,876,486	13,264,358	13,876,486
Building improvements	-	-	224,769	168,046	224,769	168,046
Land improvements	237,263	251,156	342,200	210,053	579,463	461,209
Office furniture and equipment	97,509	126,056	572,903	667,875	670,412	793,931
Other equipment	513,108	622,127	-	-	513,108	622,127
Vehicles	725,878	889,335	102,116	28,787	827,994	918,122
Total	\$ 29,051,056	\$ 29,748,795	\$ 21,924,797	\$ 22,403,366	\$ 50,975,853	\$ 52,152,161

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, 2020, the City had total bonded debt outstanding of \$1,889,000.

City of Mount Holly's Long-term Debt

Figure 5

	Governmental Activities		Business-Type Activities		Total	
	2020	2019	2020	2019	2020	2019
Installment purchase - direct placement	\$ 7,774,737	\$ 8,509,662	\$ 3,385,313	\$ 3,682,279	\$ 11,160,050	\$ 12,191,941
Bonds payable	1,889,000	2,202,000	-	-	1,889,000	2,202,000
Capital leases - direct placement	-	3,453	-	-	-	3,453
Total	\$ 9,663,737	\$ 10,715,115	\$ 3,385,313	\$ 3,682,279	\$ 13,049,050	\$ 14,397,394

The City's total long-term debt decreased by \$1,348,344 (9.37%) during the 2020 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 \$120,314,000.

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:

- 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, closing of the SRF Loan
- Concentration in developing an Arts Council Board

Budget Highlights for the Fiscal Year Ending June 30, 2021

Governmental Activities. Budgeted expenditures in the General Fund are expected to decrease by 9.2% to \$12,844,106.

The tax rate remained the same at \$.0485 per \$100 of value.

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 wastewater 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

This page left blank intentionally.

CITY OF MOUNT HOLLY, NORTH CAROLINA

STATEMENT OF NET POSITION
JUNE 30, 2020

				Component Units	
	Primary Government		Total	City of Mount Holly ABC Board	Mount Holly Tourism Development Authority
	Governmental Activities	Business-Type Activities			
Assets:					
Current assets:					
Cash and cash equivalents	\$ 13,986,728	\$ 13,433,836	\$ 27,420,564	\$ 599,141	\$ 193,709
Taxes receivables, net	165,261	-	165,261	-	-
Accounts receivable, net	163,645	1,083,014	1,246,659	-	-
Due from other governments	1,455,217	-	1,455,217	-	5,191
Inventories	53,603	64,296	117,899	160,909	-
Prepays	-	-	-	14,308	-
Restricted assets:					
Cash and cash equivalents	1,700,087	2,049,711	3,749,798	-	-
Total current assets	17,524,541	16,630,857	34,155,398	774,358	198,900
Non-current assets:					
Capital assets:					
Land and construction in progress	8,016,763	847,748	8,864,511	168,000	-
Other capital assets, net of depreciation	21,034,293	21,077,049	42,111,342	401,537	-
Total capital assets	29,051,056	21,924,797	50,975,853	569,537	-
Total non-current assets	29,051,056	21,924,797	50,975,853	569,537	-
Total assets	46,575,597	38,555,654	85,131,251	1,343,895	198,900
Deferred Outflows of Resources:					
OPEB deferrals	175,486	64,638	240,124	-	-
Pension deferrals	1,363,595	473,218	1,836,813	-	-
Total deferred outflows of resources	1,539,081	537,856	2,076,937	-	-
Liabilities:					
Current liabilities:					
Accounts payable and accrued liabilities	596,128	215,856	811,984	181,116	-
Accrued interest payable	49,167	-	49,167	-	-
Current portion of long-term liabilities	1,246,113	331,028	1,577,141	-	-
Distribution payable	-	-	-	59,450	-
Payable from restricted assets	14,745	260,523	275,268	-	-
Total current liabilities	1,906,153	807,407	2,713,560	240,566	-
Long-term liabilities:					
Net pension liability - LGERS	2,171,000	802,974	2,973,974	-	-
Total pension liability - LEOSSA	1,103,327	-	1,103,327	-	-
Total OPEB liability	3,396,650	1,257,147	4,653,797	-	-
Due in more than one year	8,878,359	3,132,188	12,010,547	-	-
Total long-term liabilities	15,549,336	5,192,309	20,741,645	-	-
Total liabilities	17,455,489	5,999,716	23,455,205	240,566	-
Deferred Inflows of Resources:					
OPEB deferrals	464,503	171,659	636,162	-	-
Pension deferrals	149,359	35,287	184,646	-	-
Total deferred inflows of resources	613,862	206,946	820,808	-	-
Net Position:					
Net investment in capital assets	19,387,319	18,539,484	37,926,803	569,537	-
Restricted for:					
Stabilization by state statute	1,065,411	-	1,065,411	-	5,191
Streets	1,553,084	-	1,553,084	-	-
Public safety	509,009	-	509,009	-	-
Capacity fees	-	1,789,188	1,789,188	-	-
Working capital	-	-	-	79,921	-
Tourism	-	-	-	-	193,709
Unrestricted	7,530,504	12,558,176	20,088,680	453,871	-
Total net position	\$ 30,045,327	\$ 32,886,848	\$ 62,932,175	\$ 1,103,329	\$ 198,900

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

CITY OF MOUNT HOLLY, NORTH CAROLINA

Exhibit B
Page 1 of 2

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2020

		Program Revenues		
		Charges for	Operating	Capital
	Expenses	Services	Grants and	Grants and
			Contributions	Contributions
Function/Programs:				
Primary Government:				
Governmental Activities:				
General government	\$ 1,987,611	\$ 70,535	\$ 83,824	\$ -
Public safety	5,460,220	-	66,730	-
Planning and zoning	490,420	-	-	-
Transportation and environmental protection	2,098,391	839,007	12,095	434,536
Garage	86,680	-	-	-
Culture and recreation	1,217,279	91,781	-	553,451
Interest on long-term debt	322,503	-	-	-
Total governmental activities	<u>11,663,104</u>	<u>1,001,323</u>	<u>162,649</u>	<u>987,987</u>
Business-Type Activities:				
Water and Sewer	<u>7,460,598</u>	<u>8,574,513</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 19,123,702</u>	<u>\$ 9,575,836</u>	<u>\$ 162,649</u>	<u>\$ 987,987</u>
Component Units:				
ABC Board	\$ 2,601,990	\$ 2,690,627	\$ -	\$ -
Tourism Development Authority	<u>47,753</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total component units	<u>\$ 2,649,743</u>	<u>\$ 2,690,627</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, 2020

	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	\$ (1,833,252)	\$ -	\$ (1,833,252)		
Public safety	(5,393,490)	-	(5,393,490)		
Planning and zoning	(490,420)	-	(490,420)		
Transportation and environmental protection	(812,753)	-	(812,753)		
Garage	(86,680)	-	(86,680)		
Culture and recreation	(572,047)	-	(572,047)		
Interest on long-term debt	(322,503)	-	(322,503)		
Total governmental activities	(9,511,145)	-	(9,511,145)		
Business-Type Activities:					
Water and sewer	-	1,113,915	1,113,915		
Total primary government	(9,511,145)	1,113,915	(8,397,230)		
Component Units:					
ABC Board				\$ 88,637	\$ -
Tourism Development Authority				-	(47,753)
Total component units				88,637	(47,753)
General Revenues:					
Taxes:					
Property taxes, levied for general purposes	7,999,631	-	7,999,631	-	-
Other taxes and licenses	4,348,581	-	4,348,581	-	67,543
Unrestricted investment earnings	361,270	-	361,270	3,939	-
Miscellaneous	404,212	-	404,212	-	-
Total general revenues	13,113,694	-	13,113,694	3,939	67,543
Transfers	(746,000)	746,000	-	-	-
Total general revenues and transfers	12,367,694	746,000	13,113,694	3,939	67,543
Change in net position	2,856,549	1,859,915	4,716,464	92,576	19,790
Net Position:					
Beginning of year - July 1	27,188,778	31,026,933	58,215,711	1,010,753	179,110
End of year - June 30	\$ 30,045,327	\$ 32,886,848	\$ 62,932,175	\$ 1,103,329	\$ 198,900

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

CITY OF MOUNT HOLLY, NORTH CAROLINA

BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2020

	<u>Major Fund</u>	<u>Total</u>	<u>Total</u>
	<u>General</u>	<u>Nonmajor</u>	<u>Governmental</u>
	<u>Fund</u>	<u>Governmental</u>	<u>Governmental</u>
		<u>Funds</u>	<u>Funds</u>
Assets:			
Cash and cash equivalents	\$ 12,320,947	\$ 1,665,781	\$ 13,986,728
Receivables, net:			
Taxes receivable	165,261	-	165,261
Accounts receivable	163,645	-	163,645
Due from other governments	1,302,341	152,876	1,455,217
Inventories	53,603	-	53,603
Restricted cash and cash equivalents	1,700,087	-	1,700,087
Total assets	<u>\$ 15,705,884</u>	<u>\$ 1,818,657</u>	<u>\$ 17,524,541</u>
Liabilities, Deferred Inflows of Resources, and Fund Balances:			
Liabilities:			
Accounts payable and accrued liabilities	\$ 596,128	\$ -	\$ 596,128
Payable from restricted assets:			
Deposits	14,745	-	14,745
Total liabilities	<u>610,873</u>	<u>-</u>	<u>610,873</u>
Deferred Inflows of Resources:			
Unavailable revenue - grants	400,575	152,876	553,451
Unavailable revenue - property taxes receivable	165,261	-	165,261
Total deferred inflows of resources	<u>565,836</u>	<u>152,876</u>	<u>718,712</u>
Fund Balances:			
Non-spendable:			
Inventories	53,603	-	53,603
Restricted:			
Stabilization by state statute	1,065,411	-	1,065,411
Streets	1,553,084	-	1,553,084
Public safety	132,258	376,751	509,009
Committed	1,118,938	1,289,030	2,407,968
Assigned	2,202,846	-	2,202,846
Unassigned	8,403,035	-	8,403,035
Total fund balances	<u>14,529,175</u>	<u>1,665,781</u>	<u>16,194,956</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 15,705,884</u>	<u>\$ 1,818,657</u>	<u>\$ 17,524,541</u>

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

CITY OF MOUNT HOLLY, NORTH CAROLINA

BALANCE SHEET - GOVERNMENTAL FUNDS **JUNE 30, 2020**

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		\$ 16,194,956
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Gross capital assets at historical cost	\$ 40,315,200	
Accumulated depreciation	<u>(11,264,144)</u>	29,051,056
Liabilities for earned revenues considered deferred inflows of resources in fund statements.		718,712
Long-term liabilities used in governmental activities are not financial uses and, therefore, are not reported in the funds.		
Accrued interest payable	(49,167)	
Gross long-term debt	<u>(10,124,472)</u>	(10,173,639)
Total pension liability - LEOSA		(1,103,327)
Total OPEB liability		(3,396,650)
Deferred outflows of resources related to OPEB are not reported in the funds.		175,486
Deferred inflows of resources related to OPEB are not reported in the funds.		(464,503)
Net pension liability - LGERS		(2,171,000)
Deferred outflows of resources related to pensions are not reported in the funds.		1,363,595
Deferred inflows of resources related to pensions are not reported in the funds.		<u>(149,359)</u>
Net position of governmental activities (Exhibit A)		<u>\$ 30,045,327</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, 2020

	<u>Major Fund</u>	<u>Total</u>	<u>Total</u>
	<u>General</u>	<u>Nonmajor</u>	<u>Governmental</u>
	<u>Fund</u>	<u>Governmental</u>	<u>Governmental</u>
		<u>Funds</u>	<u>Funds</u>
Revenues:			
Ad valorem taxes	\$ 8,040,461	\$ -	\$ 8,040,461
Other taxes and licenses	175,200	-	175,200
Unrestricted intergovernmental	4,173,381	-	4,173,381
Restricted intergovernmental	530,455	66,730	597,185
Permits and fees	909,542	-	909,542
Sales and services	91,781	-	91,781
Investment earnings	336,646	24,624	361,270
Miscellaneous	368,868	-	368,868
Total revenues	<u>14,626,334</u>	<u>91,354</u>	<u>14,717,688</u>
Expenditures:			
Current:			
General government	2,311,278	11,100	2,322,378
Public safety	5,649,278	56,916	5,706,194
Planning and zoning	561,136	-	561,136
Transportation and environmental protection	2,152,910	-	2,152,910
Garage	139,581	-	139,581
Culture and recreation	1,372,220	59,290	1,431,510
Debt service:			
Principal	1,047,925	3,453	1,051,378
Interest and fees	292,963	34,802	327,765
Total expenditures	<u>13,527,291</u>	<u>165,561</u>	<u>13,692,852</u>
Revenues over (under) expenditures	<u>1,099,043</u>	<u>(74,207)</u>	<u>1,024,836</u>
Other Financing Sources (Uses):			
Transfers from (to) other funds	-	(746,000)	(746,000)
Proceeds from property disposal	70,844	-	70,844
Total other financing sources (uses)	<u>70,844</u>	<u>(746,000)</u>	<u>(675,156)</u>
Net change in fund balances	1,169,887	(820,207)	349,680
Fund Balances:			
Beginning of year - July 1	<u>13,359,288</u>	<u>2,485,988</u>	<u>15,845,276</u>
End of year - June 30	<u>\$ 14,529,175</u>	<u>\$ 1,665,781</u>	<u>\$ 16,194,956</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, 2020**

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

Net changes in fund balances - total governmental funds	\$	349,680
---	----	---------

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	\$	876,753	
Disposal of assets, net		(35,500)	
Depreciation expense for governmental assets		<u>(1,538,992)</u>	(697,739)

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>512,621</u>	512,621
--	--	----------------	---------

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>1,051,378</u>	1,051,378
--------------------------------------	--	------------------	-----------

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	(67,149)	
Accrued interest expense	5,262	
LEOSSA pension expense	11,972	
RSP pension expense	5,098,210	
Pension expense - LGERS	(468,749)	
Other post-employment benefits obligation	<u>(2,938,937)</u>	<u>1,640,609</u>

Total changes in net position of governmental activities (Exhibit B)	\$	<u><u>2,856,549</u></u>
--	----	-------------------------

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, 2020

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
				Over/Under
Revenues:				
Ad valorem taxes	\$ 7,585,762	\$ 7,585,762	\$ 8,040,461	\$ 454,699
Other taxes and licenses	123,801	123,801	175,200	51,399
Unrestricted intergovernmental	3,533,183	3,533,183	4,173,381	640,198
Restricted intergovernmental	569,527	580,528	530,455	(50,073)
Permits and fees	924,549	924,549	909,542	(15,007)
Sales and services	111,097	111,097	91,781	(19,316)
Investment earnings	351,935	351,935	336,646	(15,289)
Miscellaneous	187,776	210,746	368,868	158,122
Total revenues	<u>13,387,630</u>	<u>13,421,601</u>	<u>14,626,334</u>	<u>1,204,733</u>
Expenditures:				
Current:				
General government	2,535,169	2,834,075	2,311,278	522,797
Public safety	5,821,100	5,875,446	5,649,278	226,168
Planning and zoning	629,175	975,250	561,136	414,114
Transportation and environmental protection	2,687,221	2,788,634	2,152,910	635,724
Garage	146,700	146,700	139,581	7,119
Culture and recreation	1,707,200	2,240,067	1,372,220	867,847
Debt service:				
Principal	868,520	1,047,925	1,047,925	-
Interest and fees	235,943	292,966	292,963	3
Total expenditures	<u>14,631,028</u>	<u>16,201,063</u>	<u>13,527,291</u>	<u>2,673,772</u>
Revenues over (under) expenditures	<u>(1,243,398)</u>	<u>(2,779,462)</u>	<u>1,099,043</u>	<u>3,878,505</u>
Other Financing Sources (Uses):				
Proceeds from property disposal	10,000	10,000	70,844	60,844
Fund balance appropriated	<u>1,233,398</u>	<u>2,769,462</u>	<u>-</u>	<u>(2,769,462)</u>
Total other financing sources (uses)	<u>1,243,398</u>	<u>2,779,462</u>	<u>70,844</u>	<u>(2,708,618)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>1,169,887</u>	<u>\$ 1,169,887</u>
Fund Balance:				
Beginning of year - July 1			<u>13,359,288</u>	
End of year - June 30			<u>\$ 14,529,175</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, 2020

	<u>Enterprise Fund</u>
	<u>Major Fund</u>
	<u>Water and Sewer Fund</u>
Assets:	
Current assets:	
Cash and cash equivalents	\$ 13,433,836
Accounts receivable, net	1,083,014
Inventories	64,296
Restricted assets:	
Cash and cash equivalents	2,049,711
Total current assets	<u>16,630,857</u>
Non-current assets:	
Capital assets:	
Land and other non-depreciable assets	847,748
Other capital assets, net of depreciation	21,077,049
Total non-current assets	<u>21,924,797</u>
Total assets	<u>38,555,654</u>
Deferred Outflows of Resources:	
OPEB deferrals	64,638
Pension deferrals	473,218
Total deferred outflows of resources	<u>537,856</u>
Liabilities, Deferred Inflows of Resources, and Net Position:	
Liabilities:	
Current liabilities:	
Accounts payable and accrued liabilities	215,856
Compensated absences - current	31,161
Other long-term debt - current	299,867
Payable from restricted assets:	
Customer deposits	260,523
Total current liabilities	<u>807,407</u>
Non-current liabilities:	
Net pension liability - LGERS	802,974
Compensated absences	46,742
Total OPEB liability	1,257,147
Other long-term debt - non-current	3,085,446
Total non-current liabilities	<u>5,192,309</u>
Total liabilities	<u>5,999,716</u>
Deferred Inflows of Resources:	
OPEB deferrals	171,659
Pension deferrals	35,287
Total deferred inflows of resources	<u>206,946</u>
Net Position:	
Net investment in capital assets	18,539,484
Restricted	1,789,188
Unrestricted	12,558,176
Total net position	<u>\$ 32,886,848</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, 2020

	<u>Enterprise Fund</u> <u>Major Fund</u> <u>Water and</u> <u>Sewer</u> <u>Fund</u>
Operating Revenues:	
Charges for services	\$ 7,269,397
Water and sewer taps and development fees	1,096,651
Other operating revenues	<u>125,669</u>
Total operating revenues	<u>8,491,717</u>
Operating Expenses:	
Utility Admin	2,701,910
Water department operations	752,161
Sewer department operations	963,822
Storm water operations	105,294
Utilities operations	1,214,190
Utility Admin IT	74,498
Utility Admin Maintenance	368,549
Depreciation	<u>1,174,414</u>
Total operating expenses	<u>7,354,838</u>
Operating income (loss)	<u>1,136,879</u>
Non-Operating Revenues (Expenses):	
Rental income	82,796
Interest expense	<u>(105,760)</u>
Total non-operating revenues (expenses)	<u>(22,964)</u>
Income (loss) before contributions	1,113,915
Transfers (to) from other funds	<u>746,000</u>
Change in net position	1,859,915
Net Position:	
Beginning of year - July 1	<u>31,026,933</u>
End of year - June 30	<u>\$ 32,886,848</u>

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, 2020

	<u>Enterprise Fund</u> <u>Major Fund</u> <u>Water and</u> <u>Sewer</u> <u>Fund</u>
Cash Flows from Operating Activities:	
Cash received from customers	\$ 8,565,293
Cash paid for goods and services	(4,017,086)
Cash paid to or on behalf of employees for services	(2,653,717)
Customer deposits received (paid)	<u>12,401</u>
Net cash provided (used) by operating activities	<u>1,906,891</u>
Cash Flows from Non-Capital Financing Activities:	
Rental income	82,796
Transfers from other funds	<u>746,000</u>
Net cash provided (used) by non-capital financing activities	<u>828,796</u>
Cash Flows from Capital and Related Financing Activities:	
Acquisition and construction of capital assets	(695,845)
Principal paid on long-term debt	(296,966)
Interest paid on long-term debt	<u>(105,760)</u>
Net cash provided (used) by capital and related financing activities	<u>(1,098,571)</u>
Net increase (decrease) in cash and cash equivalents	1,637,116
Cash and Cash Equivalents:	
Beginning of year - July 1	<u>13,846,431</u>
End of year - June 30	<u>\$ 15,483,547</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities :	
Operating income (loss)	<u>\$ 1,136,879</u>
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	1,174,414
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	73,576
(Increase) decrease in inventory	13,110
(Increase) decrease in deferred outflows of resources for pensions	286,352
Increase (decrease) in deferred inflows of resources for pensions	(222,797)
Increase (decrease) in net pension liability - LGERS	139,510
Increase (decrease) in total pension liability - RSP	(1,915,330)
Increase (decrease) in accounts payable and accrued liabilities	129,490
Increase (decrease) in customer deposits	12,401
Increase (decrease) in OPEB liability	957,273
(Increase) decrease in deferred outflows of resources - OPEB	(19,849)
Increase (decrease) in deferred inflows of resources - OPEB	149,580
Increase (decrease) in accrued vacation pay	<u>(7,718)</u>
Total adjustments	<u>770,012</u>
Net cash provided (used) by operating activities	<u>\$ 1,906,891</u>

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

This page left blank intentionally.

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

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, 2020

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 fund:

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.

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.

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

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

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.

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.

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

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, Capital Project Fund Capital Reserve Fund, Enterprise Fund, Water and Sewer Fund Capital Reserve 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 Water and Sewer Capital Projects Fund. 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 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.

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

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) money market mutual fund, is measured at fair value. The NCCMT- Term Portfolio's is bond fund, has no rating, and is measured at fair value. As of June 30, 2020, the term portfolio has a duration of .15 years. Because the NCCMT Government and Term Portfolios have a weighted average maturity of less than 90 days, they are presented as an investment with a maturity of less than 6 months.

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.

Systems development fees in the Water and Sewer fund are classified as restricted because the funds are collected for a specific purpose and must only be used for that purpose.

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

Governmental Activities:

General Fund:

Drug forfeiture	\$ 132,258
Powell Bill	1,553,084
Customer deposits	<u>14,745</u>
Total governmental activities	<u>1,700,087</u>

Business-Type Activities:

Water & Sewer Fund:

Customer deposits	260,523
Capital reserve - system development fees	<u>1,789,188</u>
Total business-type activities	<u>2,049,711</u>

Total restricted cash	<u><u>\$ 3,749,798</u></u>
-----------------------	----------------------------

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, 2019.

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

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, 2020

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 two items that meet this criteria, OPEB 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 two items that meet the criteria for this category, OPEB deferrals and pension deferrals.

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

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.

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

Fund Balances

In the governmental fund financial statements, fund balance is composed of five classifications designed to disclose the hierarchy of constraints placed on how fund balance can be spent. The governmental fund types classify fund balances as follows:

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

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

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.

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

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 \$1,209,279. Portion of fund balance in the General Fund for annual debt service payments in the amount of \$1,118,938.

Committed for Culture and Recreation – portion of fund balance in the Capital Projects Fund committed for the Greenway project in the amount of \$79,751.

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, \$962,449, that is appropriated in the next year's budget that is not already classified in restricted or committed. The governing body approves the appropriation.

General Government – portion of fund balance, \$1,240,397, that is designated by management and Council for future expenditures. Of this \$1,240,397, \$903,803 is assigned for ABC Parks and Recreation expenses and \$336,594 is assigned for Caramont Greenway Expenses.

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.

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

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	\$ 14,529,175
Less:	
Inventories	53,603
Stabilization by state statute	<u>1,065,411</u>
Total available fund balance	<u>\$ 13,410,161</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.

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. 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.

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

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 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, 2020, the City's deposits had a carrying amount of \$2,232,428 and a bank balance of \$1,695,429. Of the bank balance, \$500,000 was covered by federal depository insurance and the remainder of \$1,732,428 was covered by collateral held under the Pooling Method.

The carrying amount of deposits for the Authority was \$193,709, and the bank balance was \$193,586. All of the bank balance was covered by federal depository insurance.

At June 30, 2020, the City's petty cash fund totaled \$250.

Investments

At June 30, 2020, the City had \$28,937,684 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.

Interest rate risk. The City has no formal investment policy regarding interest rate risk.

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

Credit Risk. The City has no formal policy regarding credit risk but has internal management procedure that limits the City's investments to the provisions of G.S. 159-30 and restricts the purchase of securities to the highest possible ratings whenever particular types of securities are rated. The City's investment in the NC Capital Management Trust- Government Portfolio carried a credit rating of AAAM by Standard & Poor's as of June 30, 2020.

Receivables – Allowance for Doubtful Accounts

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

General Fund:

Taxes receivable	\$ 304,787
Accounts receivable	43,453
Total General Fund	<u>348,240</u>

Enterprise Funds:

Water and Sewer Fund	<u>387,615</u>
Total enterprise funds	<u>387,615</u>

Total allowances	<u>\$ 735,855</u>
------------------	-------------------

Due from other governments on the Statement of Net Position as of June 30, 2020 consists of:

Governmental Activities:

Other state shared revenues	\$ 220,108
Local option sales tax	477,919
Sales tax refund	98,377
Due from the state	66,319
Others	<u>592,494</u>
Total governmental funds	<u>\$ 1,455,217</u>

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

Capital Assets

Primary Government

Capital asset activity for the primary government for the year ended June 30, 2020 was as follows:

	<u>July 1, 2019</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>June 30, 2020</u>
Governmental Activities:					
Non-Depreciable Capital Assets:					
Land	\$ 7,728,008	\$ 261,857	\$ 35,500	\$ -	\$ 7,954,365
Construction in progress	1,465,805	145,085	-	(1,548,492)	62,398
Total non-depreciable capital assets	<u>9,193,813</u>	<u>406,942</u>	<u>35,500</u>	<u>(1,548,492)</u>	<u>8,016,763</u>
Depreciable Capital Assets:					
Buildings	17,187,719	198,676	-	1,548,492	18,934,887
Infrastructure	4,723,748	-	-	-	4,723,748
Improvements	754,154	8,710	-	-	762,864
Office furniture, equipment, and computer equipment	351,565	-	-	-	351,565
Other equipment	1,977,841	4,440	-	-	1,982,281
Vehicles	5,285,107	257,985	-	-	5,543,092
Total depreciable capital assets	<u>30,280,134</u>	<u>469,811</u>	<u>-</u>	<u>1,548,492</u>	<u>32,298,437</u>
Less Accumulated Depreciation:					
Buildings	2,173,353	848,374	-	-	3,021,727
Infrastructure	1,071,806	104,567	-	-	1,176,373
Improvements	502,998	22,603	-	-	525,601
Office furniture, equipment, and computer equipment	225,509	28,547	-	-	254,056
Other equipment	1,355,714	113,459	-	-	1,469,173
Vehicles	4,395,772	421,442	-	-	4,817,214
Total accumulated depreciation	<u>9,725,152</u>	<u>\$ 1,538,992</u>	<u>\$ -</u>	<u>\$ -</u>	<u>11,264,144</u>
Total depreciable capital assets, net	<u>20,554,982</u>				<u>21,034,293</u>
Governmental activities capital assets, net	<u>\$ 29,748,795</u>				<u>\$ 29,051,056</u>

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

General government	\$ 69,037
Public safety	1,137,298
Planning and zoning	1,324
Transportation and environmental protection	274,349
Garage	7,797
Cultural and recreational	49,187
Total	<u>\$ 1,538,992</u>

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

Business-Type Activities

Capital asset activity of the business-type activities for the year ended June 30, 2020 was as follows:

	<u>July 1, 2019</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>June 30, 2020</u>
Business-Type Activities:					
Water and Sewer Fund:					
Non-Depreciable					
Capital Assets:					
Land	\$ 569,712	\$ -	\$ -	\$ -	\$ 569,712
Construction in progress	<u>-</u>	<u>278,036</u>	<u>-</u>	<u>-</u>	<u>278,036</u>
Total non-depreciable capital assets	<u>569,712</u>	<u>278,036</u>	<u>-</u>	<u>-</u>	<u>847,748</u>
Depreciable Capital Assets:					
Plant and distribution systems	26,863,028	-	-	-	26,863,028
Buildings	18,303,866	66,693	-	-	18,370,559
Building improvements	170,408	69,427	-	-	239,835
Vehicles	569,440	102,341	-	-	671,781
FFC and other equipment	2,969,046	42,116	-	-	3,011,162
Land improvements	244,065	137,232	-	-	381,297
Operating manuals	<u>16,087</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,087</u>
Total depreciable capital assets	<u>49,135,940</u>	<u>417,809</u>	<u>-</u>	<u>-</u>	<u>49,553,749</u>
Less Accumulated					
Depreciation:					
Plant and distribution systems	12,986,542	612,128	-	-	13,598,670
Buildings	11,421,459	378,397	-	-	11,799,856
Building improvements	2,362	12,704	-	-	15,066
Vehicles	540,653	29,012	-	-	569,665
FFC and other equipment	2,301,171	137,088	-	-	2,438,259
Land improvements	34,012	5,085	-	-	39,097
Operating manuals	<u>16,087</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,087</u>
Total accumulated depreciation	<u>27,302,286</u>	<u>\$ 1,174,414</u>	<u>\$ -</u>	<u>\$ -</u>	<u>28,476,700</u>
Total depreciable capital assets, net	<u>21,833,654</u>				<u>21,077,049</u>
Water and Sewer Fund capital assets, net	<u>\$ 22,403,366</u>				<u>\$ 21,924,797</u>

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

Construction Commitments

The government has active construction projects as of June 30, 2020. At year-end, the government's commitments with contractors are as follows:

<u>Project</u>	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
Greenway Project	\$ 1,525,095	\$ 860,641
Dutchman's Creek	251,512	2,248,488
Total	<u>\$ 1,776,607</u>	<u>\$ 3,109,129</u>

B. Liabilities

Payables

Payables at the government-wide level at June 30, 2020 were as follows:

	<u>Vendors</u>	<u>Salaries and Benefits</u>	<u>Due to Other Governments</u>	<u>Total</u>
Governmental Activities:				
General Fund	<u>\$ 221,995</u>	<u>\$ 374,133</u>	<u>\$ -</u>	<u>\$ 596,128</u>
Business-Type Activities:				
Water and sewer	<u>\$ 181,210</u>	<u>\$ 31,446</u>	<u>\$ 3,200</u>	<u>\$ 215,856</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, 2020

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, 2020, was 9.7% of compensation for law enforcement officers and 9.01% 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 \$648,193 for the year ended June 30, 2020.

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, 2020

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

At June 30, 2020, the City reported a liability of \$2,973,974 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2018. The total pension liability was then rolled forward to the measurement date of June 30, 2019 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, 2020, the City's proportion was 0.109% (measured as of June 30, 2019), which was an increase of 0.005% from its proportion as of June 30, 2019 (measured as of June 30, 2018).

For the year ended June 30, 2020, the City recognized pension expense of \$1,290,316. At June 30, 2020, 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	\$ 509,220	\$ -
Changes of assumptions	484,708	-
Net difference between projected and actual earnings on pension plan investments	72,540	-
Changes in proportion and differences between City contributions and proportionate share of contributions	22,610	69,124
City contributions subsequent to the measurement date	648,193	-
Total	<u>\$ 1,737,271</u>	<u>\$ 69,124</u>

\$648,193 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, 2021.

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

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>
2021	\$ 502,502
2022	145,987
2023	283,415
2024	88,050
2025	-
Thereafter	-
Total	<u>\$ 1,019,954</u>

Actuarial Assumptions. The total pension liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	3.50 percent
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, 2018 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, 2020

The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2019 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
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 2019 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:

	1% Decrease (6.0%)	Discount Rate (7.0%)	1% Increase (8.0%)
City's proportionate share of the net pension liability (asset)	<u>\$ 6,802,023</u>	<u>\$ 2,973,974</u>	<u>\$ (207,910)</u>

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

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, 2018, the Separation Allowance's membership consisted of:

Retirees receiving benefits	3
Active plan members	<u>28</u>
Total	<u><u>31</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.

Actuarial Assumptions

The entry age actuarial cost method was used in the December 31, 2018 valuation. The total pension liability in the December 31, 2018 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	3.26 percent

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

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, 2018 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 \$84,626 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, 2020, the City reported a total pension liability of \$1,103,327. The total pension liability was measured as of December 31, 2019 based on a December 31, 2018 actuarial valuation. The total pension liability was rolled forward to December 31, 2019 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2020, the City recognized pension expense of \$64,736.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 6,290	\$ 79,526
Changes of assumptions	60,490	35,996
City benefit payments and plan administrative expense made subsequent to the measurement date	32,762	-
Total	<u>\$ 99,542</u>	<u>\$ 115,522</u>

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

\$32,762 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, 2021. 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
2021	\$ (16,350)
2022	(16,350)
2023	(14,053)
2024	(7,840)
2025	5,851
Thereafter	-
Total	<u>\$ (48,742)</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 3.26%, 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 (2.26%) or 1-percentage-point higher (4.26%) than the current rate:

	1% Decrease (2.26%)	Discount Rate (3.26%)	1% Increase (4.26%)
Total pension liability	<u>\$ 1,194,855</u>	<u>\$ 1,103,327</u>	<u>\$ 1,019,394</u>

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

	<u>2020</u>
Beginning balance	\$ 1,066,535
Service cost	43,804
Interest on the total pension liability	37,282
Difference between expected and actual experience in the measurement of the total pension liability	7,563
Changes of assumptions or other inputs	32,769
Benefit payments	(84,626)
Ending balance of the total pension liability	<u>\$ 1,103,327</u>

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

Changes of Assumptions. Changes of assumptions and other inputs reflect a change in the Municipal Bond Index Rate from 3.64% at December 31, 2018 to 3.26% at December 31, 2019.

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

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.

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.

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 \$83,581 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 \$264,144 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 provided 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 has terminated this pension benefit plan at 7/1/2019. The benefits are still being offered but currently through other post-employment benefits.

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

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, 2018, 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, 2019, with an actuarial valuation date of December 31, 2018. 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. Following is information related to the proportionate share and pension expense:

	<u>LGERS</u>	<u>LEOSSA</u>	<u>Total</u>
Proportionate share of net pension liability (asset)	0.1089%	n/a	
Pension liability	\$ 2,973,974	\$ 1,103,327	\$ 4,077,301
Pension expense	1,290,316	64,736	1,355,052

At June 30, 2020, 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>Total</u>
<u>Deferred Outflows of Resources</u>			
Pensions - difference between expected and actual experience	\$ 509,220	\$ 6,290	\$ 515,510
Net difference between projected and actual investment earnings	72,540	-	72,540
Changes of assumptions	484,708	60,490	545,198
Pensions - change in proportion and differences between employer contributions and proportionate share of contributions	22,610	-	22,610
Benefit payments and administration costs subsequent to the measurement date	648,193	32,762	680,955
Total	<u>\$ 1,737,271</u>	<u>\$ 99,542</u>	<u>\$ 1,836,813</u>
<u>Deferred Inflows of Resources</u>			
Pensions - difference between expected and actual experience	\$ -	\$ 79,526	\$ 79,526
Changes of assumptions	-	35,996	35,996
Pensions - change in proportion and differences between employer contributions and proportionate share of contributions	69,124	-	69,124
Total	<u>\$ 69,124</u>	<u>\$ 115,522</u>	<u>\$ 184,646</u>

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

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 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.

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

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

Membership of the Post-Retirement Health plan consisted of the following at July 1, 2019, the date of the latest actuarial valuation:

Retirees receiving benefits	9
Active plan members	<u>55</u>
Total	<u><u>64</u></u>

Total OPEB Liability

The City's total OPEB liability of \$4,653,797 was measured as of June 30, 2020 and was determined by an actuarial valuation as of July 1, 2019.

Actuarial Assumptions and Other Inputs. The total OPEB liability in the July 1, 2019 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	2.66 percent

Changes in the Total OPEB Liability

	<u>2020</u>
Beginning balance	\$ 1,108,342
Service cost	201,066
Interest on the total OPEB liability	30,411
Changes of benefit terms	3,870,172
Difference between expected and actual experience in the measurement of the total OPEB liability	(26,015)
Changes of assumptions or other inputs	(458,856)
Benefit payments	(36,672)
Other changes	<u>(34,651)</u>
Ending balance of the total pension liability	<u><u>\$ 4,653,797</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.

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

The demographic actuarial assumptions for retirement, disability incidence, withdrawal, and salary increases used in the July 1, 2019 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, 2019 valuation were based on a review of recent plan experience done concurrently with the July 1, 2019 valuation.

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 (1.66 percent) or 1-percentage-point higher (3.66 percent) than the current discount rate:

	1% Decrease (1.66%)	Discount Rate (2.66%)	1% Increase (3.66%)
Total OPEB liability	\$ 5,528,812	\$ 4,653,797	\$ 3,941,925

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% Decrease	Current	1% Increase
Total OPEB liability	\$ 3,753,420	\$ 4,653,797	\$ 5,846,353

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

For the year ended June 30, 2020, the City recognized OPEB expense of \$4,062,614. At June 30, 2020, 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	\$ 92,120	\$ 23,602
Changes of assumptions	148,004	612,560
Total	\$ 240,124	\$ 636,162

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

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
2021	\$ (39,036)
2022	(39,036)
2023	(39,036)
2024	(39,036)
2025	(39,036)
Thereafter	(200,858)
Total	<u>\$ (396,038)</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.

Deferred Outflows and Inflows of Resources

Deferred outflows of resources are comprised of the following:

Source	Amount
OPEB deferrals	\$ 240,124
Pension deferrals	1,836,813
Total	<u>\$ 2,076,937</u>

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

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

<u>Source</u>	<u>Amount</u>
Taxes receivable, net - General Fund	\$ 165,261
Unavailable revenue - grants, General Fund	400,575
Unavailable revenue - grants, nonmajor funds	152,876
OPEB deferrals	636,162
Pension deferrals	184,646
Total	<u>\$ 1,539,520</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.

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.

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

Long-Term Obligations

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.

\$ 2,970,845

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.

4,803,892

Total General Fund installment purchases- Direct Placement

\$ 7,774,737

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%, 2017, plus accrued interest at a fixed rate of 4.34%, final payment February 6, 2029.

\$ 1,101,205

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.

2,284,108

Total Water and Sewer Fund installment purchases- Direct Placement

\$ 3,385,313

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

Year Ending June 30	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2021	\$ 752,819	\$ 207,561	\$ 299,867	\$ 103,532
2022	770,819	186,401	302,768	293,669
2023	788,509	164,720	305,345	83,729
2024	807,132	142,646	308,245	73,726
2025	826,383	119,789	311,146	63,650
2026-2030	2,961,556	298,469	1,445,462	167,832
2031-2032	867,520	33,008	412,480	15,694
Total	<u>\$ 7,774,737</u>	<u>\$ 1,152,593</u>	<u>\$ 3,385,313</u>	<u>\$ 801,832</u>

The City's outstanding installment purchase from direct placement related to the new City Hall of \$2,970,845 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 \$4,803,892 from the General Fund and \$2,284,108 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.

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

- (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 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 \$1,101,205 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, 2020

Bonds payable at June 30, 2020 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 ranging from

\$87,000 - \$245,000 through May 1, 2026; interest at 1.95%. \$ 1,214,000

\$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%. 675,000

Total General Fund general obligation bonds \$ 1,889,000

Year Ending June 30	Governmental Activities	
	Principal	Interest
2021	\$ 309,000	\$ 49,486
2022	305,000	42,110
2023	301,000	34,813
2024	296,000	27,593
2025	291,000	20,471
2026-2030	<u>387,000</u>	<u>25,447</u>
Total	<u><u>\$ 1,889,000</u></u>	<u><u>\$ 199,920</u></u>

At June 30, 2020, the City had a legal debt margin of approximately \$120,314,000.

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

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, 2019</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2020</u>	<u>Current Portion</u>
Governmental Activities:					
General Obligation Bonds	\$ 2,202,000	\$ -	\$ 313,000	\$ 1,889,000	\$ 309,000
Installment purchase- Direct Placement	8,509,662	-	734,925	7,774,737	752,819
Capitalized lease- Direct Placement	3,453	-	3,453	-	-
Net pension liability (LGERS)	1,793,808	377,192	-	2,171,000	-
Total pension liability (LEOSSA)	1,066,535	36,792	-	1,103,327	-
Total pension liability (RSP)	5,178,486	-	5,178,486	-	-
Total OPEB liability	808,468	2,588,182	-	3,396,650	-
Compensated absences	393,586	310,690	243,541	460,735	184,294
Total governmental activities	<u>19,955,998</u>	<u>3,312,856</u>	<u>6,473,405</u>	<u>16,795,449</u>	<u>1,246,113</u>
Business-Type Activities:					
Water and Sewer Fund:					
Installment purchase- Direct Placement	3,682,279	-	296,966	3,385,313	299,867
Net pension liability (LGERS)	663,464	139,510	-	802,974	-
Total pension liability (RSP)	1,915,330	-	1,915,330	-	-
Total OPEB liability	299,874	957,273	-	1,257,147	-
Compensated absences	85,621	36,819	44,537	77,903	31,161
Total Water and Sewer Fund	<u>6,646,568</u>	<u>1,133,602</u>	<u>2,256,833</u>	<u>5,523,337</u>	<u>331,028</u>
Total	<u>\$ 26,602,566</u>	<u>\$ 4,446,458</u>	<u>\$ 8,730,238</u>	<u>\$ 22,318,786</u>	<u>\$ 1,577,141</u>

C. Net Investment in Capital Assets

Net investment in capital assets at June 30, 2020 is computed as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Capital assets, net of accumulated depreciation	\$ 29,051,056	\$ 21,924,797
Less:		
Capital debt	<u>(9,663,737)</u>	<u>(3,385,313)</u>
Net investment in capital assets	<u>\$ 19,387,319</u>	<u>\$ 18,539,484</u>

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

D. Interfund Balances and Activity

Transfers for the year ended June 30, 2020 were as follows:

<u>Transfers From/To Other Funds:</u>	<u>From</u>	<u>To</u>	<u>Purpose</u>
Capital Project Fund - Capital Reserve Fund	\$ 746,000	\$ -	- Transfer to operating fund for project
Water and Sewer - Capital Reserve Fund	475,023	-	- Transfer to operating fund for project
Water and Sewer Fund	-	1,221,023	
	<u>\$ 1,221,023</u>	<u>\$ 1,221,023</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, 2020. 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.

5. Related Party Transactions

A City Council member works for a company that the City contracts with to maintain ballfields. For the year ended June 30, 2020, the City paid \$9,372 to that contractor.

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

6. Subsequent Events

In March 2020, the World Health Organization declared the outbreak of coronavirus (COVID-19), a pandemic. As a result, economic uncertainties have arisen which are likely to negatively impact City revenues. At the current time, we are unable to quantify the potential effects of this pandemic.

7. Stewardship, Compliance, and Accountability

Non-Compliance with North Carolina General Statutes

Controls over pre-audit procedures were not in accordance with State law (G.S. 159-28) during the fiscal year. State law requires that obligations of the unit be pre-audited in accordance with the Local Government Budget and Fiscal Control Act. Mount Holly Tourism Development Authority was in violation of the statute.

Management concurs and will work with the TDA chair to pre-audit every expenditure for proper budgetary compliance before expending funds.

This page left blank intentionally.

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

This page left blank intentionally.

CITY OF MOUNT HOLLY, NORTH CAROLINA

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Beginning balance	\$ 1,066,535	\$ 1,109,712	\$ 1,092,995	\$ 1,057,665
Service cost	43,804	49,775	43,087	45,753
Interest on the total pension liability	37,282	34,319	41,609	37,343
Difference between expected and actual experience in the measurement of the total pension liability	7,563	(39,835)	(101,997)	-
Changes of assumptions or other inputs	32,769	(40,076)	64,111	(24,506)
Benefit payments	(84,626)	(47,360)	(30,093)	(23,260)
Ending balance of the total pension liability	<u>\$ 1,103,327</u>	<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 FOUR FISCAL YEARS ***

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total pension liability	\$ 1,103,327	\$ 1,066,535	\$ 1,109,712	\$ 1,092,995
Covered payroll	1,590,514	1,646,772	1,716,766	1,754,577
Total pension liability as a percentage of covered payroll	69.37%	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 FOUR FISCAL YEARS *

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Beginning balance	\$ 7,093,816	\$ 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 benefit terms	(7,093,816)	-	-	-
Changes of assumptions or other inputs	-	(903,425)	1,209,148	-
Benefit payments	-	(49,114)	(40,212)	(55,184)
Ending balance of the total pension liability	<u>\$ -</u>	<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.

The City has terminated this pension benefit plan at 7/1/2019. The benefits are still being offered but currently through other post-employment benefits.

CITY OF MOUNT HOLLY, NORTH CAROLINA

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

	<u>2020</u>	<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	0.00%	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.

The City has terminated this pension benefit plan at 7/1/2019. The benefits are still being offered but currently through other post-employment benefits.

CITY OF MOUNT HOLLY, NORTH CAROLINA

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

Schedule of Changes in Total OPEB Liability and Related Ratios			
	2020	2019	2018
Total OPEB Liability			
Service cost at end of year	\$ 201,066	\$ 65,585	\$ 61,910
Interest	30,411	30,098	30,132
Changes of benefit terms	3,870,172	-	-
Differences between expected and actual experience	(26,015)	-	125,978
Changes of assumptions or other inputs	(458,856)	14,389	(88,950)
Benefit payments and implicit subsidy credit	(36,672)	(24,366)	(22,125)
Other changes	(34,651)	447	49,472
Net change in total OPEB liability	3,545,455	86,153	156,417
Total OPEB liability - beginning	1,108,342	1,022,188	865,771
Total OPEB liability - ending	<u>\$ 4,653,797</u>	<u>\$ 1,108,342</u>	<u>\$ 1,022,188</u>
Covered payroll	\$ 3,237,277	\$ 3,680,715	\$ 3,800,032
Total OPEB liability as a percentage of covered payroll	144%	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
2020	2.66%
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 SEVEN FISCAL YEARS*

	LOCAL GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM						
	2020	2019	2018	2017	2016	2015	2014
City's proportion of the net pension liability (asset) (%)	0.10890%	0.10358%	0.10858%	0.11251%	0.11310%	0.11435%	0.11270%
City's proportion of the net pension liability (asset) (\$)	\$ 2,973,974	\$ 2,457,272	\$ 1,658,802	\$ 2,387,839	\$ 507,810	\$ (674,375)	\$ 1,358,468
City's covered payroll	\$ 6,937,144	\$ 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	42.87%	37.72%	26.45%	39.56%	8.75%	-11.75%	25.07%
Plan fiduciary net position as a percentage of the total pension liability **	90.86%	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 SEVEN FISCAL YEARS**

	LOCAL GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM						
	2020	2019	2018	2017	2016	2015	2014
Contractually required contribution	\$ 648,193	\$ 553,057	\$ 503,749	\$ 470,372	\$ 413,424	\$ 415,575	\$ 408,178
Contributions in relation to the contractually required contribution	<u>648,193</u>	<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>	<u>\$ -</u>
City's covered payroll	\$ 7,063,460	\$ 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	9.18%	7.97%	7.73%	7.50%	6.85%	7.16%	7.11%

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

This page left blank intentionally.

SUPPLEMENTARY INFORMATION

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

This page left blank intentionally.

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.

This page left blank intentionally.

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, 2020**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues:			
Ad Valorem Taxes:			
Taxes	\$ 7,580,762	\$ 8,037,680	\$ 456,918
Interest	5,000	2,781	(2,219)
Total	<u>7,585,762</u>	<u>8,040,461</u>	<u>454,699</u>
Other Taxes and Licenses:			
Occupancy tax and other	80,550	69,255	(11,295)
Motor vehicle license tags	43,251	105,915	62,664
Privilege licenses	-	30	30
Total	<u>123,801</u>	<u>175,200</u>	<u>51,399</u>
Unrestricted Intergovernmental:			
Local option sales taxes	2,421,981	2,894,414	472,433
Telecommunications sales tax	85,502	63,329	(22,173)
Utility franchise tax	797,408	757,363	(40,045)
Piped natural gas tax	45,430	51,068	5,638
Video franchise fee	117,671	111,449	(6,222)
Beer and wine tax	65,191	69,088	3,897
ABC distribution	-	226,670	226,670
Total	<u>3,533,183</u>	<u>4,173,381</u>	<u>640,198</u>
Restricted Intergovernmental:			
Powell Bill allocation	489,122	434,536	(54,586)
Solid waste disposal tax	10,406	12,095	1,689
Other federal/state grants	81,000	83,824	2,824
Total	<u>580,528</u>	<u>530,455</u>	<u>(50,073)</u>
Permits and Fees:			
Zoning permits	118,646	70,535	(48,111)
Recycle and solid waste fees	332,271	352,198	19,927
Tipping fees	473,632	486,809	13,177
Total	<u>924,549</u>	<u>909,542</u>	<u>(15,007)</u>
Sales and Services:			
Recreation department fees	111,097	91,060	(20,037)
Concessions and vending sales	-	721	721
Total	<u>111,097</u>	<u>91,781</u>	<u>(19,316)</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, 2020

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Investment Earnings	<u>351,935</u>	<u>336,646</u>	<u>(15,289)</u>
Miscellaneous:			
Rents	123,988	196,621	72,633
Public contributions	22,970	27,470	4,500
Miscellaneous revenue	31,071	83,231	52,160
Miscellaneous fire revenue	3,458	2,555	(903)
Miscellaneous police revenue	<u>29,259</u>	<u>58,991</u>	<u>29,732</u>
Total	<u>210,746</u>	<u>368,868</u>	<u>158,122</u>
 Total revenues	 <u>13,421,601</u>	 <u>14,626,334</u>	 <u>1,204,733</u>
Expenditures:			
General Government:			
Mayor and Council:			
Governing body compensation	60,069	60,053	16
Operating expenditures	<u>99,650</u>	<u>56,550</u>	<u>43,100</u>
Total	<u>159,719</u>	<u>116,603</u>	<u>43,116</u>
 Administration:			
Salaries and employee benefits	890,200	805,544	84,656
Operating expenditures	564,949	473,189	91,760
Capital outlay	540,521	421,975	118,546
Costs allocated to the Water and Sewer Fund	(118,214)	(118,214)	-
Debt service	<u>236,429</u>	<u>236,428</u>	<u>1</u>
Total	<u>2,113,885</u>	<u>1,818,922</u>	<u>294,963</u>
 Admin IT:			
Operating expenditures	<u>220,350</u>	<u>194,672</u>	<u>25,678</u>
 Admin Maintenance:			
Operating expenditures	<u>576,550</u>	<u>417,509</u>	<u>159,041</u>
 Total general government	 <u>3,070,504</u>	 <u>2,547,706</u>	 <u>522,798</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, 2020

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Public Safety:			
Police:			
Salaries and employee benefits	3,153,500	3,085,850	67,650
Operating expenditures	399,960	383,482	16,478
Capital outlay	400,000	297,316	102,684
Costs allocated to the Water and Sewer Fund	(118,214)	(118,214)	-
Debt service	236,429	236,428	1
Total	<u>4,071,675</u>	<u>3,884,862</u>	<u>186,813</u>
Fire:			
Salaries and employee benefits	1,744,200	1,754,707	(10,507)
Operating expenditures	256,000	206,295	49,705
Capital outlay	40,000	39,842	158
Debt service	272,425	272,425	-
Total	<u>2,312,625</u>	<u>2,273,269</u>	<u>39,356</u>
Total public safety	<u>6,384,300</u>	<u>6,158,131</u>	<u>226,169</u>
Planning and Zoning:			
Salaries and employee benefits	343,000	337,522	5,478
Operating expenditures	622,250	248,720	373,530
Capital outlay	10,000	-	10,000
Total planning and zoning	<u>975,250</u>	<u>586,242</u>	<u>389,008</u>
Transportation and Environmental Protection:			
Streets and Highways:			
Salaries and employee benefits	1,082,000	972,942	109,058
Operating expenditures	989,100	904,660	84,440
Capital outlay	61,000	46,476	14,524
Debt service	349,943	349,942	1
Total	<u>2,482,043</u>	<u>2,274,020</u>	<u>208,023</u>
Powell Bill Street Funds:			
Operating expenditures	<u>656,534</u>	<u>228,832</u>	<u>427,702</u>
Total transportation and environmental protection	<u>3,138,577</u>	<u>2,502,852</u>	<u>635,725</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, 2020

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Garage:			
Salaries and employee benefits	61,700	58,139	3,561
Operating expenditures	35,000	33,150	1,850
Capital outlay	50,000	48,292	1,708
Debt service	75,461	75,461	-
Total garage	<u>222,161</u>	<u>215,042</u>	<u>7,119</u>
Culture and Recreation:			
Parks and Recreation:			
Salaries and employee benefits	563,000	495,319	67,681
Operating expenditures	1,218,567	780,645	437,922
Capital outlay	458,500	96,256	362,244
Debt service	170,204	170,204	-
Total culture and recreation	<u>2,410,271</u>	<u>1,542,424</u>	<u>867,847</u>
Total expenditures	<u>16,201,063</u>	<u>13,552,397</u>	<u>2,648,666</u>
Revenues over (under) expenditures	<u>(2,779,462)</u>	<u>1,073,937</u>	<u>3,853,399</u>
Other Financing Sources (Uses):			
Proceeds from property disposal	10,000	70,844	60,844
Fund balance appropriated	<u>2,769,462</u>	<u>-</u>	<u>(2,769,462)</u>
Total other financing sources (uses)	<u>2,779,462</u>	<u>70,844</u>	<u>(2,708,618)</u>
Net change in fund balance	<u>\$ -</u>	<u>1,144,781</u>	<u>\$ 1,144,781</u>
Reconciliation from Budgetary Basis to Modified Accrual Basis:			
Current year loan funds issued		<u>25,106</u>	
Net change in fund balance		1,169,887	
Fund Balance:			
Beginning of year - July 1		<u>13,359,288</u>	
End of year - June 30		<u>\$ 14,529,175</u>	

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.

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

This page left blank intentionally.

CITY OF MOUNT HOLLY, NORTH CAROLINA

NONMAJOR GOVERNMENTAL FUNDS
 COMBINING BALANCE SHEET
 JUNE 30, 2020

	Special Revenue Fund	Capital Project Funds		Total Nonmajor Governmental Funds
	Emergency Telephone System Fund	Capital Reserve Fund	Capital Projects Fund	
Assets:				
Cash and cash equivalents	\$ 376,751	\$ 1,209,279	\$ 79,751	\$ 1,665,781
Due from other governments	-	-	152,876	152,876
Total assets	<u>\$ 376,751</u>	<u>\$ 1,209,279</u>	<u>\$ 232,627</u>	<u>\$ 1,818,657</u>
Deferred Inflows of Resources and Fund Balances:				
Deferred Inflows of Resources:				
Unavailable revenue - grants	\$ -	\$ -	\$ 152,876	\$ 152,876
Fund Balances:				
Restricted for public safety	376,751	-	-	376,751
Committed	-	1,209,279	79,751	1,289,030
Total fund balances	<u>376,751</u>	<u>1,209,279</u>	<u>79,751</u>	<u>1,665,781</u>
Total deferred inflows of resources and fund balances	<u>\$ 376,751</u>	<u>\$ 1,209,279</u>	<u>\$ 232,627</u>	<u>\$ 1,818,657</u>

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, 2020

	Special Revenue Fund	Capital Project Funds		Total Nonmajor Governmental Funds
	Emergency Telephone System Fund	Capital Reserve Fund	Capital Projects Fund	
Revenues:				
Restricted intergovernmental	\$ 66,730	\$ -	\$ -	\$ 66,730
Investment earnings	6,095	18,506	23	24,624
Total revenues	<u>72,825</u>	<u>18,506</u>	<u>23</u>	<u>91,354</u>
Expenditures:				
General government	-	-	11,100	11,100
Culture and recreation	-	-	59,290	59,290
Public safety	71,774	-	23,397	95,171
Total expenditures	<u>71,774</u>	<u>-</u>	<u>93,787</u>	<u>165,561</u>
Revenues over (under) expenditures	1,051	18,506	(93,764)	(74,207)
Other Financing Sources (Uses):				
Transfers to other funds:				
Water & Sewer Fund	<u>-</u>	<u>(746,000)</u>	<u>-</u>	<u>(746,000)</u>
Net change in fund balances	1,051	(727,494)	(93,764)	(820,207)
Fund Balances:				
Beginning of year - July 1	<u>375,700</u>	<u>1,936,773</u>	<u>173,515</u>	<u>2,485,988</u>
End of year - June 30	<u>\$ 376,751</u>	<u>\$ 1,209,279</u>	<u>\$ 79,751</u>	<u>\$ 1,665,781</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, 2020

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues:			
Restricted intergovernmental:			
Wireless 911 funds	\$ 67,076	\$ 66,730	\$ (346)
Investment earnings	5,500	6,095	595
Total revenues	<u>72,576</u>	<u>72,825</u>	<u>249</u>
Expenditures:			
Wireless expenditures:			
Contract services	40,730	24,255	16,475
Furniture, fixtures, & equipment	5,000	564	4,436
Telephone	9,060	8,700	360
Travel and training	1,000	-	1,000
Equipment rental/lease	44,604	38,255	6,349
Total expenditures	<u>100,394</u>	<u>71,774</u>	<u>28,620</u>
Revenues over (under) expenditures	(27,818)	1,051	28,869
Other Financing Sources (Uses)			
Appropriated fund balance	<u>27,818</u>	<u>-</u>	<u>(27,818)</u>
Net change in fund balance	<u>\$ -</u>	1,051	<u>\$ 1,051</u>
Fund Balance:			
Beginning of year - July 1		<u>375,700</u>	
End of year - June 30		<u>\$ 376,751</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, 2020

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues:			
Investment earnings	\$ 20,000	\$ 18,506	\$ (1,494)
Other Financing Sources (Uses):			
Transfers to other funds:			
General Fund	(20,000)	-	20,000
Water & Sewer Fund	(746,000)	(746,000)	-
Fund balance appropriated	746,000	-	(746,000)
Total other financing sources (uses)	<u>(20,000)</u>	<u>(746,000)</u>	<u>(726,000)</u>
Net change in fund balance	\$ -	(727,494)	\$ (727,494)
Fund Balance:			
Beginning of year - July 1		<u>1,936,773</u>	
End of year - June 30		<u>\$ 1,209,279</u>	

CITY OF MOUNT HOLLY, NORTH CAROLINA

CAPITAL PROJECTS FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2020

		Actual			
	Project Authorization	Prior Years	Current Year	Total to Date	Variance Over/Under
Revenues:					
Grant revenues - federal and state	\$ 800,000	\$ 647,124	\$ -	\$ 647,124	\$ (152,876)
Local grants	80,000	80,000	-	80,000	-
Investment earnings	-	345	23	368	368
Total revenues	<u>880,000</u>	<u>727,469</u>	<u>23</u>	<u>727,492</u>	<u>(152,508)</u>
Expenditures:					
N Fire Station Project:					
Construction and improvements	23,397	-	23,397	23,397	-
PW Campus Project:					
Construction and improvements	11,100	-	11,100	11,100	-
Greenway Project:					
Construction and improvements	<u>2,385,736</u>	<u>1,465,805</u>	<u>59,290</u>	<u>1,525,095</u>	<u>860,641</u>
Total expenditures	<u>2,420,233</u>	<u>1,465,805</u>	<u>93,787</u>	<u>1,559,592</u>	<u>860,641</u>
Revenues over (under) expenditures	<u>(1,540,233)</u>	<u>(738,336)</u>	<u>(93,764)</u>	<u>(832,100)</u>	<u>708,133</u>
Other Financing Sources (Uses):					
Transfers from other fund:					
General Fund	1,505,736	788,368	-	788,368	(717,368)
Proceeds from debt	<u>34,497</u>	<u>123,483</u>	<u>-</u>	<u>123,483</u>	<u>88,986</u>
Total other financing sources (uses)	<u>1,540,233</u>	<u>911,851</u>	<u>-</u>	<u>911,851</u>	<u>(628,382)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 173,515</u>	<u>(93,764)</u>	<u>\$ 79,751</u>	<u>\$ 79,751</u>
Fund Balance:					
Beginning of year - July 1			<u>173,515</u>		
End of year - June 30			<u>\$ 79,751</u>		

This page left blank intentionally.

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.

This page left blank intentionally.

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, 2020

	Final Budget	Actual	Variance Over/Under
Revenues:			
Operating Revenues:			
Water sales	\$ 3,420,950	\$ 3,538,792	\$ 117,842
Sewer charges	3,316,935	3,313,206	(3,729)
Water and sewer taps and development fees	150,000	141,411	(8,589)
Stormwater fees	260,000	269,178	9,178
Late fees and reconnection charges	180,000	148,221	(31,779)
Total operating revenues	<u>7,327,885</u>	<u>7,410,808</u>	<u>82,923</u>
Non-Operating Revenues:			
Rental income	81,500	82,796	1,296
Other revenue	<u>165,300</u>	<u>125,669</u>	<u>(39,631)</u>
Total non-operating revenues	<u>246,800</u>	<u>208,465</u>	<u>(38,335)</u>
Total revenues	<u>7,574,685</u>	<u>7,619,273</u>	<u>44,588</u>
Expenditures:			
Utility Admin			
Salaries and employee benefits	1,388,700	362,361	1,026,339
Supplies	1,500	3,724	(2,224)
Other operating expenditures	2,470,843	1,747,885	722,958
Repairs and maintenance	<u>1,000</u>	<u>3,600</u>	<u>(2,600)</u>
Total	<u>3,862,043</u>	<u>2,117,570</u>	<u>1,744,473</u>
Water Treatment and Distribution:			
Water treatment plant:			
Salaries and employee benefits	425,200	116,516	308,684
Supplies	121,000	80,007	40,993
Other operating expenditures	297,450	181,186	116,264
Repairs and maintenance	49,000	61,093	(12,093)
Costs allocated from the General Fund	118,214	118,214	-
Interest and other charges	139,287	82,265	57,022
Principal retirement	217,637	171,115	46,522
Capital outlay - equipment	<u>40,500</u>	<u>42,116</u>	<u>(1,616)</u>
Total	<u>1,408,288</u>	<u>852,512</u>	<u>555,776</u>
Waste Collection and Treatment:			
Salaries and employee benefits	364,600	88,051	276,549
Supplies	53,500	43,837	9,663
Other operating expenditures	446,050	500,074	(54,024)
Repairs and maintenance	80,000	65,200	14,800
Costs allocated from the General Fund	118,214	118,214	-
Interest and other charges	23,495	23,495	-
Principal retirement	<u>22,306</u>	<u>125,851</u>	<u>(103,545)</u>
Total	<u>1,108,165</u>	<u>964,722</u>	<u>143,443</u>
Stormwater:			
Salaries and employee benefits	58,150	15,344	42,806
Other operating expenditures	118,351	24,097	94,254
Repairs and maintenance	141,073	47,217	93,856
Capital outlay - equipment	<u>69,427</u>	<u>69,427</u>	<u>-</u>
Total	<u>387,001</u>	<u>156,085</u>	<u>230,916</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, 2020**

	Final Budget	Actual	Variance Over/Under
Utilities:			
Salaries and employee benefits	657,200	185,807	471,393
Other operating expenditures	447,461	263,194	184,267
Repairs and maintenance	664,508	371,883	292,625
Capital outlay - equipment	838,044	420,004	418,040
Total	<u>2,607,213</u>	<u>1,240,888</u>	<u>1,366,325</u>
Utility Admin IT:			
Supplies	9,399	1,143	8,256
Other operating expenses	101,500	73,355	28,145
Total	<u>110,899</u>	<u>74,498</u>	<u>36,401</u>
Utility Admin Maint:			
Supplies	7,000	2,271	4,729
Other operating expenditures	315,500	347,387	(31,887)
Repairs and maintenance	102,000	18,891	83,109
Total	<u>424,500</u>	<u>368,549</u>	<u>55,951</u>
Total expenditures	<u>9,908,109</u>	<u>5,774,824</u>	<u>4,133,285</u>
Revenues over (under) expenditures	<u>(2,333,424)</u>	<u>1,844,449</u>	<u>4,177,873</u>
Other Financing Sources (Uses):			
Transfer from other funds:			
Capital Reserve Funds	1,221,023	1,221,023	-
Fund balance appropriated	<u>1,112,401</u>	<u>-</u>	<u>(1,112,401)</u>
Total other financing sources (uses)	<u>2,333,424</u>	<u>1,221,023</u>	<u>(1,112,401)</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ 3,065,472</u>	<u>\$ 3,065,472</u>
Reconciliation from Budgetary Basis (Modified Accrual) to Full Accrual:			
Revenues and other financing sources over (under) expenditures and other financing uses		<u>\$ 3,065,472</u>	
Reconciling items:			
Principal retirement		296,966	
Capital outlay		531,547	
Non-capitalized capital outlay expenditures		(87,214)	
Depreciation		(1,174,414)	
Change in net pension liability - LGERS		(139,510)	
Change in deferred outflows of resources - pensions		(49,750)	
Change in deferred inflows of resources - pensions		15,887	
Change in compensated absences		7,718	
Change in other post-employment benefits		(957,273)	
Change in deferred outflows of resources - OPEB		19,849	
Change in deferred inflows of resources - OPEB		(149,580)	
Capital Reserve Fund revenues		955,240	
Transfers from Capital Reserve Fund		(475,023)	
Total reconciling items		<u>(1,205,557)</u>	
Change in net position (Exhibit H)		<u>\$ 1,859,915</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, 2020

		Actual			
	Project Authorization	Prior Years	Current Year	Total to Date	Variance Over/Under
Revenues:					
Investment earnings	\$ -	\$ 138	\$ -	\$ 138	\$ 138
Expenditures:					
PW Campus Project	283,000	-	-	-	283,000
Dutchman's Creek	2,500,000	-	251,512	251,512	2,248,488
Total expenditures	2,783,000	-	251,512	251,512	2,531,488
Revenues over (under) expenditures	(2,783,000)	138	(251,512)	(251,374)	2,531,626
Other Financing Sources (Uses):					
Transfers from EF Capital Reserve Fund	2,500,000	-	-	-	(2,500,000)
Proceeds from debt	283,000	283,000	-	283,000	-
Total other financing sources (uses)	2,783,000	283,000	-	283,000	(2,500,000)
Revenues and other financing sources over (under) expenditures and other financing uses	\$ -	\$ 283,138	\$ (251,512)	\$ 31,626	\$ 31,626

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, 2020

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues:			
System development fees	\$ 2,500,000	\$ 955,240	\$ (1,544,760)
Other Financing Sources (Uses)			
Transfers to other funds:			
Water & Sewer Fund	(2,500,000)	(475,023)	2,024,977
Net change in fund balance	\$ -	480,217	\$ 480,217
Fund Balance:			
Beginning of year - July 1		1,308,971	
End of year - June 30		\$ 1,789,188	

OTHER SCHEDULES

This section contains additional information on taxes receivable, the current year tax levy, secondary market disclosures and principal taxpayers, and the balance sheet and budget to actual schedule for the City of Mount Holly Tourism Development Authority as of June 30, 2020, as well as PSAP reconciliation.

This page left blank intentionally.

CITY OF MOUNT HOLLY, NORTH CAROLINA

SCHEDULE OF AD VALOREM TAXES RECEIVABLE
JUNE 30, 2020

Fiscal Year	Uncollected Balance July 1, 2019	Additions	Collections and Credits	Uncollected Balance June 30, 2020
2019-2020	\$ -	\$ 8,093,403	\$ 8,018,489	\$ 74,914
2018-2019	43,426	-	19,886	23,540
2017-2018	25,797	-	8,395	17,402
2016-2017	138,159	-	473	137,686
2015-2016	68,650	-	272	68,378
2014-2015	40,315	-	297	40,018
2013-2014	41,105	-	3,675	37,430
2012-2013	34,778	-	5,224	29,554
2011-2012	28,701	-	5,484	23,217
2010-2011	22,147	-	4,238	17,909
2009-2010	24,265	-	24,265	-
Total	\$ 467,343	\$ 8,093,403	\$ 8,090,698	470,048
Less allowance for uncollectible accounts:				
General Fund				<u>304,787</u>
Ad valorem taxes receivable, net				<u>\$ 165,261</u>
Reconciliation with Revenues:				
Ad valorem taxes - General Fund				<u>\$ 8,040,461</u>
Reconciling items:				
Interest collected				(2,781)
Taxes written off				24,265
Miscellaneous items				<u>28,753</u>
Total reconciling items				<u>50,237</u>
Total collections and credits				<u>\$ 8,090,698</u>

CITY OF MOUNT HOLLY, NORTH CAROLINA

ANALYSIS OF CURRENT TAX LEVY
CITY-WIDE LEVY
FOR THE YEAR ENDED JUNE 30, 2020

	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	\$ 1,668,500,619	\$ 0.485	\$ 8,092,228	\$ 7,391,140	\$ 701,088
Penalties	-		8,267	8,267	-
Total	<u>1,668,500,619</u>		<u>8,100,495</u>	<u>7,399,407</u>	<u>701,088</u>
Discoveries - Current Year Taxes	<u>1,050,928</u>		<u>5,097</u>	<u>5,097</u>	<u>-</u>
Abatements	<u>(2,513,196)</u>		<u>(12,189)</u>	<u>(12,189)</u>	<u>-</u>
Total property valuation	<u>\$ 1,667,038,351</u>				
Net Levy			8,093,403	7,392,315	701,088
Uncollected taxes at June 30, 2020			<u>74,914</u>	<u>74,914</u>	<u>-</u>
Current Year's Taxes Collected			<u>\$ 8,018,489</u>	<u>\$ 7,317,401</u>	<u>\$ 701,088</u>
Current Levy Collection Percentage			99.07%	98.99%	100.00%

CITY OF MOUNT HOLLY, NORTH CAROLINA

SECONDARY MARKET DISCLOSURES
FOR THE YEAR ENDED JUNE 30, 2020Secondary Market Disclosures:**Assessed Valuation:**

Assessment ratio	<u>100.00%</u>
Real property	\$ 1,448,484,872
Personal property	127,963,215
Public service companies	<u>90,590,264</u>
Total assessed valuation	<u>\$ 1,667,038,351</u>
Tax rate per \$100	0.485
Levy (includes discoveries, releases, adjustments, and penalties)	<u>\$ 8,093,403</u>

CITY OF MOUNT HOLLY, NORTH CAROLINA

SCHEDULE OF PRINCIPAL TAXPAYERS
FOR THE YEAR ENDED JUNE 30, 2020

Taxpayer	Type of Business	2020 Assessed Valuation	Percentage of Total Assessed Valuation
Duke Energy Corporation	Utilities	\$ 78,708,550	4.72%
Daimler Trucks	Truck Manufacturing	72,470,568	4.35%
Clariant Corporation	Chemical Manufacturing	20,295,714	1.22%
Lennar Carolina's	Building Construction	19,400,350	1.16%
American & Efird, LLC	Textiles	14,742,764	0.88%
Triangle Cloisters	Apartment Complex	14,053,670	0.84%
Lake Wylie MF LLC	Building Products Manufacturing	13,893,580	0.83%
Napali Nine LLC	Apartment Complex	9,661,130	0.58%
D R Horton, Inc.	Building Construction	6,569,570	0.39%
Public Service Co. of North Carolina	Utilities	4,551,285	0.27%
Total		<u>\$ 254,347,181</u>	<u>15.26%</u>

CITY OF MOUNT HOLLY, NORTH CAROLINA

DISCRETELY PRESENTED COMPONENT UNIT
MOUNT HOLLY TOURISM DEVELOPMENT AUTHORITY
BALANCE SHEET
JUNE 30, 2020

	<u>Authority</u>
Assets:	
Cash and cash equivalents	\$ 193,709
Accounts receivable	<u>5,191</u>
Total assets	<u>\$ 198,900</u>
 Fund Balance:	
Restricted for:	
Stabilization by state statute	\$ 5,191
Tourism	<u>193,709</u>
Total fund balance	<u>\$ 198,900</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, 2020

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues:			
Occupancy tax revenues	\$ 80,550	\$ 67,543	\$ (13,007)
Expenditures:			
Operating:			
Professional services	1,500	1,500	-
Contracted services	2,350	-	2,350
Advertising and marketing	53,000	33,500	19,500
Dues and subscriptions	500	1,575	(1,075)
TDA stipends	3,600	3,600	-
Supplies	100	-	100
Travel/training	5,000	-	5,000
Incentive grants	-	6,000	(6,000)
Miscellaneous	14,500	1,578	12,922
Total expenditures	<u>80,550</u>	<u>47,753</u>	<u>32,797</u>
Net change in fund balance	<u>\$ -</u>	19,790	<u>\$ 19,790</u>
Fund Balance:			
Beginning of year - July 1		<u>179,110</u>	
End of year - June 30		<u>\$ 198,900</u>	

CITY OF MOUNT HOLLY, NORTH CAROLINA**EMERGENCY TELEPHONE SYSTEM UNSPENT BALANCE
PSAP RECONCILIATION
FOR THE YEAR ENDED JUNE 30, 2020**

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	\$ 376,751
Cumulative prior period net revenues and expenditures not reported in the fund (difference in beginning fund balance - budget to actual vs. PSAP report)	<u>(12,398)</u>
Ending balance, PSAP revenue - expenditure report	<u>\$ 364,353</u>

This page left blank intentionally.

COMPLIANCE SECTION

This page left blank intentionally.

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, 2020, 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 April 28, 2021. 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*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable non-compliance associated with the City of Mount Holly ABC Board.

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) as a basis for designing 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 identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as items 2020-001, 2020-002, 2020-003, and 2020-004 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 financial statements. 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 an instance of non-compliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as item 2020-004.

City of Mount Holly's Response to Findings

The City of Mount Holly's responses to the findings identified in our audit are described in the accompanying Corrective Action Plans. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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
April 28, 2021

CITY OF MOUNT HOLLY, NORTH CAROLINA

SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED JUNE 30, 2020

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? | Yes |
| • Significant deficiency(ies) identified? | None reported |

Non-compliance material to financial statements noted?	Yes
--	-----

CITY OF MOUNT HOLLY, NORTH CAROLINA

SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED JUNE 30, 2020

2. Financial Statement Findings

Material Weakness

Finding 2020-001

Criteria: Management should have a system in place to reduce the likelihood of errors in financial reporting.

Condition: The City's central depository bank account was not reconciled timely. There was a delay in providing the year-end bank reconciliation to the external auditors. Furthermore, we noted delays in journal entries being booked to reconcile the bank account. Financial reports provided to the Council during that time would not have been accurate.

Effect: Financial reports used for budget monitoring throughout the year may not properly reflect the account balances.

Cause: Significant turnover in the finance department during the fiscal year.

Recommendation: We recommend that management monitor to ensure timely bank reconciliations are being performed.

Name of Contact Person: Michelle Wood, Finance Director

Views of Responsible Officials and Planned Corrective Actions: See Corrective Action Plan submitted with this report.

CITY OF MOUNT HOLLY, NORTH CAROLINA

SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED JUNE 30, 2020

2. Financial Statement Findings (continued)

Material Weakness

Finding 2020-002

Criteria: Management should have a system in place to reduce the likelihood of errors in financial reporting.

Condition: The City has certain control policies and procedures in place that are intended to provide management of reasonable assurance that cash collections are properly recorded. They are ineffective because of the absence of adequate monitoring procedures to evaluate compliance with the control policies.

Effect: Errors in financial reporting could occur. City's assets have been misappropriated.

Cause: Lack of monitoring cash collection controls.

Recommendation: Re-evaluate internal controls over cash collections process. Follow documented procedures and determine their adequacy.

Name of Contact Person: Michelle Wood, Finance Director

Views of Responsible Officials and Planned Corrective Actions: See Corrective Action Plan submitted with this report.

CITY OF MOUNT HOLLY, NORTH CAROLINA

SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED JUNE 30, 2020

2. Financial Statement Findings (continued)

Material Weakness

Finding 2020-003

Criteria: Management should have a system in place to reduce the likelihood of errors in financial reporting.

Condition: A significant audit adjustment is a proposed correction of the basic financial statements that, in our judgement, may not have been detected except through our auditing procedures. The existence of such material adjustments indicated that the City's system of controls did not detect and prevent such errors. We have provided management with a report of these adjustments.

Effect: Financial reports used for budget monitoring throughout the year do not properly reflect the account balances.

Cause: The general ledger was not reconciled to subsidiary ledgers on a regular basis and year-end journal entries were not booked.

Recommendation: Management should reconcile the subsidiary ledgers on a regular basis, reconcile year-end balances to subsidiary ledgers and post-closing entries needed, and improve the internal control system to prevent the adjustments in the future.

Name of Contact Person: Michelle Wood, Finance Director

Views of Responsible Officials and Planned Corrective Actions: See Corrective Action Plan submitted with this report.

CITY OF MOUNT HOLLY, NORTH CAROLINA

SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED JUNE 30, 2020

2. Financial Statement Findings (continued)

Material Weakness, Material Non-Compliance

Finding 2020-004

Criteria: N.C. General Statute 159-28 requires that obligations of the unit be pre-audited in accordance with the Local Government Budget and Fiscal Control Act. Management should have a system in place to reduce the likelihood of errors in financial reporting.

Condition: Controls over pre-audit procedures are not being followed for the Mount Holly Tourism Development Authority. There was no evidence of invoices being approved and pre-audited by the finance department prior to making the cash disbursement. Furthermore, upon scanning final budget, there was no budget available for the invoice in question.

Effect: Financial reports used for budget monitoring throughout the year may not properly reflect the account balances.

Cause: The Mount Holly Tourism Development Authority's policy for internal control over disbursements was not being followed.

Recommendation: The Mount Holly Tourism Development Authority should pre-audit every expenditure for proper budgetary compliance before expending funds. Controls over cash disbursements should be reviewed, put in place, and operating as intended.

Name of Contact Person: Michelle Wood, Finance Director

Views of Responsible Officials and Planned Corrective Actions: See Corrective Action Plan submitted with this report.



CITY of MOUNT HOLLY

Bryan Hough, Mayor
David Moore, Mayor Pro Tem - 2020
Lauren Shoemaker, Mayor Pro Tem - 2021
Charles McCorkle, Councilman
Jeff Meadows, Councilman
Phyllis B. Harris, Councilwoman
Christina Pawlish, Councilwoman
Miles Braswell, City Manager

400 East Central Ave. Post Office Box 406 Mount Holly, NC 28120 704-827-3931 704-822-2933 fax www.mtholly.us

Section II – Financial Statements Findings

Finding: 2020-001

Name of Contact Person: Michelle Wood, Finance Director

Corrective Action/Management's Response: Management concurs and hired an additional external audit firm to perform bank reconciliation of the City's central depositor bank account. A new Finance Director was also hired and journal entries are up to date and all bank accounts have been properly reconciled

Proposed Completion Date: Management has already implemented the above procedure.

Finding: 2020-002

Name of Contact Person: Michelle Wood, Finance Director

Corrective Action/Management's Response: Management concurs and processes have been changed in collection Miscellaneous payments. No hand written receipts are now provided.

Proposed Completion Date: Management has already implemented the above procedure.

Finding: 2020-003

Name of Contact Person: Michelle Wood, Finance Director

Corrective Action/Management's Response: Management concurs and will diligently review the general ledger and reconcile to the subsidiary ledgers on a regular basis. The Finance Director will work diligently with the Deputy Finance Director to ensure the proper entries are entered to prevent adjustments in the future.

Propose Completion Date: Management has already implemented the above procedure.

Mt Holly Tourism Development Authority
400 East Central Avenue
Mount Holly, NC 28120
(704)827-3151
info@visitmounthollync.com



Section II – Financial Statements Findings (continued)

Finding: 2020-004

Name of Contact Person: Michelle Wood, Finance Director

Corrective Action/Management's Response: Management concurs and will work with the TDA chair to pre-audit every expenditure for proper budgetary compliance before expending funds.

Proposed Completion Date: Management has already implemented the above procedure.

CITY OF MOUNT HOLLY, NORTH CAROLINA

**SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED JUNE 30, 2020**

None noted.