

CITY OF NORTHWEST

Financial Statements

For the Year Ended June 30, 2020

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City of Northwest, North Carolina
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June 30, 2020

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Introductory Section

**City of Northwest, North Carolina
List of Principal Officials
June 30, 2020**

Mayor and City Council

James A. Knox, Mayor
Charles Carroll, Mayor Pro Tem
Aaron Perkins
Haywood Miller
Shelia Grady
Michael Troy

Administrative Officer

Donna Strickland, City Clerk/Finance Officer

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Northwest, 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 conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinions

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Northwest, 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 on pages 10 through 16, the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Asset (Liability) and Contributions on pages 56 and 57, and the Law Enforcement Officers' Special Separation Allowance Schedules of Changes in Total Pension Liability and Total Pension Liability as a Percentage of Covered Payroll on pages 58 and 59, respectively, be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information 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 Northwest, North Carolina. The introductory information, combining and individual fund statements, budgetary schedules, and other schedules, are presented for purpose of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund statements, budgetary schedules, other schedules are the responsibility of management and were derived from and relates 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. In our opinion, based on our audit, the procedures performed as described above, the combining and individual fund statements, budgetary schedules, other schedules, in all material respects, in relation to the basic financial statements as a whole.

S. Preston Douglas & Associates, LLP

Whiteville, North Carolina
December 29, 2020

Management's Discussion and Analysis

**City of Northwest, North Carolina
Management's Discussion and Analysis
June 30, 2020**

Management's Discussion and Analysis

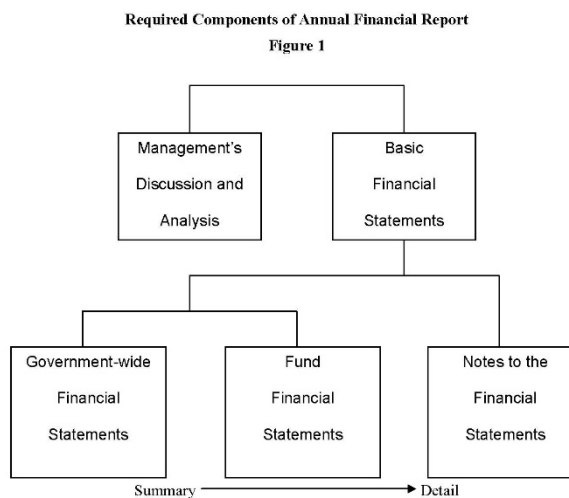
As management of the City of Northwest, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City of Northwest for the fiscal year ending June 30, 2020. We encourage readers to read the information presented here in conjunction with 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 of the City of Northwest exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$786,121 (*net position*).
- The government's total net position decreased by \$6,050,066 during the period and the key component of the decrease was the discontinued operations of the City's water and sewer system.
- As of the close of the current fiscal year, the City of Northwest's governmental funds reported combined ending fund balances of \$636,437 with a net change of (\$69,275) in fund balance.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$484,866 or 95.91 percent of total governmental fund expenditures for the fiscal year.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to City of Northwest'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 Northwest.



City of Northwest, North Carolina
Management's Discussion and Analysis (continued)
June 30, 2020

Basic Financial Statements

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

The next statements (Exhibits 3 through 8) 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 four parts to the Fund Financial Statements: 1) the governmental funds statements, 2) The budgetary comparison statements, 3) The proprietary fund statements, and 4) the fiduciary fund statements.

The next section of the basic financial statements is the **Notes to the Financial Statements**. The notes explain in detail some of the data contained in those statements. After the notes, **supplemental information** is provided to show additional details about the City's individual funds. Budgetary information required by the North Carolina General Statutes can also 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, in a manner similar to the 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, deferred outflows of resources, and total liabilities and deferred inflows of resources. Measuring net position is one way to gage the City's financial condition.

The government-wide statements are divided into two categories: 1) governmental activities and 2) business-type activities. The governmental activities include most of the City's basic services such as general government, public safety, transportation, and cultural and recreation. Property taxes and State shared revenues 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 of Northwest.

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 Northwest, like all other state and local governments, 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 City of Northwest can be divided into two categories: governmental fund and proprietary funds.

City of Northwest, North Carolina
Management's Discussion and Analysis (continued)
June 30, 2020

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. 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 monies that are unexpended 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 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 Northwest adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the Town, the management of the 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 board; 2) the final budget as amended by the board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges.

Proprietary Fund. The City of Northwest uses only one type of proprietary fund. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. City of Northwest uses an enterprise funds to account for its water and sewer fund 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 can be found following the financial statements 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 Northwest's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 54 of this report.

City of Northwest, North Carolina
Management's Discussion and Analysis (continued)
June 30, 2020

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

Government-Wide Financial Analysis

The City of Northwest's Net Position
Figure 2

	Governmental Activities		Business-type Activities		Totals	
	2020	2019	2020	2019	2020	2019
Current and other assets	\$ 666,289	\$ 773,730	\$ -	\$ 221,820	\$ 666,289	\$ 995,550
Capital assets	169,977	118,250	-	6,962,096	169,977	7,080,346
Deferred outflows of resources	27,784	33,494	-	-	27,784	33,494
Total assets	864,050	925,474	-	7,183,916	864,050	8,109,390
Long-term liabilities outstanding	61,686	67,219	-	983,517	61,686	1,050,736
Other liabilities	8,106	44,572	-	173,061	8,106	217,633
Deferred inflows of resources	8,137	4,834	-	-	8,137	4,834
Total liabilities	77,929	116,625	-	1,156,578	77,929	1,273,203
Net position						
Net investment in capital assets	169,977	106,916	-	5,916,527	169,977	6,023,443
Restricted	151,571	199,235	-	-	151,571	199,235
Unrestricted	464,573	502,698	-	110,811	464,573	613,509
Total net position	\$ 786,121	\$ 808,849	\$ -	\$6,027,338	\$ 786,121	\$6,836,187

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The assets and deferred outflows of the City exceeded liabilities and deferred inflows by \$786,121 at the close of the current fiscal year. The City's net position decreased by \$6,050,066 for the fiscal year ended June 30, 2020. The primary reason for the decrease is the conveying of the water sewer system to Brunswick County. The largest portion of the City's net position, 59.10%, reflects its unrestricted net position. Net investment in capital assets (e.g., land, buildings, machinery and equipment, and infrastructure); less any related debt used to acquire those assets that are still outstanding, makes up 21.62% of total net position. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

Although the City's investment in its capital assets is reported net of related debt, it should note that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The remaining balance is the restricted portion of net position, \$151,571 or 19.28%, represents the City's resources that are subject to external restrictions on how they may be used.

City of Northwest, North Carolina
Management's Discussion and Analysis (continued)
June 30, 2020

City of Northwest's Changes in Net Position
Figure 3

	Governmental Activities		Business-Type Activities		Totals	
	2020	2019	2020	2019	2020	2019
Program Revenues						
Charges for services	\$ -	\$ -	\$ 216,090	\$ 299,291	\$ 216,090	\$ 299,291
Operating grants	35,656	84,000	-	-	35,656	84,000
General revenues					-	-
Property taxes	129,285	156,441	-	-	129,285	156,441
Other taxes	296,932	266,363	-	-	296,932	266,363
Other	5,441	6,316	223	522	5,664	6,838
Total revenues	467,314	513,120	216,313	299,813	683,627	812,933
Expenses:						
General government	225,072	238,582	-	-	225,072	238,582
Transportation	40,720	39,736	-	-	40,720	39,736
Public Safety	180,958	195,416	-	-	180,958	195,416
Cultural and recreation	5,381	3,148	-	-	5,381	3,148
Interest on long-term debt	173	508	-	25,793	173	26,301
Water and Sewer	-	-	330,140	384,336	330,140	384,336
Total expenses	452,304	477,390	330,140	410,129	782,444	887,519
Change in net position	15,010	35,730	(113,827)	(110,316)	(98,817)	(74,586)
Transfers	-	-	-	-	-	-
Extraordinary item: Disposal of government operations	(37,738)	-	(5,913,511)	-	(5,951,249)	-
Change in net position	(22,728)	35,730	(6,027,338)	(110,316)	(6,050,066)	(74,586)
Beginning net position	808,849	773,119	6,027,338	6,137,654	6,836,187	6,910,773
Net position, ending	\$ 786,121	\$ 808,849	\$ -	\$ 6,027,338	\$ 786,121	\$ 6,836,187

City of Northwest, North Carolina
Management's Discussion and Analysis (continued)
June 30, 2020

Governmental activities. Governmental activities decreased the City's net position by \$22,728. A decrease in revenues of \$45,806 was the key element in the higher net position.

Business-type activities. The business-type activities decreased the City of Northwest's net position. Net position decreased by \$6,027,338. The conveyance of the City's water and sewer system was the key component of the decrease in net position.

Financial Analysis of the Government's Funds

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

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

The General fund is the chief operating fund of the City of Northwest. At the June 30, 2020, the fund balance for the City of Northwest's General Fund reached \$636,437. Of this, \$151,571 was restricted, leaving an unassigned fund balance of \$484,866 available for spending at the City's discretion. The City's general fund currently has an available fund balance of 95.91% of governmental fund expenditures.

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 from external sources, such as federal and State grants.
3. Increases in appropriates that become necessary to maintain services and obligations from prior years not completed.

Proprietary Funds. The City of Northwest's proprietary funds provide the same type of information found in the government-wide statements, but in more detail. Net position was eliminated in the proprietary fund due to the conveyance of the water and sewer operations to Brunswick County.

Capital Assets and Debt Administration Capital Assets

The City of Northwest's investments in capital assets for its governmental and business-type activities as of June 30, 2020, totals \$169,977 (net of accumulated depreciation). The investments in capital assets includes land, buildings and other systems, infrastructure, and vehicles and motorized equipment.

City of Northwest's Capital Assets
(net of depreciation)
Figure 4

	Governmental Activities		Business -type Activities		Totals	
	2020	2019	2020	2019	2020	2019
Land	\$ 63,980	\$ 63,980	\$ -	\$ -	\$ 63,980	\$ 63,980
Buildings and other systems	27,850	30,006	-	-	27,850	30,006
Infrastructure	10,228	12,785	-	-	10,228	12,785
Vehicles and motorized equipment	67,919	11,479	-	-	67,919	11,479
Plant and Distribution System	-	-	-	7,137,254	-	7,137,254
Total capital assets, net	\$ 169,977	\$ 118,250	\$ -	\$ 7,137,254	\$ 169,977	\$ 7,255,504

City of Northwest, North Carolina
Management's Discussion and Analysis (continued)
June 30, 2020

Additional information on the City's capital assets can be found in the notes to the Basic Financial Statements.

Long-term debt. As of June 30, 2020, the City of Northwest had no debt outstanding.

Additional information on the City's long-term debt can be found in the notes to the Basic Financial Statements.

Budget Highlights for the Fiscal Year Ending June 30, 2021

Governmental Activities: City management will continue to prepare budgets to maintain spending where possible. The City will budget conservatively to ensure incoming revenues can offset all expected expenditures.

Business-type Activities. There are no longer any business type activities for the City of Northwest due to the discontinued operations of the water and sewer system.

Request for Information

This report is designed to provide an overview of the City's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to:

Donna Strickland, Finance Director/City Clerk
City of Northwest
4889 Vernon Road
Northwest, NC 28451

One can also call (910) 655-3110 or reach via email to cityclerk@cityofnorthwest.com.

Basic Financial Statements

City of Northwest, North Carolina
Statement of Net Position
June 30, 2020

	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 492,972	\$ -	\$ 492,972
Taxes receivables, net	31,645	-	31,645
Accounts receivable	-	-	-
Due from other governments	68,756	-	68,756
Restricted cash and cash equivalents	72,916	-	72,916
Total current assets	666,289	-	666,289
Non-current assets:			
Capital assets (Note 3):			
Land and non-depreciable improvements	63,980	-	63,980
Other capital assets, net of depreciation	105,997	-	105,997
Total capital assets	169,977	-	169,977
Total assets	836,266	-	836,266
DEFERRED OUTFLOWS OF RESOURCES			
Pension Deferrals	27,784	-	27,784
Total deferred outflows of resources	27,784	-	27,784
LIABILITIES			
Current liabilities:			
Accounts payable and accrued expenses	8,106	-	8,106
Due to other funds	-	-	-
Current portion of long-term debt	-	-	-
Total current liabilities	8,106	-	8,106
Long-term liabilities:			
Net pension liability-LGERS	39,871	-	39,871
Total pension liability-LEOSSA	20,508	-	20,508
Compensated absences	1,307	-	1,307
Due in more than one year	-	-	-
Total long term liabilities	61,686	-	61,686
Total liabilities	69,792	-	69,792
DEFERRED INFLOWS OF RESOURCES			
Pension Deferral	8,137	-	8,137
Total deferred inflows of resources	8,137	-	8,137
NET POSITION			
Net investment in capital assets	169,977	-	169,977
Restricted for:			
Stabilization by State Statute	78,655	-	78,655
Transportation - Powell Bill	72,916	-	72,916
Unrestricted	464,573	-	464,573
Total net position	\$ 786,121	\$ -	\$ 786,121

City of Northwest, North Carolina
Statement of Activities
Year Ended June 30, 2020

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
Primary government:							
Governmental Activities:							
General government	\$ 225,072	\$ -	\$ 10,799	\$ -	\$ (214,273)	\$ -	\$ (214,273)
Transportation	40,720	-	24,857	-	(15,863)	-	(15,863)
Public Safety	180,958	-	-	-	(180,958)	-	(180,958)
Cultural and recreation	5,381	-	-	-	(5,381)	-	(5,381)
Interest on long-term debt	173	-	-	-	(173)	-	(173)
Total governmental activities	<u>452,304</u>	<u>-</u>	<u>35,656</u>	<u>-</u>	<u>(416,648)</u>	<u>-</u>	<u>(416,648)</u>
Business-type activities:							
Water and sewer	298,042	216,090	-	-	-	(81,952)	(81,952)
Interest on long-term debt	-	-	-	-	-	-	-
Total business-type activities	<u>298,042</u>	<u>216,090</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(81,952)</u>	<u>(81,952)</u>
Total primary government	<u>\$ 750,346</u>	<u>\$ 216,090</u>	<u>\$ 35,656</u>	<u>\$ -</u>	<u>(416,648)</u>	<u>(81,952)</u>	<u>(498,600)</u>
General revenues:							
Taxes:							
Property taxes, levied for general purpose					129,285	-	129,285
Local Option Sales Taxes					272,873	-	272,873
Other taxes and licenses					24,059	-	24,059
Investment earnings, unrestricted					1,132	223	1,355
Miscellaneous, unrestricted					4,309	-	4,309
Total general revenues and transfers					<u>431,658</u>	<u>223</u>	<u>431,881</u>
Extraordinary item: Disposal of government operations					<u>(37,738)</u>	<u>(5,945,609)</u>	<u>(5,983,347)</u>
Total general revenues, transfers and extraordinary items					<u>393,920</u>	<u>(5,945,386)</u>	<u>(5,551,466)</u>
Change in net position					<u>(22,728)</u>	<u>(6,027,338)</u>	<u>(6,050,066)</u>
Net position, beginning					<u>808,849</u>	<u>6,027,338</u>	<u>6,836,187</u>
Net position, ending					<u>\$ 786,121</u>	<u>\$ -</u>	<u>\$ 786,121</u>

City of Northwest, North Carolina
Balance Sheet - Governmental Fund
June 30, 2020

	Major Fund General	Total Governmental Fund
<u>ASSETS</u>		
Cash and cash equivalents	\$ 492,972	\$ 492,972
Restricted cash and cash equivalents	72,916	72,916
Taxes receivables, net	31,645	31,645
Due from other governments	68,756	68,756
Total assets	666,289	666,289
<u>LIABILITIES</u>		
Accounts payable and accrued liabilities	8,106	8,106
Total liabilities	8,106	8,106
<u>DEFERRED INFLOWS OF RESOURCES</u>		
Property taxes receivable	21,746	21,746
Total deferred inflows of resources	21,746	21,746
<u>FUND BALANCES</u>		
Restricted		
Stabilization by State Statute	78,655	78,655
Transportation - Powell Bill	72,916	72,916
Unassigned	484,866	484,866
Total fund balances	636,437	636,437
Total liabilities, deferred inflows of resources and fund balances	\$ 666,289	\$ 666,289

City of Northwest, North Carolina
Balance Sheet - Governmental Fund
June 30, 2020

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

Total Fund Balance, Governmental Funds		\$ 636,437
Capital assets used in governmental activities are not financial resources and therefore not reported in the funds.		
Gross capital assets at historical cost	518,510	
Accumulated depreciation	<u>(348,533)</u>	169,977
Liabilities for earned revenues considered deferred inflows of resources in fund statements		21,746
Deferred outflows of resources related to pensions are not reported in the funds		27,784
Long-term liabilities used in governmental activities are not financial uses and therefore are not reported in the funds.		
Gross long-term debt beginning	(11,334)	
Long-term debt included as net position below (includes principal payments during the year)	11,334	
Compensated Absences	(1,307)	
Net pension liability	(39,871)	
Total pension liability	<u>(20,508)</u>	(61,686)
Deferred inflows of resources related to pensions are not reported in the funds.		<u>(8,137)</u>
Net position of governmental activities		<u>\$ 786,121</u>

City of Northwest, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balances -
Governmental Fund
Year Ended June 30, 2020

	Major Fund	Total
	General	Governmental
	Fund	Fund
Revenues:		
Ad valorem taxes	\$ 136,567	\$ 136,567
Unrestricted intergovernmental	307,131	307,131
Restricted intergovernmental	24,857	24,857
Sales and Services	178	178
Miscellaneous	4,131	4,131
Investment earnings	1,132	1,132
Total revenues	473,996	473,996
Expenditures:		
Current:		
General government	261,804	261,804
Transportation	38,163	38,163
Public Safety	188,678	188,678
Cultural and recreation	5,381	5,381
Debt Service:		
Principal retirement	11,334	11,334
Interest and other charges	173	173
Total expenditures	505,533	505,533
Excess (deficiency) of revenues		
over expenditures	(31,537)	(31,537)
Other financing sources (uses)		
Extraordinary item: Disposal of government		
operations	(37,738)	(37,738)
Total other financing sources (uses)	(37,738)	(37,738)
Net change in fund balances	(69,275)	(69,275)
Fund balances, beginning	705,712	705,712
Fund balances, ending	\$ 636,437	\$ 636,437

City of Northwest, North Carolina
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Fund to the Statement of Activities
Year Ended June 30, 2020

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

Net change in fund balances - total governmental funds	\$	(69,275)
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Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital outlay expenditures which were capitalized	\$ 72,508	
Depreciation expense for governmental assets	<u>(20,781)</u>	51,727

Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities	8,383
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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	(7,282)
--	---------

The issuance of long term debt provides current financial 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	11,334
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Some expenses in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:

Pension expense	(20,022)
Compensated absences	2,407

Total changes in net position of governmental activities	\$	<u>(22,728)</u>
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City of Northwest, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
General Fund
Year Ended June 30, 2020

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Ad valorem taxes	\$ 114,420	\$ 114,420	\$ 136,567	\$ 22,147
Unrestricted intergovernmental	228,520	228,520	307,131	78,611
Restricted intergovernmental	24,789	24,789	24,857	68
Sales and Services	200	150	178	28
Miscellaneous	2,500	2,550	4,131	1,581
Investment earnings	75	75	1,132	1,057
Total revenues	<u>370,504</u>	<u>370,504</u>	<u>473,996</u>	<u>103,492</u>
Expenditures:				
Current:				
General Government	197,681	290,781	261,804	28,977
Transportation	32,977	32,977	38,163	(5,186)
Public Safety	290,674	294,074	188,678	105,396
Cultural and Recreational	10,300	10,300	5,381	4,919
Debt Service:				
Principal retirement	5,582	11,334	11,334	-
Interest and other charges	344	192	173	19
Total expenditures	<u>537,558</u>	<u>639,658</u>	<u>505,533</u>	<u>134,125</u>
Revenues over (under) expenditures	<u>(167,054)</u>	<u>(269,154)</u>	<u>(31,537)</u>	<u>237,617</u>
Other financing sources (uses):				
Extraordinary item: Disposal of government operations	-	-	(37,738)	(37,738)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(37,738)</u>	<u>(37,738)</u>
Fund balance appropriated	<u>167,054</u>	<u>269,154</u>	-	<u>269,154</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	(69,275)	<u>\$ (69,275)</u>
Fund balance, beginning			705,712	
Fund balance, ending			<u>\$ 636,437</u>	

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City of Northwest, North Carolina
Statement of Fund Net Position
Proprietary Fund
June 30, 2020

	Water & Sewer Fund
<u>ASSETS</u>	
Current assets:	
Cash and cash equivalents	\$ -
Accounts receivable, net	-
Total current assets	-
Noncurrent assets:	
Capital assets:	
Other capital assets, net of depreciation	-
Total noncurrent assets	-
Total assets	-
<u>LIABILITIES</u>	
Current liabilities:	
Accounts payable and accrued liabilities	-
Current portion of long term debt	-
Due to other funds	-
Total current liabilities	-
Noncurrent liabilities:	
Due in more than one year	-
Total noncurrent liabilities	-
<u>NET POSITION</u>	
Net investment in capital assets	-
Unrestricted	-
Total net position	\$ -

City of Northwest, North Carolina
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Fund
Year Ended June 30, 2020

	Water & Sewer Fund
Operating revenues:	
Charges for Services	\$ 216,090
Total operating revenues	<u>216,090</u>
Operating expenses:	
Administration	40,399
Other operating expenses	257,643
Depreciation	-
Total operating expenses	<u>298,042</u>
Operating income (loss)	<u>(81,952)</u>
Nonoperating revenues (expenses)	
Interest revenue	223
Total nonoperating revenues	<u>223</u>
Income (loss) before contributions and transfers	(81,729)
Special Item - Disposal of government operations	<u>(5,945,609)</u>
Change in net position	(6,027,338)
Total net position, beginning	6,027,338
Total net position, ending	<u><u>\$ -</u></u>

City of Northwest, North Carolina
Statement of Cash Flows
Proprietary Fund
Year Ended June 30, 2020

	Water & Sewer Fund
Cash flows from operating activities	
Cash received from customers	\$ 274,187
Cash paid for goods and services	(326,652)
Cash paid to employees for services	(40,399)
Net cash provided (used) by operating activities	<u>(92,864)</u>
Cash flows from capital and related financing activities	
Principal paid	-
Interest and fees paid	-
Disposal of government operations	(71,082)
Net cash provided (used) by capital and related financing activities	<u>(71,082)</u>
Cash flows from investing activities	
Interest on investments	223
Net cash provided (used) by investing activities	<u>223</u>
Net increase (decrease) in cash	(163,723)
Cash and cash equivalents - beginning of year	<u>163,723</u>
Cash and cash equivalents - end of year	<u><u>\$ -</u></u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	<u>\$ (81,952)</u>
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities -	
Depreciation	-
Change in assets and liabilities:	
(Increase) decrease in accounts receivable	58,097
Increase (decrease) in accounts payable and accrued liabilities	(69,009)
Total adjustments	<u>(10,912)</u>
Net cash provided (used) by operating activities	<u><u>\$ (92,864)</u></u>

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Northwest conform to generally accepted accounting principles as applicable to governments. The City does not have any discretely presented component units. The following is a summary of the more significant accounting policies:

A. Reporting Entity

The City of Northwest is a municipal corporation that is governed by an elected mayor and a five-member council. As required by generally accepted accounting principles, these financial statements present the City. There are no discretely presented component units.

B. Basis of Presentation

Government-wide Statements: The statement of net position and the statement of activities display information about the primary government. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the 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.

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.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation (Continued)

The City reports the following major governmental funds:

General Fund. The General Fund is the general operating fund of the City. 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, police, street maintenance and construction, parks and recreation, and general government services.

The City has no non-major governmental funds.

The City reports the following major enterprise funds:

Water & Sewer Fund. This fund is used to account for the City's water and sewer operations. The Water and Sewer fund was closed as of June 30, 2020 as all water and sewer operations were transferred to Brunswick County.

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, Proprietary, and Fiduciary Fund Financial Statements. The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide, proprietary, and fiduciary 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 general ongoing operations. The principal operating revenues of the City 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.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

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

The City considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable for property other than motor vehicles are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of September 1, 2013, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, the State of North Carolina is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts. Property taxes are due when vehicles are registered. 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 shared revenue for the City of Northwest because the tax is levied by Brunswick County and then remitted to and distributed by the State. Most Intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. All taxes, including those dedicated for specific purposes are reported as general revenues rather than program revenues. Under the terms of grant agreements, the 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 positions 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. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the project level for the multi-year funds. The Finance Officer is authorized by the budget ordinance to transfer appropriations between functional areas within a fund up to \$100, however any revisions that alter the total expenditures of any fund or change functional appropriations by more than \$100 must be approved by the governing board. All amendments must be approved by the governing board and the Board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

1. Deposits and Investments

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

State law [G.S. 159-30(c)] authorizes the City to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances, and the North Carolina Capital Management Trust (NCCMT). The City's investments are reported at fair value. Non-participating interest earning contracts are accounted for at no cost. The NCCMT Government Portfolio, a SEC-registered (2a-7) external investment pool, is measured at amortized cost, which is the NCCMT's share price. The NCCMT-Term Portfolio's securities are valued at fair value.

2. 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.

3. Restricted Assets

Powell Bill funds are classified as restricted cash because they can be expended only for the purposes of maintaining, repairing, constructing, reconstructing or widening of local streets per NC G.S. 136-41.1 through 136-41.4.

City of Northwest's Restricted Cash

Governmental Activities	
General Fund	\$ 72,916
Total Restricted Cash	<u>\$ 72,916</u>

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Fund Equity (Continued)

4. Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the City levies ad valorem taxes on property other than motor vehicles on July 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. As allowed by state law, the City has established a schedule of discounts that apply to taxes that are paid prior to the due date. In the City's General Fund, ad valorem tax revenues are reported net of such discounts.

5. Allowances for Doubtful Accounts

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

6. Inventory and Prepaid Items

The City has no inventory or prepaid items.

7. Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. Minimum capitalization cost is \$5,000. 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>
Buildings	40
Infrastructure	20
Maintenance and construction equipment	5
Furniture and office equipment	5
Equipment	5
Automobiles and light trucks	5

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Fund Equity (Continued)

8. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The City has one item that meets this criterion, contributions made to the pension plan in the 2018 fiscal year. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The City has two items that meet the criterion for this category – property taxes receivable and pension deferrals.

9. Long-Term Obligations

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

10. Compensated Absences

The vacation policy of both the City provides for the accumulation of up to thirty (30) 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.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Fund Equity (Continued)

11. Net Position/Fund Balances

Net Position

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

Fund Balances

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

The governmental fund types classify fund balances as follows:

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

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

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

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

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

Assigned Fund balance – portion of fund balance that the City of Northwest intends to use for specific purposes.

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

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Fund Equity (Continued)

12. 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 Governmental 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 of Northwest's employer contributions are recognized when due and the City of Northwest 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.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

None

III. DETAIL NOTES ON ALL FUNDS

A. Assets

1. Deposits

All the deposits of the City are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the City's agents in 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, these deposits are considered to be held by the City's agents in their names. The amount of the pledged collateral is based on an 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, or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the City under the Pooling Method, the potential exists 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 risk for deposits, but rely 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.

At June 30, 2020, the City's deposits had a carrying amount of \$565,688 and a bank balance of \$555,288. The entire bank balance is covered by federal depository insurance and the remainder was covered by collateral held under the pooling method. At June 30, 2020, the City's petty cash funds totaled \$200.

III. DETAIL NOTES ON ALL FUNDS (Continued)

A. Assets (Continued)

2. Investments

The investments of the City are in local banks, as certificates of deposit.

3. Receivables - Allowances 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. All receivables are deemed to be collectible.

General Fund:	
Taxes receivable	\$ 31,645
Total General Fund	<u>31,645</u>
 Total	 \$ <u><u>31,645</u></u>

III. DETAIL NOTES ON ALL FUNDS (Continued)

A. Assets (Continued)

4. Capital Assets

Primary Government

Capital asset activity for the Primary Government for the year ended June 30, 2020, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 63,980	\$ -	\$ -	\$ 63,980
Construction in progress	-	-	-	-
Total capital assets not being depreciated	63,980	-	-	63,980
Capital assets being depreciated:				
Buildings	166,274	-	-	166,274
Equipment and Vehicles	164,612	72,508	-	237,120
Infrastructure	51,136	-	-	51,136
Total capital assets being depreciated:	382,022	72,508	-	454,530
Less accumulated depreciation for:				
Buildings	136,268	2,156	-	138,424
Equipment and Vehicles	153,133	16,068	-	169,201
Infrastructure	38,351	2,557	-	40,908
Total accumulated depreciation	327,752	20,781	-	348,533
Total capital assets being depreciated, net	54,270			105,997
Governmental activities capital assets, net	<u>\$ 118,250</u>			<u>\$ 169,977</u>
 General government	 \$ 4,483			
Public safety	13,741			
Transportation	2,557			
Cultural and recreational	-			
Total depreciation expense	<u>\$ 20,781</u>			

CITY OF NORTHWEST, NORTH CAROLINA
Notes to the Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2020

III. DETAIL NOTES ON ALL FUNDS (Continued)

A. Assets (Continued)

	Beginning			Ending
	Balances	Increases	Decreases	Balances
Business-type activities:				
<i>Water and Sewer Fund</i>				
Capital assets not being depreciated:				
Land	\$ -	\$ -	\$ -	\$ -
Construction in progress	-	-	-	-
Total capital assets not being depreciated	-	-	-	-
Capital assets being depreciated:				
Plant and Distribution System	8,757,887	-	8,757,887	-
Buildings	-	-	-	-
Equipment and Vehicles	-	-	-	-
Total capital assets being depreciated:	8,757,887	-	8,757,887	-
Less accumulated depreciation for:				
Plant and Distribution System	1,795,791	-	1,795,791	-
Buildings	-	-	-	-
Equipment and Vehicles	-	-	-	-
Total accumulated depreciation	1,795,791	-	1,795,791	-
Total capital assets being depreciated, net	6,962,096			-
Water and Sewer Fund capital assets, net	<u>\$ 6,962,096</u>			<u>\$ -</u>

III. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities

1. Pension Plan and Post Employment Obligations

a. Local Governmental Employees' Retirement System

Plan Description. The City of Northwest is a participating employer in the statewide 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.

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.

III. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

1. Pension Plan and Postemployment Obligations (Continued)

a. Local Governmental Employees' Retirement System (Continued)

Contributions. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. City of Northwest 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 of Northwest's contractually required contribution rate for the year ended June 30, 2020, was 9.70% of compensation for law enforcement officers and 8.95% 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 of Northwest were \$8,383 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.

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 \$39,871 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, 2019, the City's proportion was .00146%, which was an increase of 0.00004% from its proportion measured as of June 30, 2018.

III. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

1. Pension Plan and Postemployment Obligations (Continued)

a. Local Governmental Employees' Retirement System (Continued)

For the year ended June 30, 2020, the City recognized pension expense of \$19,031.

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	\$ 6,827	\$ -
Changes of assumptions	6,498	-
Net difference between projected and actual earnings on pension plan investments	973	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	4,187	2,327
Town contributions subsequent to the measurement date	8,383	-
Total	<u>\$ 26,868</u>	<u>\$ 2,327</u>

\$8,383 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 ended June 30, 2021. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2021	\$ 8,336
2022	2,621
2023	3,595
2024	1,606
2025	-
Thereafter	-
	<u>\$ 16,158</u>

III. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

1. Pension Plan and Postemployment Obligations (Continued)

a. Local Governmental Employees' Retirement System (Continued)

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	3.5 to 8.10 percent, including inflation and productivity factor
Investment rate of return	7.20 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.

III. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

1. Pension Plan and Postemployment Obligations (Continued)

a. Local Governmental Employees' Retirement System (Continued)

The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2020 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	29.0%	1.4%
Global Equity	42.0%	5.3%
Real Estate	8.0%	4.3%
Alternatives	8.0%	8.9%
Credit	7.0%	6.0%
Inflation Protection	6.0%	4.0%
Total	<u>100.0%</u>	

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

Discount rate. The discount rate used to measure the total pension liability was 7.00%. 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 asset to changes in the discount rate. The following presents the City's proportionate share of the net pension asset calculated using the discount rate of 7.00 percent, 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 (6.00 percent) or one percentage point higher (8.00 percent) than the current rate:

<u>1% Decrease (6.00%)</u>	<u>Discount Rate (7.00%)</u>	<u>1% Increase (8.00%)</u>
\$ 91,193	\$ 39,871	\$ (2,787)

III. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

1. Pension Plan and Postemployment Obligations (Continued)

a. *Local Governmental Employees' Retirement System (Continued)*

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.

b. *Law Enforcement Officers Special Separation Allowance*

1. Plan Description

The City of Northwest 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 credible service or have attained 55 years of age and have completed five years or more of credible service. The Separation Allowance is equal to 0.85 percent 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.

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	-
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	2
Total	<u>2</u>

2. 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 Statements 73.

III. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

1. Pension Plan and Postemployment Obligations (Continued)

b. Law Enforcement Officers Special Separation Allowance (Continued)

3. 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	2.5 percent
Salary increases	3.50 to 7.35 percent, including inflation and productivity factor
Discount rate	3.26%

The discount rate is based on the yield of the S&P Municipal Bond 20 Year High Grade Rate Index as of December 31, 2018.

Mortality rates are based on the RP-2000 Mortality tables with adjustments for mortality improvements based on Scale AA.

4. 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 operating budget. The City's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly.

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 \$20,508. The total pension liability was measured as of December 31, 2019 based on a December 31, 2018 actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2019 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2020, the City recognized pension expense of \$991.

III. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

1. Pension Plan and Postemployment Obligations (Continued)

b. Law Enforcement Officers Special Separation Allowance (Continued)

4. Contributions (Continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 232	\$ 5,464
Changes of assumptions and other inputs	684	346
Benefit payments and plan administrative expenses made subsequent to the measurement date	-	-
Total	<u>\$ 916</u>	<u>\$ 5,810</u>

No amount was reported as deferred outflows of resources related to pensions resulting from benefit payments made and administrative expenses incurred subsequent to the measurement date. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2021	(1,118)
2022	(1,119)
2023	(1,031)
2024	(1,009)
2025	(617)
Thereafter	-

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 percent, 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 percent) or 1-percentage-point higher (4.26 percent) than the current rate:

	1% Decrease (2.26%)	Discount Rate (3.26%)	1% Increase (4.26%)
Total pension liability	\$ 21,237	\$ 20,508	\$ 19,814

III. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

1. Pension Plan and Postemployment Obligations (Continued)

b. Law Enforcement Officers Special Separation Allowance (Continued)

4. Contributions (Continued)

**Schedule of Changes in Total Pension Liability
Law Enforcement Officers' Special Separation Allowance
June 30, 2020**

	<u>2020</u>
Beginning balance	\$ 24,066
Service Cost	1,233
Interest on the total pension liability	876
Changes of benefit terms	-
Differences between expected and actual experience in the measurement of the total pension liability	(5,935)
Changes of assumptions or other inputs	268
Benefit payments	-
Other changes	-
Ending balance of the total pension liability	<u>\$ 20,508</u>

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

The actuarial assumptions used in the December 31, 2018 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

III. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

1. Pension Plan and Postemployment Obligations (Continued)

	LGERS	LEOSSA	Total
Pension Expense	\$ 19,031	\$ 991	\$ 20,022
Pension Liability	39,871	20,508	60,379
Proportionate share of the net pension liability	0.14600%	n/a	0.00193%
Deferred Outflows of Resources			-
Differences between expected and actual experience	6,827	232	7,059
Changes of assumptions	6,498	684	7,182
Net difference between projected and actual earnings on plan investments	973	-	973
Changes in proportion and differences between contributions and proportionate share of contributions	4,187	-	4,187
Deferred Inflows of Resources			
Differences between expected and actual experience	-	5,464	5,464
Changes of assumptions	-	346	346
Net difference between projected and actual earnings on plan investments	-	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	2,327	-	2,327

c. ***Supplemental Retirement Income Plan for Law Enforcement Officers***

Plan Description. The City contributes to the Supplemental Retirement Income Plan (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 five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may also make voluntary contributions to the plan. In addition, the City has elected to match up to two percent of the contributions made by the employees not engaged in law enforcement to the Supplemental Retirement Income Plan.

Contributions for the year ended June 30, 2020 were \$3,568. No amounts were forfeited.

III. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

2. Other Employment Benefits

The City has elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Government 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 employers 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 month's 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 upon 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.

3. Deferred Outflows and Inflows of Resources of Resources

Deferred outflows of resources reported on the Statement of Net Position is comprised of the following:

Source	Amount
Contributions to pension plan in current fiscal year	\$ 8,383
Differences between expected and actual experience	7,059
Changes of assumptions and other inputs	7,182
Net difference between projected and actual earnings	973
Changes in proportion and differences between City contributions and proportionate share of contributions	4,187
Total	<u>\$ 27,784</u>

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

	Statement of Net Position	General Fund Balance Sheet
Taxes receivable, less penalties (General Fund)	-	21,746
Differences between expected and actual experience	5,464	-
Changes in assumptions	346	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	-
	2,327	-
Total	<u>\$ 8,137</u>	<u>\$ 21,746</u>

III. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

3. 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 participates in three self-funded risk-financing pools administered by the North Carolina League of Municipalities. Through these pools, the City obtains general liability and auto liability coverage of \$1 million per occurrence, property coverage up to the total insurance values of the property policy, workers' compensation coverage up to statutory limits. The liability and property exposures are reinsured through commercial carriers for claims in excess of retentions as selected by the Board of Trustees each year. Stop loss insurance is purchased by the Board of Trustees to protect against large medical claims that exceed certain dollar cost levels. Specifics on the limits of the reinsurance, excess and stop loss policies purchase by the Board of Trustees can be obtained by contacting the Risk Management Services Department of the NC League of Municipalities. The pools are audited annually by certified public accountants and the audited financial statements are available upon request.

The City does not carry flood insurance. The City is not in a flood plain.

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 is bonded for \$50,000 and the tax collector is bonded for \$10,000.

5. Claims, Judgments and Contingent Liabilities

At June 30, 2020, the City had no claims or judgments

6. Long-Term Obligations

a. Installment Purchases

Governmental Activities

On June 30, 2017, the City entered into an installment purchase contract with First Bank for the purchase of a Dodge Charger. The contract will be made in annual principal installments of \$5,925 plus interest of 2.990% for 5 years. The balance of the note was paid off early, prior to June 30, 2020.

b. General Obligation Indebtedness

The City's general obligation bonds serviced by the governmental funds were issued for water improvements. Those general obligation bonds issued to finance the construction of facilities, utilized in the operations of the water system and which are being retired by its resources are reported as long-term debt in the Water Fund. All general obligation bonds are collateralized by the full faith, credit, and taxing power of the City. Principal and interest requirement are appropriated when due.

On January 1, 2020 The City of Northwest conveyed their water and sewer operations to Brunswick County as well as all debt and capital assets associated with the system.

III. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

6. Long-Term Obligations (Continued)

c. Changes in Long-Term Liabilities

	Beginning Balances	Increases	Decreases	Ending Balance	Current Portion
Governmental activities:					
Installment purchase	\$ 11,334	\$ -	\$ 11,334	\$ -	\$ -
Compensated absences	3,714	-	2,407	1,307	-
Net pension liability (LGRS)	33,687	6,184	-	39,871	-
Total Pension Liability	24,066	-	3,558	20,508	-
Governmental activity long-term liabilities	<u>\$ 72,801</u>	<u>\$ 6,184</u>	<u>\$ 17,299</u>	<u>\$ 61,686</u>	<u>\$ -</u>
Business-type activities:					
General obligation bonds	528,000	-	528,000	-	-
General obligation notes	517,569	-	517,569	-	-
Business-type activities long-term liabilities	<u>\$ 1,045,569</u>	<u>\$ -</u>	<u>\$ 1,045,569</u>	<u>\$ -</u>	<u>\$ -</u>

D. Fund Balance

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

Total Fund Balance - General Fund	\$ 636,437
Less:	
Stabilization by State Statute	78,655
Streets-Powell Bill	72,916
Remaining Fund Balance	<u>\$ 484,866</u>

IV. SIGNIFICANT EFFECTS OF SUBSEQUENT EVENTS

Events occurring after June 30, 2020 were evaluated by management on December 29, 2020 to ensure that any subsequent events that met the criteria for recognition and or disclosure in these financial statements have been included. In management's opinion, there are no events that require disclosure in these financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF NORTHWEST, NORTH CAROLINA

City of Northwest'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
Northwest's Proportion of the Net Pension Liability (Asset) (%)	0.00146%	0.00142%	0.00193%	0.0015%	0.0011%	0.0014%	0.0022%
Northwest's Proportion of the Net Pension Liability (Asset) (\$)	\$ 39,871	\$ 33,687	\$ 29,485	\$ 31,623	\$ 4,847	\$ (7,961)	\$ 26,518
Northwest's Covered-Employee Payroll	\$ 87,629	\$ 119,281	\$ 114,642	\$ 109,867	\$ 77,609	\$ 99,218	\$ 99,218
Northwest's Proportion Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	45.50%	28.24%	25.72%	28.78%	6.25%	-8.02%	26.73%
Plan fiduciary Net Position as a Percentage of the Total Pension/Liability**	91.83%	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 ending June 30. Additional years' information will be presented as it becomes available.

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

CITY OF NORTHWEST, NORTH CAROLINA

City of Northwest's Contributions

Required Supplementary Information

Last Seven Fiscal Years*

Local Government Employee's Retirement System

	2020	2019	2018	2017	2016	2015	2014
Contractually Required Contribution	\$ 8,383	\$ 9,939	\$ 7,713	\$ 8,708	\$ 8,531	\$ 5,500	\$ 5,457
Contributions in Relation to the	8,383	9,939	7,713	8,708	8,531	5,500	5,457
Contractually Required Contribution Contribution Deficiency (Excess)	-	-	-	-	-	-	-
Northwest's Covered-Employee Payroll	\$ 179,121	\$ 119,281	\$ 97,082	\$ 114,642	\$ 109,867	\$ 77,609	\$ 99,218
Contributions as a Percentage of Covered-Employee Payroll	4.68%	8.33%	7.94%	7.60%	7.76%	7.09%	5.50%

* Additional years' information will be presented as it becomes available.

CITY OF NORTHWEST, NORTH CAROLINA
Schedule of Changes in Total Pension Liability
Law Enforcement Officer's Special Separation Allowance
June 30, 2020*

	2020	2019	2018	2017
Beginning balance	\$ 24,066	\$ 21,700	\$ 19,274	\$ 17,819
Service Cost	1,233	1,729	1,988	1,052
Interest on the total pension liability	876	686	744	636
Changes of benefit terms	-	-	-	-
Differences between expected and actual experience in the measurement of the total pension liability	(5,935)	382	(1,484)	-
Changes of assumptions or other inputs	268	(431)	1,178	(233)
Benefit payments	-	-	-	-
Other changes	-	-	-	-
Ending balance of the total pension liability	<u>\$ 20,508</u>	<u>\$ 24,066</u>	<u>\$ 21,700</u>	<u>\$ 19,274</u>

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

CITY OF NORTHWEST, NORTH CAROLINA

Schedule of Total Pension Liability as a Percentage of Covered Payroll
Law Enforcement Officer's Special Separation Allowance
June 30, 2020**

	2020	2019	2018	2017
Total pension liability	\$ 20,508	\$ 24,066	\$ 21,700	\$ 19,274
Covered payroll	76,987	65,053	57,624	59,907
Total pension liability as a percentage of covered payroll	26.64%	36.99%	37.66%	32.17%

Notes to the schedules:

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

Individual Fund Statements and Schedules
Governmental Funds

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City of Northwest North Carolina
General Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances -
Budget and Actual
Year Ended June 30, 2020

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Ad valorem taxes:			
Taxes	\$	\$ 136,567	\$
Penalties and interest		-	
Total	<u>114,420</u>	<u>136,567</u>	<u>22,147</u>
Unrestricted intergovernmental:			
Local option sales taxes		272,873	
Utility franchise tax		19,773	
Beer and wine tax		3,686	
COVID Grant		10,799	
Total	<u>228,520</u>	<u>307,131</u>	<u>78,611</u>
Restricted intergovernmental:			
Powell Bill allocation		24,857	
Total	<u>24,789</u>	<u>24,857</u>	<u>68</u>
Sales and Services:			
Licenses & permits		125	
Officer Fees		53	
Total	<u>200</u>	<u>178</u>	<u>(22)</u>
Investment earnings	<u>75</u>	<u>1,132</u>	<u>1,057</u>
Miscellaneous			
Donations		150	150
Other revenue		3,981	3,981
	<u>2,500</u>	<u>4,131</u>	<u>1,631</u>
Total revenues	<u>\$ 370,504</u>	<u>\$ 473,996</u>	<u>\$ 103,492</u>

**City of Northwest North Carolina
General Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances -
Budget and Actual
Year Ended June 30, 2020**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Expenditures:			
General Government:			
Salaries and employee benefits		89,772	
Operating expenditures		128,798	
Capital outlay		43,234	
Total administration	<u>290,781</u>	<u>261,804</u>	<u>28,977</u>
Transportation:			
Powell Bill repayment		38,163	
Total	<u>32,977</u>	<u>38,163</u>	<u>(5,186)</u>
Public Safety:			
Salaries and employee benefits		121,327	
Operating expenditures		38,077	
Capital outlay		29,274	
Total	<u>294,074</u>	<u>188,678</u>	<u>105,396</u>
Cultural and Recreational:			
Operating expenditures		5,381	
Total	<u>10,300</u>	<u>5,381</u>	<u>4,919</u>
Debt service:			
Principal retirement		11,334	
Interest and fees		173	
Total	<u>11,526</u>	<u>11,507</u>	<u>19</u>
Total expenditures	<u>639,658</u>	<u>505,533</u>	<u>134,125</u>
Revenues over (under) expenditures	<u>(269,154)</u>	<u>(31,537)</u>	<u>237,617</u>
Other financing sources(uses):			
Extraordinary item: Disposal of government operations	-	(37,738)	(37,738)
Fund balance appropriated:	269,154		269,154
Net change in fund balance	<u>\$ -</u>	<u>\$ (69,275)</u>	<u>\$ (69,275)</u>
Fund balance, beginning		705,712	
Fund balance, ending		<u>\$ 636,437</u>	

Individual Fund Statements and Schedules
Proprietary Funds

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City of Northwest, North Carolina
Water and Sewer Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non-GAAP)
For the Year Ended June 30, 2020

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Operating Revenues:			
Charges for Services			
Water Charges	\$	\$ 105,603	\$
Sewer Charges		107,681	
Late Fees and Penalties		2,806	
Miscellaneous		-	
Total	<u>339,285</u>	<u>216,090</u>	<u>(123,195)</u>
Nonoperating Revenues:			
Interest Earnings		223	
Total	<u>200</u>	<u>223</u>	<u>23</u>
Total revenues	<u>339,485</u>	<u>216,313</u>	<u>(123,172)</u>
Expenditures:			
Administration			
Salaries and Wages		32,707	
Employee Benefits		7,692	
Total	<u>74,614</u>	<u>40,399</u>	<u>34,215</u>
Water and Sewer Operations			
Utilities		12,577	
Contracted Services		6,429	
Maintenance and Repairs		57,590	
Other Operating Expenditures		181,047	
Total	<u>178,919</u>	<u>257,643</u>	<u>(78,724)</u>

City of Northwest, North Carolina
Water and Sewer Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non-GAAP)
For the Year Ended June 30, 2020

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Debt Service			
Principal Payments		-	
Interest		-	
Total	<u>135,000</u>	<u>-</u>	<u>135,000</u>
Total expenditures	<u>388,533</u>	<u>298,042</u>	<u>90,491</u>
Revenues over (under) expenditures	<u>(49,048)</u>	<u>(81,729)</u>	<u>(32,681)</u>
Other financing sources (uses):			
Transfers in (out)	-	-	
Special Item - Disposal of government operations	-	(5,945,609)	
Total	<u>-</u>	<u>(5,945,609)</u>	<u>(5,945,609)</u>
Appropriated fund balance	49,048	-	49,048
Revenues and other sources over expenditures and other uses	<u>\$ -</u>	<u>\$ (6,027,338)</u>	<u>\$ (6,027,338)</u>

Reconciliation from budgetary basis (modified accrual) to full accrual:

Revenues over (under) expenditures and other financing (uses)	<u>\$ (6,027,338)</u>
Reconciling items:	
Depreciation	-
Principal retirement	-
Total reconciling items	<u>-</u>
Change in net position	<u><u>\$ (6,027,338)</u></u>

Other Schedules

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City of Northwest, North Carolina
Schedule of Ad Valorem Taxes Receivable
June 30, 2020

<u>Fiscal Year</u>	<u>Uncollected Balances June 30, 2019</u>	<u>Additions</u>	<u>Collections and Credits</u>	<u>Uncollected Balances June 30, 2020</u>
2019-2020		\$ 143,430	\$ 133,108	\$ 10,322
2018-2019	\$ 8,958	-	6,267	2,691
2017-2018	3,656	-	2,200	1,456
2016-2017	1,904	-	887	1,017
2016-2015	1,468	-	889	579
2014-2015	950	-	417	533
2013-2014	1,014	-	363	651
2012-2013	791	-	206	585
2011-2012	1,672	-	217	1,455
2010-2011	954	-	220	734
2009-2010	1,987	-	264	1,723
	<u>\$ 23,354</u>	<u>\$ -</u>	<u>\$ 145,038</u>	<u>\$ 21,746</u>

Less: allowance for uncollectible accounts - General Fund

-

Ad valorem taxes receivable - net

\$ 21,746

Reconciliation to revenues:

Ad valorem taxes - General Fund

\$ 136,567

Interest and Penalties collected

-

Reconciling items:

Taxes written off

8,471

Total collections and credits

\$ 145,038

City of Northwest, North Carolina
Analysis of Current Tax Levy
Year Ended June 30, 2020

	<u>Town-Wide Levy</u>			<u>Total Levy</u>	
	<u>Property Valuation</u>	<u>Rate</u>	<u>Total Levy</u>	<u>Property Excluding Registered Motor Vehicles</u>	<u>Registered Motor Vehicles</u>
Original levy:					
Property taxed at current year's rate	\$ 58,235,417	0.24	\$ 139,765	\$ 124,037	\$ 15,728
Discoveries:					
Current and prior years	1,527,083		\$ 3,665	3,665	-
Releases:					
Current and prior years			-	-	-
Net levy			143,430	127,702	15,728
Uncollected taxes at June 30, 2020			(10,322)	(10,322)	-
Current year's taxes collected			<u>\$ 133,108</u>	<u>\$ 117,380</u>	<u>\$ 15,728</u>
Current levy collection percentage			<u>92.80%</u>	<u>91.92%</u>	<u>100.00%</u>

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