

TOWN OF NORWOOD
Norwood, North Carolina

Financial Statements
For the Fiscal Year Ended
June 30, 2020

Town Council Members

**Linda Campbell, Mayor
James Lilly, Mayor Pro-Tem
Robbie Cohen
Betty Harrison
Wes Hartsell**

Administrative and Financial Staff

**Scott Howard, Administrator
DeRita Carpenter, Finance Officer
Kelly Caudle, Town Clerk**

TOWN OF NORWOOD
TABLE OF CONTENTS

<u>Exhibit</u>		<u>Page No.</u>
	Independent Auditors' Report.....	1
	Management's Discussion and Analysis	3
	Basic Financial Statements:	
	Government-wide Financial Statements:	
1	Statement of Net Position	12
2	Statement of Activities	13
	Fund Financial Statements:	
3	Balance Sheet - Governmental Funds	14
4	Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	15
5	Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	16
6	Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual – General Fund	17
7	Statement of Fund Net Position - Proprietary Fund	18
8	Statement of Revenues, Expenses, and Changes in Fund Net Position - Proprietary Fund	19
9	Statement of Cash Flows - Proprietary Fund	20
	Notes to the Financial Statements.....	22
	Required Supplementary Information:	
	Schedule of Proportionate Share of the Net Pension Liability (Asset) – Local Government Employees' Retirement System	49
	Schedule of Contributions to Local Government Employees' Retirement System	50
	Schedule of Changes in Total Pension Liability – Law Enforcement Officers' Special Separation Allowance.....	51
	Schedule of Total Pension Liability as a Percentage of Covered Payroll – Law Enforcement Officers' Special Separation Allowance	52
	Schedule of Changes in the Total OPEB Liability and Related Ratios	53
	Budgetary Schedules:	
A-1	Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund.....	54
B-1	Schedule of Revenues and Expenditures – Budget and Actual (Non-GAAP) – Water and Sewer Fund	57
B-2	Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual – Wastewater Treatment Improvement Project Fund ...	59
B-3	Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual – Sanitary Sewer Improvement Project Fund.....	60

TOWN OF NORWOOD
TABLE OF CONTENTS

<u>Exhibit</u>		<u>Page No.</u>
	Other Schedules:	
C-1	Schedule of Ad Valorem Taxes Receivable	61
C-2	Analysis of Current Tax Levy – Town-Wide Levy	62
	Compliance:	
	Report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with Government Auditing Standards	63
	Schedule of Findings and Responses.....	65
	Corrective Action Plan	67
	Prior Year Findings.....	68

BASIC FINANCIAL STATEMENTS



220 East Washington Street
Post Office Box 697
Rockingham, North Carolina 28380
(910) 557-1176

Other Office Locations:
Seven Lakes, North Carolina
Gastonia, North Carolina
Statesville, North Carolina

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Norwood, 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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 opinions.

Opinion

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Town of Norwood, North Carolina as of June 30, 2020, and the respective changes in financial position, and, where applicable, cash flows, thereof and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, on pages 3 through 10, the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Asset and Contributions, on pages 49 and 50, respectively, and the Firefighters' and Rescue Squad Workers' Pension Fund's Schedule of the Proportionate Share of Net Pension Liability on page 51 and the Law Enforcement Officers' Special Separation Allowance schedules of the Changes in Total Pension Liability and Total Pension Liability as a Percentage of Covered Payroll on pages 52 and 53, respectively, and Schedule of Changes in the Total OPEB Liability and Related Ratios on page 54, 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 and the other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the Town of Norwood, North Carolina. The 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 individual fund statements, budgetary schedules, and 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. In our opinion, based on our audit, the procedures performed as described above, the individual fund statements, budgetary schedules, and other schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated January 28, 2021 on our consideration of Town of Norwood's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Town of Norwood's internal control over financial reporting and compliance.



January 28, 2021
Rockingham, North Carolina

TOWN OF NORWOOD
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2020

As management of the Town of Norwood, we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town of Norwood for the fiscal year ended June 30, 2020. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

Financial Highlights

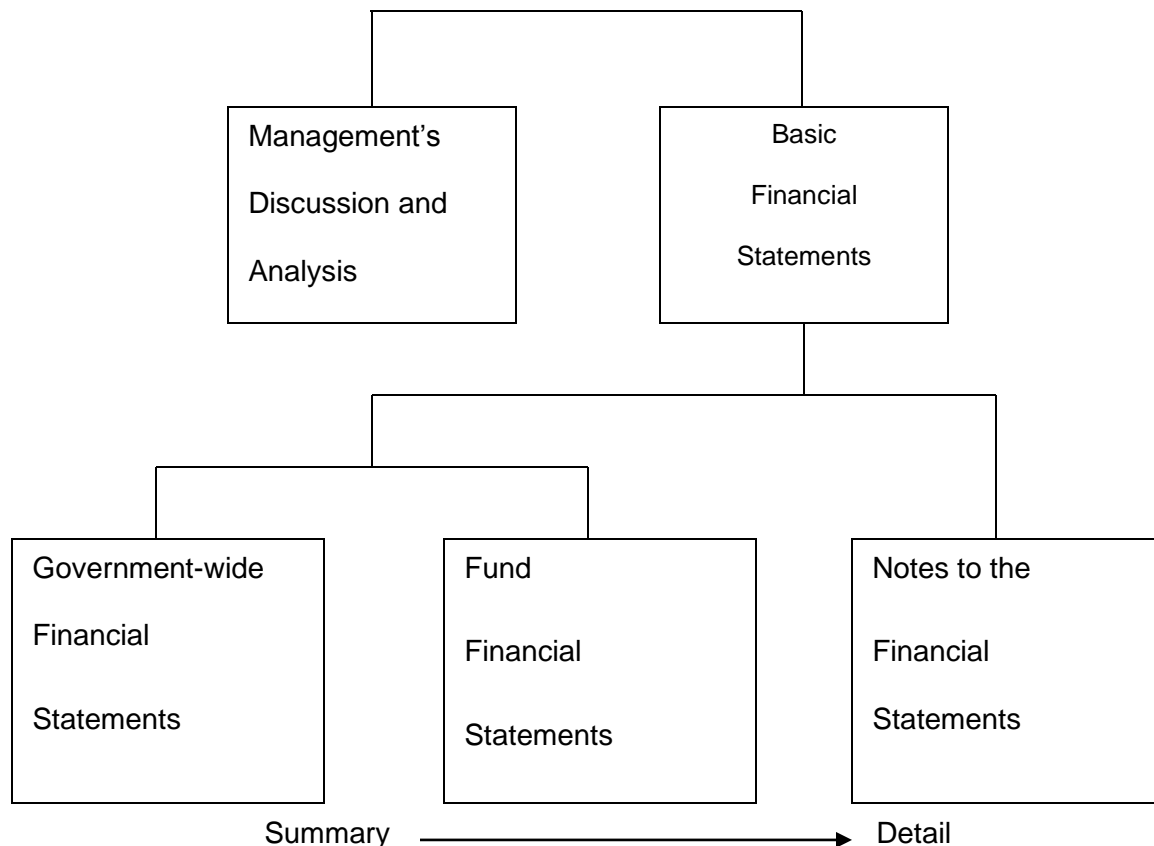
- The assets and deferred outflows of resources of the Town of Norwood exceeded its liabilities and deferred inflows of resources at the close of the year by \$13,489,978 (net position).
- The government's total net position increased by \$842,064.
- As of the close of the current fiscal year, the Town of Norwood's governmental funds reported ending fund balance of \$1,721,936, an increase of \$6,182 in comparison to the prior year. Approximately 41.0 percent of this total amount is available for spending at the government's discretion (unassigned fund balance).
- As the end of the current fiscal year, unassigned Fund Balance was \$705,886 or 29.4 percent of total General Fund expenditures for the fiscal year.
- During the year, the Town of Norwood received donated land easements valued at \$1,028,948 from Union County.

Overview of the Financial Statements

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

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

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

The next statements (Exhibits 3 through 9) are Fund Financial Statements. These statements focus on the activities of the individual parts of the Town's government. These statements provide more detail than the government-wide statements. There are three parts to the Fund Financial Statements: 1) the governmental fund statements; 2) the budgetary comparison statement; and 3) the proprietary fund statements.

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

TOWN OF NORWOOD
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2020

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

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

TOWN OF NORWOOD
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2020

demonstrates how well the Town complied with the budget ordinance and whether or not the Town succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the Council; 2) the final budget as amended by the Council; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges.

Proprietary Funds – The Town of Norwood has one kind of proprietary fund. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town of Norwood uses one enterprise fund to account for its water and sewer activity. This fund is the same as the function shown in the business-type activities in the Statement of Net Position and the Statement of Activities. The Water and Sewer fund consists of three subfunds that are consolidated for financial reporting purposes. They are Water and Sewer operations, Wastewater Treatment Improvement project fund and Sanitary Sewer Improvement project fund.

Notes to the Financial Statements –The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 22 of this report.

Other Information – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the Town of Norwood's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 48 of this report.

Government-Wide Financial Analysis - Following is a condensed statement of net position as of June 30, 2020 and 2019.

Figure 2

	Condensed Statement of Net Position					
	Governmental Activities		Business-type Activities		Total Primary Governmental	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Current assets	\$ 1,926,749	\$ 1,821,743	\$ 622,153	\$ 826,164	\$ 2,548,902	\$ 2,647,907
Capital assets	2,849,561	1,837,356	11,270,936	11,119,706	14,120,497	12,957,062
Deferred outflows of resources	<u>191,436</u>	<u>214,022</u>	<u>26,225</u>	<u>21,416</u>	<u>217,661</u>	<u>235,438</u>
Total assets and deferred outflows of resources	<u>4,967,746</u>	<u>3,873,121</u>	<u>11,919,314</u>	<u>11,967,286</u>	<u>16,887,060</u>	<u>15,840,407</u>
Long-term liabilities	946,453	917,022	1,711,458	1,837,014	2,657,911	2,754,036
Other liabilities	258,785	120,360	367,994	274,257	626,779	394,617
Deferred inflows of resources	<u>101,538</u>	<u>40,245</u>	<u>10,854</u>	<u>3,595</u>	<u>112,392</u>	<u>43,840</u>
Total liabilities and deferred inflows of resources	<u>1,306,776</u>	<u>1,077,627</u>	<u>2,090,306</u>	<u>2,114,866</u>	<u>3,397,082</u>	<u>3,192,493</u>
Net position:						
Net investment in capital assets	2,462,827	1,494,695	9,461,871	9,177,504	11,924,698	10,672,199
Restricted	766,610	731,449	-	-	766,610	731,449
Unrestricted	<u>431,533</u>	<u>569,350</u>	<u>367,137</u>	<u>674,916</u>	<u>798,670</u>	<u>1,244,266</u>
Total net position	<u>\$ 3,660,970</u>	<u>\$ 2,795,494</u>	<u>\$ 9,829,008</u>	<u>\$ 9,852,420</u>	<u>\$ 13,489,978</u>	<u>\$ 12,647,914</u>

TOWN OF NORWOOD
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2020

As noted earlier, net position may serve over time as one of the useful indicators of a government's financial condition. The assets and deferred outflows of the Town of Norwood exceeded liabilities and deferred inflows by \$13,489,978 as of June 30, 2020. The Town's net position increased by \$842,064 for the fiscal year ended June 30, 2020. The largest portion (88.4%) of the Town's net position reflects the Town's investment in capital assets (e.g. land, buildings, machinery, and equipment); less any related debt still outstanding that was issued to acquire those items. The Town of Norwood uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Norwood's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Town of Norwood's net position, \$766,610 is restricted. Of this amount, \$257,005 represents transportation resources and special revenue resources that are subject to external restrictions on how they may be used. \$509,605 is restricted for stabilization by State Statute. The remaining balance of \$798,670 is unrestricted.

Several particular aspects of the Town's financial operations influence the total restricted and unrestricted governmental net position:

- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 97.78%.
- Continued efforts to keep debt below debt threshold.
- Increased water and sewer rates to ensure the Enterprise Fund budget is self-supporting.

The following table shows the revenues and expenses for the Town for the current and prior fiscal years.

Figure 3
Condensed Statement of Changes in Net Position

	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Revenues						
Program revenues						
Charges for services	\$ 171,735	\$ 103,611	\$ 1,680,581	\$ 1,405,157	\$ 1,852,316	\$ 1,508,768
Operating grants and contributions	77,485	86,167	-	-	77,485	86,167
Capital grants and contributions	1,056,327	75,000	-	-	1,056,327	75,000
General revenues						
Property taxes	1,167,148	1,165,160	-	-	1,167,148	1,165,160
Other taxes	814,811	797,014	-	-	814,811	797,014
Other	<u>24,794</u>	<u>54,555</u>	<u>5,608</u>	<u>35,453</u>	<u>30,402</u>	<u>90,008</u>
Total revenues	3,312,300	2,281,507	1,686,189	1,440,610	4,998,489	3,722,117
Expenses						
General government	682,326	671,762	-	-	682,326	671,762
Public safety	796,242	785,969	-	-	796,242	785,969
Transportation	418,316	413,440	-	-	418,316	413,440
Environmental protection	354,268	306,891	-	-	354,268	306,891
Cultural and recreational	139,344	170,393	-	-	139,344	170,393
Cemetery	37,877	6,125	-	-	37,877	6,125
Garage	8,605	22,973	-	-	8,605	22,973
Interest on long-term debt	9,846	9,883	-	-	9,846	9,883
Water and sewer	<u>-</u>	<u>-</u>	<u>1,709,601</u>	<u>1,559,672</u>	<u>1,709,601</u>	<u>1,559,672</u>
Total expenses	2,446,824	2,387,436	1,709,601	1,559,672	4,156,425	3,947,108
Increase (decrease) to net position	<u>865,476</u>	<u>(105,929)</u>	<u>(23,412)</u>	<u>(119,062)</u>	<u>842,064</u>	<u>(224,991)</u>
Net position, beginning	<u>2,795,494</u>	<u>2,901,423</u>	<u>9,852,420</u>	<u>9,971,482</u>	<u>12,647,914</u>	<u>12,872,905</u>
Net position, ending	<u>\$ 3,660,970</u>	<u>\$ 2,795,494</u>	<u>\$ 9,829,008</u>	<u>\$ 9,852,420</u>	<u>\$ 13,489,978</u>	<u>\$ 12,647,914</u>

TOWN OF NORWOOD
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2020

Governmental activities. Governmental activities increased the Town's net position by \$865,476, which was primarily attributable to a donation of land easements provided by Union County. The Town's property taxes collections remain stable as well as the operations of the town, however, the Town will need to look at increasing the property tax rate in the future. Management is working to attract businesses and revitalize the downtown area of the Town of Norwood, and believes that continued investment in the Town will result in increased revenue in future years.

Business-type activities. Business type activities decreased the Town of Norwood's net position by \$23,412. The Town is increasingly spending more money to maintain its aging water and sewer infrastructure, and is currently working to find the sources of funding that will be needed to upgrade the Town's water and sewer infrastructure. The Town will need to increase water and sewer rates and replace aging, inaccurate water meters. The Town expects that the replacement of the Town's water meters will increase revenues in the Water and Sewer Fund, as water meters lose accuracy over time.

Financial Analysis of the Town's Funds

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

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

The General Fund is the chief operating fund of the Town of Norwood. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$705,886 and the total fund balance was \$1,721,936. Revenues exceeded expenditures and other financing sources by \$6,182 for the year ended June 30, 2020. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 29.4 percent of total General Fund expenditures and total fund balance represents 71.7 percent of total General Fund expenditures for the year ended June 30, 2020.

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

There were several reasons the Town revised its budget throughout the year. The Town amended the budget in the General Fund several times to reallocate resources to maintain service levels and for capital asset acquisitions.

Proprietary Funds. The Town of Norwood's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the Water and Sewer Fund at the end of the fiscal year amounted to \$367,137. The Water and Sewer Fund's net investment in capital assets was \$9,461,871. The total decrease in net position was \$23,412. Other factors concerning the finances of this fund have already been addressed in the discussion of the Town of Norwood's business-type activities.

TOWN OF NORWOOD
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2020

Capital Asset and Debt Administration

Capital Assets. The Town of Norwood's investment in capital assets for its governmental and business-type activities as of June 30, 2020, totals \$14,120,497 (net of accumulated depreciation). These assets include buildings, streets, land, machinery and equipment, park facilities, and vehicles.

The following is a summary of the capital assets, net of depreciation, at June 30, 2020 and 2019.

Figure 4
Summary of Capital Assets

	Governmental Activities		Business-type Activities		Total Primary Government	
	2020	2019	2020	2019	2020	2019
Land	\$ 1,304,806	\$ 275,858	\$ 552,989	\$ 552,989	\$ 1,857,795	\$ 828,847
Buildings, Plant and Distribution Systems	662,836	683,573	9,804,508	10,062,816	10,467,344	10,746,389
Equipment	201,167	219,164	289,232	307,810	490,399	526,974
Other Improvements	405,748	447,595	-	-	405,748	447,595
Vehicles and Motorized Equipment	275,004	211,166	102,363	100,416	377,367	311,582
Construction in Progress	-	-	521,844	95,675	521,844	95,675
Total	\$ 2,849,561	\$ 1,837,356	\$ 11,270,936	\$ 11,119,706	\$ 14,120,497	\$ 12,957,062

The Town entered into the Interlocal Intake and Transmission Agreement with Union County in fiscal year 2013. The terms of this agreement provide that Union County will finance the construction of a joint raw water intake facility in exchange for access to raw water from Lake Tillery. Additional information on the Town of Norwood's capital assets can be found in the notes to the financial statements.

During 2020, Union County donated land easements with a value of \$1,028,948. Additionally, the Town acquired four vehicles with a value of \$136,541 that were financed through a capital lease.

Long-term Debt. As of June 30, the Town of Norwood had no outstanding bonded debt. The following table shows the outstanding debt of Town of Norwood as of June 30, 2020 and 2019:

Figure 5

	Governmental Activities		Business-type Activities		Total	
	2020	2019	2020	2019	2020	2019
Direct placement						
installment purchases	\$ 277,951	\$ 342,661	\$ 1,781,307	\$ 1,942,202	\$ 2,059,258	\$ 2,284,863
Capital leases	108,783	-	27,758	-	136,541	-
Compensated absences	30,926	31,334	5,244	4,547	36,170	35,881
OPEB liability	217,435	254,582	24,159	28,287	241,594	282,869
Net pension liability (LGERS)	263,277	226,321	42,859	25,147	306,136	251,468
Total pension liability (LEO)	153,629	142,502	-	-	153,629	142,502
Totals	\$1,052,001	\$ 997,400	\$ 1,881,327	\$ 2,000,183	\$ 2,933,328	\$ 2,997,583

TOWN OF NORWOOD
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2020

Outstanding debt activity is as follows:

- Existing installment purchase agreement in governmental activities for various police and sanitation vehicles and equipment.
- Existing installment purchase agreements in business type activities for water and sewer lines.
- New capital lease agreement in governmental and business-type activities for the purchase of four new vehicles.

North Carolina General Statutes limit the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for the Town of Norwood is \$24,037,040. The Town has no bonds authorized or issued at June 30, 2020.

Economic Factors and Next Year's Budgets and Rates

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

- Norwood is still seeing an increase in residential building permits being issued. The areas most affected are the Edgewater and Eagle Pointe subdivisions, as well as the area served by the new sewer line.
- Norwood is still struggling with a lack of retail shops downtown and is working to attract businesses to revitalize the downtown area of Norwood.
- **Impact of Coronavirus on Town** - On January 30, 2020, the World Health Organization declared the coronavirus "COVID-19" outbreak a "Public Health Emergency of International Concern" and on March 11, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of COVID-19 include restrictions on travel, quarantines, or "stay-at-home" restrictions in certain areas and forced closures for certain types of public places and businesses. COVID-19 and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets globally, including that of the Town. While it is unknown how long these conditions will last and what the complete financial impact will be, the Town is closely monitoring the impact of the COVID-19 pandemic on all aspects of their operations and are unable at this time to predict the continued impact that COVID-19 will have on their services, financial position, and operating results in future periods due to numerous uncertainties.

TOWN OF NORWOOD
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2020

Budget Highlights for the Fiscal Year Ending June 30, 2021

Governmental Activities: The Town has appropriated \$249,440 of fund balance. The budget for the General fund has a 10.4 percent increase from the prior year.

Business-type Activities: The Town's budget for the Enterprise fund increases by 20.6% over prior year mostly due to water and sewer rate increases from prior year.

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

Finance Officer
Town of Norwood
P.O. Box 697
Norwood, NC 28128
Phone: 704-474-3416; Fax 704-474-3201
Email: townofnorwood@norwoodgov.com

FINANCIAL SECTION

TOWN OF NORWOOD
STATEMENT OF NET POSITION
June 30, 2020

Exhibit 1

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 1,193,295	\$ 497,507	\$ 1,690,802
Taxes receivable (net)	51,576	-	51,576
Inventory	-	82,517	82,517
Accounts receivable (net)	5,183	186,937	192,120
Due from other governments	242,122	-	242,122
Internal balances	177,568	(177,568)	-
Restricted cash and cash equivalents	257,005	32,760	289,765
Total current assets	1,926,749	622,153	2,548,902
Non-current assets:			
Capital assets			
Land and construction in progress	1,304,806	1,074,833	2,379,639
Other capital assets, net of depreciation	1,544,755	10,196,103	11,740,858
Total capital assets	2,849,561	11,270,936	14,120,497
Total assets	4,776,310	11,893,089	16,669,399
DEFERRED OUTFLOWS OF RESOURCES			
Pension deferrals-LGERS	159,462	25,959	185,421
Pension deferrals-LEO	29,576	-	29,576
OPEB deferrals	2,398	266	2,664
Total deferred outflows of resources	191,436	26,225	217,661
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities	152,960	108,687	261,647
Unearned revenue	277	56,678	56,955
Customer deposits	-	32,760	32,760
Compensated absences	15,463	2,622	18,085
Current portion of capital leases	23,538	5,569	29,107
Current portion of installment purchases	66,547	161,678	228,225
Total current liabilities	258,785	367,994	626,779
Long-term liabilities:			
Net pension liability (LGERS)	263,277	42,859	306,136
Total pension liability (LEO)	153,629	-	153,629
Total OPEB liability	217,435	24,159	241,594
Compensated absences	15,463	2,622	18,085
Long-term portion of capital leases	85,245	22,189	107,434
Long-term portion of installment purchases	211,404	1,619,629	1,831,033
Total long-term liabilities	946,453	1,711,458	2,657,911
Total liabilities	1,205,238	2,079,452	3,284,690
DEFERRED INFLOWS OF RESOURCES			
Pension deferrals-LGERS	5,197	846	6,043
Pension deferrals-LEO	6,265	-	6,265
OPEB deferrals	90,076	10,008	100,084
Total deferred inflows of resources	101,538	10,854	112,392
NET POSITION			
Net investment in capital assets	2,462,827	9,461,871	11,924,698
Restricted for:			
Stabilization by State statute	509,605	-	509,605
Streets	257,005	-	257,005
Unrestricted	431,533	367,137	798,670
Total net position	\$ 3,660,970	\$ 9,829,008	\$ 13,489,978

TOWN OF NORWOOD
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2020

Exhibit 2

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental Activities:							
General government	\$ 682,326	\$ 77,250	\$ -	\$ 1,028,948	\$ 423,872	\$ -	\$ 423,872
Public safety	796,242	20,600	2,150	-	(773,492)	-	(773,492)
Transportation	418,316	-	75,335	-	(342,981)	-	(342,981)
Environmental protection	354,268	55,518	-	-	(298,750)	-	(298,750)
Cultural and recreation	139,344	18,367	-	27,379	(93,598)	-	(93,598)
Cemetery	37,877	-	-	-	(37,877)	-	(37,877)
Garage	8,605	-	-	-	(8,605)	-	(8,605)
Interest on long-term debt	9,846	-	-	-	(9,846)	-	(9,846)
Total governmental activities	2,446,824	171,735	77,485	1,056,327	(1,141,277)	-	(1,141,277)
Business-type activities:							
Water and sewer	1,709,601	1,680,581	-	-	-	(29,020)	(29,020)
Total primary government	\$ 4,156,425	\$ 1,852,316	\$ 77,485	\$ 1,056,327	(1,141,277)	(29,020)	(1,170,297)
General revenues:							
Taxes:							
Local option sales taxes					611,837		611,837
Property taxes, levied for general purpose					1,167,148	-	1,167,148
Other taxes					202,974	-	202,974
Unrestricted investment earnings					17,459	5,608	23,067
Miscellaneous					7,335	-	7,335
Total general revenues					2,006,753	5,608	2,012,361
Change in net position					865,476	(23,412)	842,064
Net position, beginning					2,795,494	9,852,420	12,647,914
Net position, ending					\$ 3,660,970	\$ 9,829,008	\$ 13,489,978

TOWN OF NORWOOD
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2020

Exhibit 3

	<u>Major Fund</u>	<u>Total</u>
	<u>General</u>	<u>Governmental</u>
	<u>Fund</u>	<u>Funds</u>
ASSETS		
Cash and cash equivalents	\$ 1,193,295	\$ 1,193,295
Restricted cash	257,005	257,005
Receivables, net:		
Taxes	51,576	51,576
Accounts receivable, net	5,183	5,183
Due from other governments	242,122	242,122
Due from other funds	262,300	262,300
Total assets	<u>\$ 2,011,481</u>	<u>\$ 2,011,481</u>
LIABILITIES		
Accounts payable and accrued liabilities	\$ 152,960	\$ 152,960
Due to other funds	84,732	84,732
Total liabilities	<u>237,692</u>	<u>237,692</u>
DEFERRED INFLOWS OF RESOURCES		
Property taxes receivable	51,576	51,576
Prepaid taxes	277	277
Total deferred inflows of resources	<u>51,853</u>	<u>51,853</u>
FUND BALANCES		
Restricted		
Stabilization by State statute	509,605	509,605
Streets	257,005	257,005
Assigned		
Subsequent year's expenditures	249,440	249,440
Unassigned	705,886	705,886
Total fund balances	<u>1,721,936</u>	<u>1,721,936</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 2,011,481</u>	<u>\$ 2,011,481</u>
Total fund balances		\$ 1,721,936
Reconciliation of fund balance as reported in the balance sheet - governmental funds with net position - governmental activities		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds		2,849,561
Contributions to the pension plan in the current fiscal year are deferred outflows of resources on the Statement of Net Position-LGERS		159,462
Benefit payments and administrative expenses subsequent to the measurement date-LEO		29,576
Deferred outflows of resources related to OPEB are not reported in the funds		2,398
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds		51,576
Compensated absences not expected to be materially liquidated with expendable available resources		(30,926)
Net pension liability-LGERS		(263,277)
Total pension liability-LEO		(153,629)
Total OPEB liability		(217,435)
Deferred inflows of resources related to pensions are not reported in the fund - LGERS & LEO		(11,462)
Deferred inflows of resources related to OPEB are not reported in the fund		(90,076)
Other long-term liabilities are not due and payable in the current period and are therefore not reported in the funds		<u>(386,734)</u>
Net position of governmental activities		<u>\$ 3,660,970</u>

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

Page 14

TOWN OF NORWOOD**Exhibit 4****STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES****GOVERNMENTAL FUNDS****For the Year Ended June 30, 2020**

	Major Fund	
	General Fund	Total Governmental Funds
REVENUES		
Ad valorem taxes	\$ 1,181,579	\$ 1,181,579
Unrestricted intergovernmental	814,811	814,811
Restricted intergovernmental	104,864	104,864
Permits and fees	77,250	77,250
Sales and services	94,485	94,485
Investment earnings	17,459	17,459
Miscellaneous	7,335	7,335
Total revenues	<u>2,297,783</u>	<u>2,297,783</u>
EXPENDITURES		
Current:		
General government	667,008	667,008
Police department	808,054	808,054
Transportation	403,485	403,485
Sanitation	316,128	316,128
Cultural and recreation	84,671	84,671
Cemetery	37,877	37,877
Garage	8,605	8,605
Debt Service:		
Principal retirement	64,710	64,710
Interest and other charges	9,846	9,846
Total expenditures	<u>2,400,384</u>	<u>2,400,384</u>
Revenues over (under) expenditures	(102,601)	(102,601)
OTHER FINANCING SOURCES		
Capital lease proceeds	108,783	108,783
Total other financing sources	<u>108,783</u>	<u>108,783</u>
Net change in fund balance	6,182	6,182
Fund balances, beginning	<u>1,715,754</u>	<u>1,715,754</u>
Fund balances, ending	<u>\$ 1,721,936</u>	<u>\$ 1,721,936</u>

TOWN OF NORWOOD**Exhibit 5****STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES****GOVERNMENTAL FUNDS (Continued)****For the Year Ended June 30, 2020**

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

Net changes in fund balances - total governmental funds	\$ 6,182
---	----------

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

Depreciation expense	(179,237)
Capital Outlay	162,495

Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities

62,222

Benefit payments paid and administrative expense for the Law Enforcement Officers' Special Separation Allowance are not included on the Statement of Activities

13,499

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

Amount of donated assets	1,028,948
--------------------------	-----------

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	(14,431)
--	----------

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

Compensated absences	(408)
Pension expense-LGERS	(125,021)
Pension expense-LEO	(15,045)
OPEB plan expense	(29,655)

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

Capital lease proceeds	(108,783)
Principal payments on long-term debt	<u>64,710</u> (44,073)

Total changes in net position of governmental activities	<u>\$ 865,476</u>
--	-------------------

TOWN OF NORWOOD**Exhibit 6**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE - BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended June 30, 2020**

	General Fund			Variance With Final Budget- Positive (Negative)
	Original	Final	Actual Amounts	
Revenues:				
Ad valorem taxes	\$ 1,160,800	\$ 1,160,800	\$ 1,181,579	\$ 20,779
Unrestricted intergovernmental	715,000	715,000	814,811	99,811
Restricted intergovernmental	90,750	90,750	104,864	14,114
Permits and fees	75,000	75,000	77,250	2,250
Sales and services	60,000	60,000	94,485	34,485
Investment earnings	18,000	18,000	17,459	(541)
Miscellaneous	55,050	55,050	7,335	(47,715)
Total revenues	2,174,600	2,174,600	2,297,783	123,183
Expenditures:				
Current:				
General government	680,800	706,845	667,008	39,837
Police department	715,750	715,750	808,054	(92,304)
Transportation	458,850	458,850	403,485	55,365
Sanitation	441,700	441,700	316,128	125,572
Cultural and recreation	97,800	97,800	84,671	13,129
Cemetery	46,050	46,050	37,877	8,173
Garage	34,650	8,605	8,605	-
Debt service:				
Principal retirement	-	-	64,710	(64,710)
Interest and other charges	-	-	9,846	(9,846)
Total expenditures	2,475,600	2,475,600	2,400,384	75,216
Revenues under expenditures	(301,000)	(301,000)	(102,601)	198,399
Other financing sources:				
Capital lease proceeds	-	-	108,783	108,783
Total other financing sources	-	-	108,783	108,783
Revenues over expenditures and other financing sources	(301,000)	(301,000)	6,182	307,182
Appropriated fund balance	301,000	301,000	-	(301,000)
Net change in fund balance	\$ -	\$ -	6,182	\$ 6,182
Fund balance, beginning			1,715,754	
Fund balance, ending			\$ 1,721,936	

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

Page 17

TOWN OF NORWOOD
STATEMENT OF FUND NET POSITION - PROPRIETARY FUND
June 30, 2020

Exhibit 7

	Water/Sewer Fund
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 497,507
Restricted cash and cash equivalents	32,760
Inventory	82,517
Accounts receivable (net)	186,937
Due from other funds	84,732
Total current assets	<u>884,453</u>
Noncurrent assets:	
Capital assets:	
Land and construction in progress	1,074,833
Other capital assets, net of depreciation	10,196,103
Total capital assets	<u>11,270,936</u>
Total assets	<u>12,155,389</u>
DEFERRED OUTFLOWS OF RESOURCES	
Pension deferrals	25,959
OPEB deferrals	266
Total deferred outflows of resources	<u>26,225</u>
LIABILITIES	
Current liabilities:	
Accounts payable and accrued liabilities	105,391
Accrued salaries and wages	3,296
Customer deposits	32,760
Unearned revenue	56,678
Due to other funds	262,300
Compensated absences - current	2,622
Capital leases - current	5,569
Installment purchases - current	161,678
Total current liabilities	<u>630,294</u>
Noncurrent liabilities:	
Net pension liability	42,859
Total OPEB liability	24,159
Compensated absences	2,622
Capital leases - noncurrent	22,189
Installment purchases - noncurrent	1,619,629
Total noncurrent liabilities	<u>1,711,458</u>
Total liabilities	<u>2,341,752</u>
DEFERRED INFLOWS OF RESOURCES	
Pension deferrals	846
OPEB deferrals	10,008
Total deferred inflows of resources	<u>10,854</u>
NET POSITION	
Net investment in capital assets	9,461,871
Unrestricted	367,137
Total net position	<u>\$ 9,829,008</u>

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

Page 18

TOWN OF NORWOOD
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND
NET POSITION - PROPRIETARY FUND
For the Year Ended June 30, 2020

Exhibit 8

	Major Fund Water and Sewer Fund
OPERATING REVENUES	
Charges for services	\$ 1,526,618
Water and sewer taps	29,780
Reconnection and availability fees	99,071
Sales tax refund	25,112
Total operating revenues	<u>1,680,581</u>
OPERATING EXPENSES	
Water treatment and distribution	377,217
Wastewater collection and treatment	185,041
Water and sewer field operations	717,156
Depreciation	396,629
Total operating expenses	<u>1,676,043</u>
Operating income (loss)	<u>4,538</u>
NONOPERATING REVENUES (EXPENSES)	
Investment earnings	5,608
Interest and other charges	<u>(33,558)</u>
Total nonoperating revenue (expenses)	<u>(27,950)</u>
Revenues under expenditures	(23,412)
Total net position, beginning	<u>9,852,420</u>
Total net position, ending	<u><u>\$ 9,829,008</u></u>

TOWN OF NORWOOD
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
For the Year Ended June 30, 2020

Exhibit 9

	<u>Major Fund</u>
	<u>Water and</u>
	<u>Sewer Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 1,622,298
Cash paid for goods and services	(984,011)
Cash paid to or on behalf of employees for services	(176,514)
Other revenue	25,112
Customer deposits received	10,221
Customer deposits returned	(10,761)
	<u>486,345</u>
Net cash provided by operating activities	<u>486,345</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Increase in due from/to other funds	<u>104,507</u>
Net cash provided by noncapital financing activities	<u>104,507</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(547,860)
Capital lease proceeds	27,758
Principal paid on note maturities	(160,895)
Interest paid on note maturities	<u>(33,558)</u>
Net cash (used) by capital and related financing activities	<u>(714,555)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and dividends	<u>5,608</u>
Net increase in cash and cash equivalents	(118,095)
Balances, beginning of the year	<u>648,362</u>
Balances, end of the year	<u><u>\$ 530,267</u></u>

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

Page 20

TOWN OF NORWOOD
STATEMENT OF CASH FLOWS - PROPRIETARY FUND (Continued)
For the Year Ended June 30, 2020

Exhibit 9

	<u>Major Fund</u>
	<u>Water and</u>
	<u>Sewer Fund</u>
Reconciliation of operating income to net cash provided by operating activities	
Operating income	\$ 4,538
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	396,629
Changes in assets and liabilities:	
(Increase) in accounts receivables, net	(33,171)
Decrease in inventories	14,580
Increase in unearned revenue	16,971
(Decrease) in accrued interest	(9,506)
Increase in accounts payable and accrued liabilities	77,610
Increase in accrued salaries and wages	2,503
Increase in compensated absences	697
(Decrease) in customer deposits	(540)
(Increase) decrease in deferred outflows of resources-pensions	(4,543)
(Increase) decrease in deferred outflows of resources-OPEB	(266)
Increase (decrease) in net pension liability	17,712
Increase (decrease) in OPEB liability	(4,128)
Increase (decrease) in deferred inflows of resources-pensions	(191)
Increase (decrease) in deferred inflows of resources-OPEB	7,450
Total adjustments	481,807
Net cash provided by operating activities	\$ 486,345

NOTES TO THE FINANCIAL STATEMENTS

These notes are intended to communicate information necessary for a fair presentation of financial position and results of operations that are not readily apparent from, or cannot be included in, the financial statement themselves. The notes supplement the financial statements, and are an integral part thereof, and are intended to be read in conjunction with the financial statements.

TOWN OF NORWOOD
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

Note I - Summary of Significant Accounting Policies

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

Reporting Entity

The Town of Norwood is a municipal corporation in Stanly County and has a population of approximately 2,400. The Town is a municipal corporation that is governed by an elected mayor and a five-member council. The Town provides services which include general government, public safety, streets, environmental protection, cemetery, garage and cultural and recreation. The Town maintains a water and sewer system which services the Town and surrounding areas on a user-charge basis.

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 activity* of the Town. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

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

Fund Financial Statements: The fund financial statements provide information about the Town's funds. Separate statements for each fund category – *governmental and proprietary* – are presented. The 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.

TOWN OF NORWOOD
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

The Town reports the following major governmental fund:

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

The Town reports the following major enterprise fund:

Water and Sewer Fund. This fund is used to account for the Town's water and sewer operations. The Water and Sewer fund is comprised of the three sub-funds: Water and Sewer Operations, the Wastewater Treatment Improvement Project fund, and the Sanitary Sewer Improvement Project fund, where activity is reported together for financial reporting purposes.

Measurement Focus and Basis of Accounting

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

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

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connections with a proprietary fund's principle ongoing operations. The principle operating revenues of the Town enterprise funds are charges to customers for sales and services. The town also recognizes as operating revenues 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.

TOWN OF NORWOOD
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

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

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

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

Budgetary Data.

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund and the Enterprise Fund. All annual appropriations lapse at the fiscal year end. Project ordinances are adopted for the Wastewater Treatment Improvement Project Fund and the Sanitary Sewer Improvement Project Fund. The enterprise fund projects are consolidated with their respective operating fund for reporting purposes. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and the multi-year funds. All amendments must be approved by the governing Council, and the Council must adopt an interim budget that covers that time until the annual ordinance can be adopted.

TOWN OF NORWOOD
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

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

Deposits and Investments

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

State law [G.S. 159-30(c)] authorizes the Town to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances and the North Carolina Capital Management Trust (NCCMT). The NCCMT Government Portfolio, a SEC-registered (2a-7) external investment pool, is measured at fair value. Because the NCCMT Government Portfolio has a weighted average maturity of less than 90 days, it is presented as an investment with a maturity of less than six months.

Cash and Cash Equivalents

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

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 G.S. 136-41.1 through 136-41.4.

Customer deposits held by the Town before any services are supplied are restricted to the service for which the deposit was collected.

<u>Town of Norwood Restricted Cash</u>		
<u>Governmental Activities</u>		
General fund	Streets (Powell Bill)	\$ 257,005
<u>Business-type Activities</u>		
Water and Sewer fund	Customer deposits	\$ 32,760

Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad valorem taxes on property other than motor vehicles on July 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, 2020. As allowed

TOWN OF NORWOOD
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

by State law, the Town has established a schedule of discounts that apply to taxes that are paid prior to the due date. In the Town's General Fund, ad valorem tax revenues are reported net of such discounts.

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.

Inventory

The inventories of the Town are valued at cost (first-in, first-out), which approximates market. The Town's General Fund did not have any inventory.

The inventories of the Town's enterprise fund consists of materials and supplies held for subsequent use. The cost of these inventories is expensed when consumed rather than when purchased.

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 costs are as follows: land, buildings, equipment, improvements, vehicles, computer software, infrastructure, plant and distribution systems, and equipment and furniture, \$3,000. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets received prior to June 15, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 15, 2015 are recorded at acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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	20-50
Improvements	10-20
Vehicles	5-15
Computer software	5
Furniture and equipment	5-10
Computer equipment	3-5

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

TOWN OF NORWOOD
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

and so will not be recognized as an expense or expenditure until then. The Town has two items that meet this criterion, pension and OPEB deferrals for the 2020 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 Town has several items that meet the criterion for this category – property taxes receivable, prepaid taxes, pension and OPEB deferrals.

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.

Compensated Absences

The vacation policy of the Town provides for the accumulation of up to twenty days earned vacation leave with such leave being fully vested when earned. For the Town'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 Town 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 Town'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 Town does not have any obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

Net Position/Fund Balances

Net Position

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

Fund Balances

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

The governmental fund types classify fund balances as follows:

TOWN OF NORWOOD
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

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. There are no nonspendable fund balance items.

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

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

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 Town of Norwood'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. There are no committed fund balance items.

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

Subsequent year's expenditures – portion of fund balance that is appropriated in the next year's budget that is not already classified in restricted or committed. The Town Council approves the appropriation.

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

The Town of Norwood has a revenue spending policy that provides guidance for programs with multiple revenue sources. The Finance Officer will use resources in the following hierarchy: bond proceeds, federal funds, State funds, local non-Town funds, Town funds. For purposes of fund balance classification, expenditures are to be spent from restricted fund balance first,

TOWN OF NORWOOD
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

followed in-order by committed fund balance, assigned fund balance and lastly unassigned fund balance. The Finance Officer has the authority to deviate from this policy if it is in the best interest of the Town.

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 Town of Norwood's employer contributions are recognized when due and the Town of Norwood 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.

Note II – Stewardship, Compliance and Accountability

Excess of Expenditures over Appropriations

For the fiscal year ended June 30, 2020, the expenditures made in the Town's Police department exceeded the authorized appropriations made by the governing board by \$92,304, in Debt service by \$74,556 and in the Wastewater Treatment Improvement Project fund by \$13,368. Management and the Council will more closely review the budget reports to ensure compliance in future years.

Note III - Detail Notes on All Funds

Assets

Deposits

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

TOWN OF NORWOOD
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2020, the Town's deposits had a carrying amount of \$626,654 and a bank balance of \$697,929. Of the bank balance, \$250,000 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method. At June 30, 2020, the Town's petty cash fund totaled \$809.

Investments

At June 30, 2020, the Town of Norwood had \$1,353,104 invested with the North Carolina Capital Management Trust's Government Portfolio which carried a credit rating of AAAM by Standard and Poor's. The Town has no policy regarding credit risk.

Receivables - Allowances for Doubtful Accounts

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

Governmental activities	
General fund:	
Taxes receivable	\$ 40,000
Accounts receivable	<u>4,400</u>
Total General fund	44,400
Business-type activities	<u>80,500</u>
Total	<u>\$ 124,900</u>

Capital Assets

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

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 275,858	\$1,028,948	\$ -	\$ 1,304,806
Total assets not being depreciated	<u>275,858</u>	<u>1,028,948</u>	<u>-</u>	<u>1,304,806</u>
Capital assets being depreciated:				
Buildings	957,874	-	21,770	936,104
Equipment	744,190	17,971	217,052	545,109
Other improvements	1,423,939	35,740	31,593	1,428,086
Vehicles and motorized equipment	669,657	108,783	160,534	617,906
Computer software	3,983	-	3,983	-
Infrastructure	<u>305,720</u>	<u>-</u>	<u>-</u>	<u>305,720</u>
Total assets being depreciated	<u>4,105,363</u>	<u>162,494</u>	<u>434,932</u>	<u>3,832,925</u>
Less Accumulated depreciation for:				
Buildings	274,301	20,737	21,770	273,268
Equipment	525,026	35,968	217,052	343,942
Other improvements	976,344	77,587	31,593	1,022,338
Vehicles and motorized equipment	458,491	44,945	160,534	342,902
Computer software	3,983	-	3,983	-
Infrastructure	<u>305,720</u>	<u>-</u>	<u>-</u>	<u>305,720</u>
Total accumulated depreciation	<u>2,543,865</u>	<u>179,237</u>	<u>434,932</u>	<u>2,288,170</u>
Total capital assets being depreciated	<u>1,561,498</u>			<u>1,544,755</u>
Governmental activity capital assets, net	<u>\$ 1,837,356</u>			<u>\$ 2,849,561</u>

TOWN OF NORWOOD
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

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

General government	\$ 32,485
Public safety	39,108
Transportation	14,831
Environmental protection	38,140
Cultural and recreation	54,673
Total depreciation expense	<u>\$ 179,237</u>

Donated Assets

During the year ended June 30, 2020, Union County donated land to the Town of Norwood. This land was recorded by the Town at a value of \$1,028,948. This amount is included in the total increase to land reflected in the Governmental Activities schedule above.

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

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Retirements and Transfers</u>	<u>Ending Balances</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 552,989	\$ -	\$ -	\$ 552,989
Construction in progress	95,675	426,169	-	521,844
Total capital assets not being depreciated	<u>648,664</u>	<u>426,169</u>	<u>-</u>	<u>1,074,833</u>
Capital assets being depreciated:				
Vehicles	142,580	27,758	-	170,338
Plant and distribution systems	16,804,826	71,501	-	16,876,327
Furniture and maintenance equipment	717,648	22,431	7,850	732,229
Total capital assets being depreciated	<u>17,665,054</u>	<u>121,690</u>	<u>7,850</u>	<u>17,778,894</u>
Less accumulated depreciation for:				
Vehicles	42,164	25,811	-	67,975
Plant and distribution systems	6,742,010	329,809	-	7,071,819
Furniture and maintenance equipment	409,838	41,009	7,850	442,997
Total accumulated depreciation	<u>7,194,012</u>	<u>396,629</u>	<u>7,850</u>	<u>7,582,791</u>
Total capital assets being depreciated, net	<u>10,471,042</u>			<u>10,196,103</u>
Business-type activities capital assets, net	<u>\$ 11,119,706</u>			<u>\$ 11,270,936</u>

Engineering and Construction Commitments

The Town has active engineering and construction projects as of June 30, 2020. At year-end, the Town's commitments are as follows:

<u>Project</u>	<u>Spent-to-date</u>	<u>Remaining Commitment</u>
Water Treatment Improvement	\$ 356,368	\$ 4,531,790
Sanitary Sewer Improvement	\$ 165,477	\$ 105,678

TOWN OF NORWOOD
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

Liabilities

Pension Plan and Post Employment Obligations

Local Governmental Employees' Retirement System

Plan Description. The Town of Norwood 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, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, 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.

TOWN OF NORWOOD
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

Contributions. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. Town of Norwood employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Town of Norwood's contractually required contribution rate for the year ended June 30, 2020, was 9.7% of compensation for law enforcement officers and 8.95% for general employees, 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 Town of Norwood were \$62,222 for the year ended June 30, 2020.

Refunds of Contributions – Town 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 Town reported a liability of \$306,136 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 Town's proportion of the net pension liability was based on a projection of the Town'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 (measurement date), the Town's proportion was 0.01121%, which was an increase of 0.00061% from its proportion measured as of June 30, 2018.

For the year ended June 30, 2020, the Town recognized pension expense of \$139,928. At June 30, 2020, the Town 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	\$ 52,418	\$ -
Changes of assumptions	49,895	-
Net difference between projected and actual earnings on pension plan investments	7,467	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	13,419	6,043
Employer contributions subsequent to the measurement date	62,222	-
Total	<u>\$ 185,421</u>	<u>\$ 6,043</u>

TOWN OF NORWOOD
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

\$62,222 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2020	\$	56,080
2021		18,194
2022		33,979
2023		8,903
2024		-
Thereafter		-
Total	\$	<u>117,156</u>

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

Inflation	3.0 percent
Salary increases	3.50 to 8.1 percent, including inflation and productivity factor
Investment rate of return	7.0 percent, net of pension plan investment expense, including inflation

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

The actuarial assumptions used in the December 31, 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. The target

TOWN OF NORWOOD
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

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

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

Sensitivity of the Town's proportionate share of the net pension liability to changes in the discount rate. The following presents the Town's proportionate share of the net pension liability calculated using the discount rate of 7.0 percent, as well as what the Town's proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.0 percent) or one percentage point higher (8.0 percent) than the current rate:

	<u>1% Decrease (6.0%)</u>	<u>Discount Rate (7.0%)</u>	<u>1% Increase (8.0%)</u>
Town proportionate share of the net pension liability (asset)	\$ 700,190	\$ 306,136	\$ (21,402)

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.

TOWN OF NORWOOD
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

Law Enforcement Officers Special Separation Allowance

Plan Description. The Town of Norwood administers a public employee retirement system (the "Separation Allowance"), a single-employer defined benefit pension plan that provides retirement benefits to the Town's qualified sworn law enforcement officers under the age of 62 who have completed at least 30 years of creditable service or have attained 55 years of age and have completed five or more years of creditable service. The Separation Allowance is equal to .85 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 Town are covered by the Separation Allowance. At December 31, 2018, the separation allowance's membership consisted of:

Retirees receiving benefits	1
Terminated plan members entitled to but not yet receiving benefits	0
Active plan members	<u>8</u>
Total	<u><u>9</u></u>

Summary of Significant Accounting Policies

Basis of Accounting. The Town 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 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 criteria which are outlined in GASB Statement 73.

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

Inflation	2.50 percent
Salary increases	3.50 to 7.35 percent, including inflation and productivity factor
Discount rate	3.26 percent

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-2014 Mortality tables with adjustments for mortality improvements based on MP-2015.

TOWN OF NORWOOD
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

Contributions. The Town 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. There were no contributions made by employees. The Town's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. The Town paid \$13,499 as benefits came due for the reporting period.

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

At June 30, 2020, the Town reported a total pension liability of \$153,629. 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 Town recognized pension expense of \$15,045.

At June 30, 2020 the Town reported deferred outflows of resources and deferred inflows of resources related to the pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 8,115	\$ 1,661
Changes of assumptions	7,962	4,604
Benefit payments made subsequent to the measurement date	<u>13,499</u>	<u>-</u>
Total	<u><u>\$ 29,576</u></u>	<u><u>\$ 6,265</u></u>

\$13,499 reported as deferred outflows of resources related to pensions resulting from benefit payments made subsequent to the measurement date will be recognized as a decrease of the total pension liability in the year ended June 30, 2021. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2021	\$ 2,157
2022	2,157
2023	2,341
2024	1,052
2025	1,513
Thereafter	<u>592</u>
Total	<u><u>\$ 9,812</u></u>

Sensitivity of the Town's total pension liability to changes in the discount rate

TOWN OF NORWOOD
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

The following presents the Town's total pension liability calculated using the discount rate of 3.26 percent, as well as what the Town'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	\$ 165,939	\$ 153,629	\$ 142,301

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

Beginning balance	\$ 142,502
Service cost	7,603
Interest on the total pension liability	4,941
Changes of benefit terms	-
Differences between expected and actual experience in the Measurement of the total pension liability	7,665
Changes of assumptions or other inputs	4,417
Benefit payments	(13,499)
Other changes	-
Ending balance of the total pension liability	<u>\$ 153,629</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. No significant changes in actuarial assumptions were noted other than a decrease in the municipal bond rate from 3.64% at the prior measurement date to 3.26% as of December 31, 2019.

TOWN OF NORWOOD
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

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

Following is information related to the proportionate share and pension expense for all pension plans:

	LGERS	LEOSSA	Total
Pension expense	\$ 139,928	\$ 15,045	\$ 154,973
Pension liability	306,136	153,629	459,765
Proportionate share of the net pension liability	0.01121%	n/a	
Deferred outflows of resources			
Differences between expected and actual experience	52,418	8,115	60,533
Changes of assumptions	49,895	7,962	57,857
Net difference between projected and actual earnings on plan investments	7,467	-	7,467
Changes in proportion and differences between contributions and proportionate share of contributions	13,419	-	13,419
Benefit payments and administrative costs paid subsequent to the measurement date	62,222	13,499	75,721
Deferred inflows of resources			
Differences between expected and actual experience	-	1,661	1,661
Changes of assumptions	-	4,604	4,604
Net difference between projected and actual earnings on plan investments	-	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	6,043	-	6,043

Supplemental Retirement Income Plan for Law Enforcement Officers

Plan Description. The Town 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 Town. 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 Town to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. The law enforcement officers may also make voluntary contributions to the plan. The Town made contributions of \$27,213 for the reporting year. No amounts were forfeited.

TOWN OF NORWOOD
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

Other Postemployment Benefits (OPEB)

Healthcare Benefits

Plan Description. Under the terms of a Town resolution, the Town administers a single employer defined benefit healthcare plan ("the Retiree Health Plan"). The Town Council has the authority to establish and amend the benefit terms and financing requirements. No such assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 75.

Benefits Provided. The plan provides postemployment healthcare benefits to retirees of the Town, provided they participate in the North Carolina Local Governmental Employees' Retirement System (System) and have at least 20 years of of creditable service with the Town, of which the last 10 years were consecutive. Retirees who qualify for coverage will receive healthcare benefits paid fully by the Town, until the retiree reaches the age of 65 or becomes eligible to receive Medicare benefits. The cost paid by the Town to provide these benefits to retirees shall not exceed the amounts paid by the Town to provide healthcare benefits for current full time employees. The Town pays the full cost of coverage for these benefits through private insurers. A separate report was not issued for the plan. During the year ended June 30, 2020, no retirees were receiving benefits.

Membership of the Retiree Health Plan consisted of the following at June 30, 2019, the date of the latest actuarial valuation:

	General Employees	Law Enforcement Officers
Retirees and dependents receiving benefits	0	0
Terminated plan members entitled to but not yet receiving benefits	0	0
Active plan members	9	9
Total	9	9

Total OPEB Liability

The Town's total OPEB liability of \$241,594 was measured as of June 30, 2019 and was determined by an actuarial valuation as of that date.

Actuarial assumptions and other inputs. The total OPEB liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement unless otherwise specified:

Inflation	2.50%
Real wage growth	1.00%
Wage inflation	3.50%
Salary increases, including wage inflation	
General employees	3.50% - 7.75%
Law enforcement officer	3.50% - 7.35%
Discount rate	3.50 %
Healthcare cost trend rates	
Pre-Medicare	7.0% for 2019 decreasing to an ultimate rate of 4.00% by 2026

TOWN OF NORWOOD
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

The discount rate is based on the Bond Buyer General Obligation 20-year Municipal Bond Index published at the last Thursday of June by the Bond Buyer as of the measurement date.
Changes in the Total OPEB Liability

	<u>Total OPEB Liability</u>
Balance at July 1	\$ 282,869
Changes for the year	
Service cost	32,201
Interest	11,004
Changes of benefit terms	-
Differences between expected and actual experience	(87,458)
Changes in assumptions or other inputs	2,978
Benefit payments	-
Net changes	<u>(41,275)</u>
Balance at June 30	<u><u>\$ 241,594</u></u>

Changes in assumptions and other inputs reflect a change in the discount rate from 3.89% to 3.50%.

Mortality rates were based on the RP-2014 mortality tables, with adjustments for LGERS experience and generational mortality improvements using Scale MP-2015.

The actuarial assumptions for retirement, disability incidence, withdrawal, and salary increases used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period January 1, 2010 - December 31, 2014, adopted by the LGERS.

The remaining actuarial assumptions (e.g., initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the June 30, 2019 valuation were based on a review of recent plan experience performed concurrently with the June 30, 2019 valuation.

Sensitivity of the total OPEB liability to changes in the discount rate. The following presents the total OPEB liability of the Town, as well as what the Town's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.50 percent) or 1-percentage-point higher (4.50 percent) than the current discount rate:

	<u>1% Decrease</u>	<u>Discount Rate (3.50%)</u>	<u>1% Increase</u>
Total OPEB liability	\$ 273,410	\$ 241,594	\$ 213,266

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

TOWN OF NORWOOD
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

	Healthcare Cost Trend Rates		
	1% Decrease	7.0%	1% Increase
Total OPEB Liability	\$ 203,314	\$ 241,594	\$ 287,896

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

For the year ended June 30, 2020, the Town recognized OPEB expense of \$32,950. At June 30, 2020, the Town reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 78,249
Changes of assumptions	2,664	21,835
Total	<u>\$ 2,664</u>	<u>\$ 100,084</u>

At June 30, 2020, the Town reported no deferred outflows of resources related to OPEB resulting from benefit payments made and administrative expenses incurred subsequent to the measurement date, as no retirees were receiving benefits. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2020	\$ (12,645)
2021	(12,645)
2022	(12,645)
2023	(12,645)
2024	(12,645)
Thereafter	(34,195)
Total	<u>\$ (97,420)</u>

Other Employment Benefit

The Town has elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, State-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest months' salary in a row during the 24 months prior to the employee's death, but the benefit may not exceed \$50,000 or be less than \$25,000. Because all death benefit payments are made from the Death Benefit Plan and not by the Town, the Town does not determine the number of eligible participants. The Town 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

TOWN OF NORWOOD
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

are set for employees not engaged in law enforcement and for law enforcement officers. The Town considers these contributions to be immaterial.

Deferred Outflows and Inflows of Resources

The Town had deferred outflows of resources. Deferred outflows of resources are comprised of the following:

Contributions to the pension plan in current fiscal year	\$ 62,222
Benefit payments and administrative expenses for LEOSA	
made subsequent to measurement date	13,499
Benefit payments and administrative expenses for OPEB	
made subsequent to measurement date	-
Differences between expected and actual experience	60,533
Changes in assumptions	60,521
Net difference between projected and actual earnings on pension plan investments	7,467
Changes in proportion and differences between employer contributions and proportionate share of contributions	13,419
Total	<u>\$ 217,661</u>

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

	Statement of Net Position	General Fund Balance Sheet
Prepaid taxes	\$ -	\$ 277
Taxes receivable (General Fund)	-	51,576
Difference between expected and actual experience	79,910	-
Changes of assumptions	26,439	-
Changes in proportion and difference between employer Contributions and proportionate share of contributions	6,043	-
Total	<u>\$ 112,392</u>	<u>\$ 51,853</u>

Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town participates in three self-funded risk-financing pools administered by the North Carolina League of Municipalities. Through these pools, the Town obtains general liability coverage of \$3 million per occurrence and auto liability coverage of \$2 million per occurrence, property coverage up to the total insurance values of the property policy, workers' compensation coverage up to statutory limits, and employee health coverage. The pools are reinsured through commercial carriers for claims in excess of retentions as selected by the Board of Trustees each year. Excess insurance coverage is purchased by the Board of Trustees to protect against large workers' compensation claims that exceed certain dollar cost levels. Medical stop loss insurance is purchased by the Board of Trustees to protect against large medical claims that exceed certain dollar cost levels. Specific information on the limits of the reinsurance, excess and stop loss policies purchased 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 to the Town upon request. The property liability pool has an aggregate

TOWN OF NORWOOD
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

limit for the total property losses in a single year, with the reinsurance limit based upon a percentage of the total insurance values.

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

The Town carries no flood insurance through the National Flood Insurance Plan (NFIP).

In accordance with G.S. 159-29, the Town's employees that have access to \$100 or more at any given time of the Town's funds are performance bonded through a commercial surety bond. The finance officer is bonded for \$250,000. The remaining employees that have access to funds are bonded under a blanket bond for \$10,000.

Claims, Judgments and Contingent Liabilities

At June 30, 2020, there was no material pending or threatened litigation or assessments involving the Town of Norwood.

Long-Term Obligations

Capital Lease

The Town has entered into an agreement to lease certain vehicles. The lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the date of their inception.

In June 2020, The Town of Norwood entered into a capital lease purchase of \$136,541 for four vehicles. The agreements requires annual payments of \$29,107 this first year and \$26,859 for four year for a total of a five year agreement with an interest rate of .4%. The future minimum payment of the lease purchase agreement a of June 30, 2020 are as follows:

The following is an analysis of the assets recorded under the capital lease at June 30, 2020:

<u>Classes of Property</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Vehicles	\$ <u>136,541</u>	\$ <u>-</u>	\$ <u>136,541</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2020 were as follows:

<u>Year Ending June 30,</u>	<u>Governmental</u>	<u>Business-Type</u>	<u>Total</u>
2021	\$ 27,088	\$ 6,598	\$ 33,686
2022	24,588	6,497	31,085
2023	24,588	6,497	31,085
2024	24,588	6,496	31,084
2025	<u>24,589</u>	<u>6,497</u>	<u>31,086</u>
Total minimum lease payments	125,441	32,585	158,026
Less: amount representing interest	<u>16,658</u>	<u>4,827</u>	<u>21,485</u>
Present value of the minimum lease Payments	\$ <u>108,783</u>	\$ <u>27,758</u>	\$ <u>136,541</u>

TOWN OF NORWOOD
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

Installment Purchase Agreements

In August 2009, the Town entered into a \$250,000 direct placement contract to finance the Lake Shore Water Lines. The financing agreement requires annual payments beginning in the fiscal year 2011 with an interest rate of 4.02%. The future minimum payments of the installment purchase agreement as of June 30, 2020 are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2021	\$ 16,667	\$ 3,406
2022	16,667	2,717
2023	16,667	2,038
2024	16,667	2,025
2025	16,650	-
Total	<u>\$ 83,318</u>	<u>\$ 10,186</u>

In September 2012, the Town entered into a \$2,312,873 direct placement to finance the Berry Hill Sewer Project, which is funded by an installment purchase agreement from the Department of Environment and Natural Resources. The loan has an interest rate of 2.0%. The future minimum payments on the installment purchase agreement as of June 30, 2020 are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2021	\$ 123,650	\$ 30,913
2022	123,650	28,440
2023	123,650	25,967
2024	123,650	23,493
2025	123,650	21,020
2026-2030	618,248	68,007
Thereafter	370,949	11,128
Total	<u>\$1,607,447</u>	<u>\$208,968</u>

In November 2017, the Town entered into a \$405,000 direct placement contract to finance vehicles and equipment for General Fund use. The property is pledged as collateral for the debt while the debt is outstanding. The financing agreement requires annual payments with an interest rate of 2.77%. The future minimum payments of the installment purchase agreement as of June 30, 2020 are as follows.

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2021	\$ 57,752	\$ 6,788
2022	59,394	5,145
2023	61,061	3,478
2024	62,777	1,763
Total	<u>\$ 240,984</u>	<u>\$ 17,174</u>

In October 2018, the Town of Norwood entered into a \$45,485 direct placement contract to finance vehicles and equipment for General Fund use. The property is pledged as collateral for the debt while the debt is outstanding. The financial agreement requires annual payments of \$10,016 including an interest rate of 3.25%. The future minimum payments of the installment purchase agreement as of June 30, 2020 are as follows:

TOWN OF NORWOOD
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2021	\$ 8,795	\$ 1,221
2022	9,088	928
2023	9,387	629
2024	<u>9,697</u>	<u>320</u>
Total	<u>\$ 36,967</u>	<u>\$ 3,098</u>

In December 2018, the Town of Norwood entered into a \$56,000 direct placement contract to finance a vehicle for Enterprise fund use. The property is pledged as collateral for the debt while the debt is outstanding. The financial agreement requires annual payments of \$12,510 including an interest rate of 3.75%. The future minimum payments of the installment purchase agreement as of June 30, 2020 are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2021	\$ 10,770	\$ 1,740
2022	11,186	1,324
2023	11,611	900
2024	<u>12,052</u>	<u>458</u>
Total	<u>\$ 45,619</u>	<u>\$ 4,422</u>

In February 2019, the Town of Norwood entered into a \$55,121 direct placement contract to finance a vehicle for Enterprise fund use. The property is pledged as collateral for the debt while the debt is outstanding. The financial agreement requires annual payments of \$12,349 including an interest rate of 3.85%. The future minimum payments of the installment purchase agreement as of June 30, 2020 are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2021	\$ 10,591	\$ 1,758
2022	11,009	1,340
2023	11,439	910
2024	<u>11,884</u>	<u>464</u>
Total	<u>\$ 44,923</u>	<u>\$ 4,472</u>

At June 30, 2020, the Town of Norwood had no bonds authorized or outstanding and a legal debt margin of \$24,037,040.

TOWN OF NORWOOD
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

Changes in Long-Term Liabilities

	Beginning Balance	Increase	Decrease	Ending Balance	Current Maturities
Governmental Activities:					
Direct placement					
installment purchases	\$ 342,661	\$ -	\$ 64,710	\$ 277,951	\$ 66,547
Capital leases	-	108,783	-	108,783	23,538
Compensated absences	31,334	16,061	16,469	30,926	15,463
Other post-employment					
Benefits	254,582	-	37,147	217,435	-
Net pension liability (LGERS)	226,321	36,956	-	263,277	-
Total pension liability (LEO)	142,502	11,127	-	153,629	-
Total	<u>\$ 997,400</u>	<u>\$ 172,927</u>	<u>\$ 118,326</u>	<u>\$ 1,052,001</u>	<u>\$ 105,548</u>
Business-Type Activities:					
Direct placement					
installment purchases	\$ 1,942,202	\$ -	\$ 160,895	\$ 1,781,307	\$ 161,678
Capital leases-	27,758	-	27,758	5,569	5,569
Compensated absences	4,547	1,114	417	5,244	2,622
Other post-employment					
Benefits	28,287	-	4,128	24,159	-
Net pension liability (LGERS)	25,147	17,712	-	42,859	-
Total	<u>\$ 2,000,183</u>	<u>\$ 46,584</u>	<u>\$ 165,440</u>	<u>\$ 1,881,327</u>	<u>\$ 169,869</u>

Compensated absences have typically been liquidated in the General Fund and the Water and Sewer Fund.

Interfund Balances and Activity

Due to/from other funds at June 30, 2020, consist of the following:

Balances due to the Enterprise Fund from the General Fund:

 Due to the Enterprise Fund for payment on capital projects \$ 84,732

Balances due to the General Fund from the Enterprise Fund:

 Due to the General Fund for amounts deposited into the
 Enterprise Fund bank account for capital projects \$ 262,300

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	<u>\$ 1,721,936</u>
Stabilization by State Statute	509,605
Streets – Powell Bill	257,005
Appropriated fund balance in the subsequent year's budget	249,440
Unassigned fund balance	705,886

TOWN OF NORWOOD
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

Note IV – Summary Disclosure of Significant Contingencies

State Assisted Programs

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

Note V – Significant Effects of Subsequent Events

There were no subsequent events that occurred during the period June 30, 2020 to the date of the release of this report.

Note VI - Impact of Coronavirus on Town

On January 30, 2020, the World Health Organization declared the coronavirus “COVID-19” outbreak a “Public Health Emergency of International Concern” and on March 11, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of COVID-19 include restrictions on travel, quarantines, or “stay-at-home” restrictions in certain areas and forced closures for certain types of public places and businesses. COVID-19 and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets globally, including that of the Town. While it is unknown how long these conditions will last and what the complete financial impact will be, the Town is closely monitoring the impact of the COVID-19 pandemic on all aspects of their operations and are unable at this time to predict the continued impact that COVID-19 will have on their services, financial position, and operating results in future periods due to numerous uncertainties.

Required Supplemental Financial Data

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

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

TOWN OF NORWOOD**TOWN OF NORWOOD'S PROPORTIONATE SHARE OF NET PENSION LIABILITY (ASSET)****LOCAL GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM****Required Supplementary Information****Last Seven Fiscal Years ***

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Norwood's proportion of the net pension liability (asset) (%)	0.01121%	0.01060%	0.00827%	0.01084%	0.01021%	0.00923%	0.01010%
Norwood's proportion of the net pension liability (asset) (\$)	\$ 306,136	\$ 251,468	\$ 126,343	\$ 230,061	\$ 45,822	\$ (54,434)	\$ 121,744
Norwood's covered payroll	\$ 693,017	\$ 644,865	\$ 591,447	\$ 606,863	\$ 643,291	\$ 612,199	\$ 637,229
Norwood's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	44.17%	39.00%	21.36%	37.91%	7.12%	(8.89%)	19.11%
Plan fiduciary net position as a percentage of the total pension liability **	91.63%	94.18%	91.47%	98.09%	99.07%	102.64%	94.35%

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

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

TOWN OF NORWOOD
TOWN OF NORWOODS' CONTRIBUTIONS
LOCAL GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM
Required Supplementary Information
Last Seven Fiscal Years

	2020	2019	2018	2017	2016	2015	2014
Contractually required contribution	\$ 62,222	\$ 56,217	\$ 50,652	\$ 44,883	\$ 40,835	\$ 45,738	\$ 43,711
Contributions in relation to the contractually required contribution	<u>62,222</u>	<u>56,217</u>	<u>50,652</u>	<u>44,883</u>	<u>40,835</u>	<u>45,738</u>	<u>43,711</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Norwood's covered payroll	\$ 669,565	\$ 693,017	\$ 644,865	\$ 591,447	\$ 606,863	\$ 643,291	\$ 612,199
Contributions as a percentage of covered-employee payroll	9.29%	8.11%	7.85%	7.59%	6.73%	7.11%	7.14%

TOWN OF NORWOOD
SCHEDULE OF CHANGES IN TOTAL PENSION LIABILITY
LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE
Required Supplementary Information
June 30, 2020, 2019, 2018 and 2017

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Beginning balance	\$ 142,502	\$ 152,141	\$ 143,762	\$ 149,150
Service cost	7,603	6,736	5,084	5,958
Interest on the total pension liability	4,941	4,594	5,289	5,084
Changes of benefit terms	-	-	-	-
Differences between expected and actual experience in the measurement of the total pension liability	7,665	(2,427)	3,243	-
Changes of assumptions or other inputs	4,417	(5,043)	8,262	(2,931)
Benefits payments	(13,499)	(13,499)	(13,499)	(13,499)
Other changes	-	-	-	-
Ending balance of the total pension liability	<u>\$ 153,629</u>	<u>\$ 142,502</u>	<u>\$ 152,141</u>	<u>\$ 143,762</u>

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

TOWN OF NORWOOD
SCHEDULE OF TOTAL PENSION LIABILITY AS A PERCENTAGE
OF COVERED PAYROLL
LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE
Required Supplementary Information
June 30, 2020, 2019, 2018 and 2017

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total pension liability	\$ 153,629	\$ 142,502	\$ 152,141	\$ 143,762
Covered Payroll	339,687	288,692	246,290	281,148
Total pension liability as a percentage of covered payroll	45.23%	49.36%	61.77%	51.13%

Notes to the schedule:

The Town has no assets accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 73 to pay related benefits.

TOWN OF NORWOOD
SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY AND RELATED RATIOS
Required Supplementary Information
June 30, 2020, 2019 and 2018

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total OPEB Liability			
Service Cost	\$ 32,201	\$ 33,077	\$ 35,371
Interest	11,004	9,015	6,925
Changes of benefit terms	-	-	-
Differences between expected and actual experience	(87,458)	(14)	(13)
Changes of assumptions	2,978	(12,437)	(19,115)
Benefit payments	-	-	-
Net change in total OPEB liability	(41,275)	29,641	23,168
Total OPEB liability - beginning	282,869	253,228	230,060
Total OPEB liability - ending	<u>\$ 241,594</u>	<u>\$ 282,869</u>	<u>\$ 253,228</u>
Covered payroll	\$ 659,368	\$ 693,017	\$ 644,865
Total OPEB liability as a percentage of covered payroll	36.64%	40.82%	39.27%

Notes to Schedule

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

<u>Fiscal year</u>	<u>Rate</u>
2020	3.50%
2019	3.89%
2018	3.56%

No assets are accumulated in a trust that meets the requirements of GASB No, 75, paragraph 4 to pay related benefits

**COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS**

MAJOR GOVERNMENTAL FUNDS

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

TOWN OF NORWOOD
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE - BUDGET AND ACTUAL
For the Year Ended June 30, 2020

Exhibit A-1
page 1 of 3

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Ad valorem taxes:			
Taxes	\$ -	\$ 1,180,774	\$ -
Interest	-	805	-
Total ad valorem taxes	<u>1,160,800</u>	<u>1,181,579</u>	<u>20,779</u>
Unrestricted intergovernmental:			
Local option sales taxes	-	611,837	-
Franchise tax	-	174,943	-
Solid waste disposal tax	-	1,820	-
Beer and wine tax	-	10,344	-
Gas tax refund	-	6,961	-
Sales tax refund	-	8,069	-
Occupancy tax	-	837	-
Total unrestricted intergovernmental	<u>715,000</u>	<u>814,811</u>	<u>99,811</u>
Restricted intergovernmental:			
Powell Bill allocation	-	75,335	-
Grant proceeds	-	27,379	-
Confiscated property allocations	-	2,150	-
Total restricted intergovernmental	<u>90,750</u>	<u>104,864</u>	<u>14,114</u>
Permits and fees:			
Land right of way fees	-	75,000	-
Zoning permits	-	1,975	-
Other permits	-	275	-
Total permits and fees	<u>75,000</u>	<u>77,250</u>	<u>2,250</u>
Sales and services:			
Garbage collections	-	55,518	-
Rents, concessions and fees	-	2,625	-
Police officers cost	-	20,600	-
Surplus sales	-	15,742	-
Total sales and services	<u>60,000</u>	<u>94,485</u>	<u>34,485</u>
Investment earnings	<u>18,000</u>	<u>17,459</u>	<u>(541)</u>
Miscellaneous	<u>55,050</u>	<u>7,335</u>	<u>(47,715)</u>
Total revenues	<u>2,174,600</u>	<u>2,297,783</u>	<u>123,183</u>

TOWN OF NORWOOD
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE - BUDGET AND ACTUAL (Continued)
For the Year Ended June 30, 2020

Exhibit A-1
page 2 of 3

	Budget	Actual	Variance Positive (Negative)
Expenditures:			
General government:			
Salaries and employee benefits	-	212,830	-
Operating expenditures	-	418,438	-
Capital outlay	-	35,740	-
Total general government	706,845	667,008	39,837
Police department:			
Salaries and employee benefits	-	556,043	-
Operating expenditures	-	125,256	-
Capital outlay	-	126,755	-
Total police department	715,750	808,054	(92,304)
Streets - municipality:			
Salaries and employee benefits	-	78,318	-
Operating expenditures	-	91,130	-
Total streets - municipality	215,850	169,448	46,402
Streets - Powell Bill:			
Professional services	-	3,278	-
Operating expenditures	-	230,759	-
Total streets - powell bill	243,000	234,037	8,963
Total Transportation	458,850	403,485	55,365
Sanitation:			
Salaries and employee benefits	-	86,390	-
Operating expenditures	-	229,738	-
Total sanitation	441,700	316,128	125,572
Cultural and recreational:			
Salaries and employee benefits	-	41,743	-
Operating expenditures	-	42,928	-
Total cultural and recreational	97,800	84,671	13,129
Cemetery:			
Salaries and employee benefits	-	34,747	-
Operating expenditures	-	3,130	-
Total cemetery	46,050	37,877	8,173

TOWN OF NORWOOD
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE - BUDGET AND ACTUAL (Continued)
For the Year Ended June 30, 2020

Exhibit A-1
page 3 of 3

	Budget	Actual	Variance Positive (Negative)
Garage:			
Salaries and employee benefits	-	2,052	-
Operating expenses	-	6,553	-
Total	8,605	8,605	-
Debt service:			
Principal retirement	-	64,710	-
Interest and other charges	-	9,846	-
Total	-	74,556	(74,556)
Total expenditures	2,475,600	2,400,384	75,216
Revenues over (under) expenditures	(301,000)	(102,601)	198,399
Other financing sources:			
Capital lease	-	108,783	108,783
Total other financing sources	-	108,783	108,783
Appropriated fund balance	301,000	-	(301,000)
Revenues, other financing sources and appropriated fund balance over (under) expenditures	\$ -	6,182	\$ 6,182
Fund Balance, Beginning		1,715,754	
Fund Balance, Ending		\$ 1,721,936	

ENTERPRISE FUNDS

Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or where the governing body has decided that periodic determination of net income is appropriate for accountability purposes.

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

Wastewater Treatment Improvement Project Fund – This fund is used to account for the loan proceeds from NCDEQ used for construction and improvements for the wastewater treatment improvement project.

Sanitary Sewer Improvement Project Fund – This fund is used to account for the loan proceeds from NCDEQ used for construction and improvements for the sanitary sewer improvement project.

TOWN OF NORWOOD
WATER AND SEWER FUND
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL (NON-GAAP)
For the Year Ended June 30, 2020

Exhibit B-1
page 1 of 2

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Operating revenues:			
Water and sewer	\$ -	\$ 1,526,618	\$ -
Water and sewer taps	-	29,780	-
Reconnection and availability fees	-	99,071	-
Sales tax refund	-	25,112	-
Total operating revenues	1,706,500	1,680,581	(25,919)
Nonoperating revenues:			
Interest on investments		5,608	-
Total nonoperating revenues	17,500	5,608	(11,892)
Total revenues	1,724,000	1,686,189	(37,811)
Expenditures:			
Water treatment and distribution:			
Operating expenditures	-	377,217	-
Capital outlay	-	71,501	-
Total water treatment and distribution	462,600	448,718	13,882
Wastewater collection and treatment:			
Operating expenditures	-	185,041	-
Capital outlay	-	22,431	-
Total wastewater collection and treatment	239,250	207,472	31,778
Water and sewer field operations:			
Salaries and employee benefits	-	169,289	-
Operating expenditures		531,136	
Capital outlay		27,758	
Total water and sewer field operations	818,150	728,183	89,967
Debt service:			
Principal retirement	-	160,895	-
Interest and other charges	-	43,064	-
Total debt service	204,000	203,959	41
Total expenditures	1,724,000	1,588,332	135,668
Revenues under expenditures	-	97,857	97,857
Other financing sources (uses):			
Debt proceeds	-	27,758	27,758
Total other financing sources	-	27,758	27,758
Net change in fund balance	\$ -	\$ 125,615	\$ 125,615

TOWN OF NORWOOD
WATER AND SEWER FUND
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL (NON-GAAP)
(Continued)
For the Year Ended June 30, 2020

Exhibit B-1
page 2 of 2

	<u>Actual</u>
Reconciliation from budgetary basis	
Net change in fund balance	<u>\$ 125,615</u>
Depreciation	(396,629)
Capital outlay	121,690
Debt proceeds	(27,758)
Debt principal	160,895
Decrease in accrued interest	9,506
Increase in compensated absences	(697)
Increase (Decrease) in deferred outflows of resources for pensions	4,543
Increase (Decrease) in deferred outflows of resources for OPEB	266
(Increase) Decrease in net pension liabilities	(17,712)
(Increase) Decrease in OPEB liabilities	4,128
(Increase) Decrease in deferred inflows of resources for pensions	191
(Increase) Decrease in deferred inflows of resources for OPEB	<u>(7,450)</u>
Total	<u>(149,027)</u>
Change in Net Position	<u><u>\$ (23,412)</u></u>

TOWN OF NORWOOD
WASTEWATER TREATMENT IMPROVEMENT PROJECT FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE - BUDGET AND ACTUAL
From Inception and For the Year Ended June 30, 2020

Exhibit B-2

	Project Authorization	Prior Year	Actual Current Year	Total to Date	Variance Positive (Negative)
Revenues					
Interest Earned	\$ -	\$ -	\$ -	\$ -	\$ -
Expenditures					
Planning and design	343,000	72,058	284,310	356,368	(13,368)
Construction	3,537,000	-	-	-	3,537,000
Legal and testing expenses	135,420	-	-	-	135,420
Contingency	341,000	-	-	-	341,000
Total expenditures	<u>4,356,420</u>	<u>72,058</u>	<u>284,310</u>	<u>356,368</u>	<u>4,000,052</u>
Other financing sources					
NCDEQ State reserve project loan proceeds	4,271,000	-	-	-	(4,271,000)
Transfer from Water/Sewer fund	<u>85,420</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(85,420)</u>
Total other financing sources	<u>4,356,420</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(4,356,420)</u>
Revenues over expenditures	<u>\$ -</u>	<u>\$ (72,058)</u>	(284,310)	<u>\$ (356,368)</u>	<u>\$ (356,368)</u>
Fund balance, beginning			(72,058)		
Fund balance, ending			<u>\$ (356,368)</u>		

TOWN OF NORWOOD
SANITARY SEWER IMPROVEMENT PROJECT FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE - BUDGET AND ACTUAL
From Inception and For the Year Ended June 30, 2020

Exhibit B-3

	Project Authorization	Prior Year	Actual Current Year	Total to Date	Variance Positive (Negative)
Revenues					
Interest Earned	\$ -	\$ -	\$ -	\$ -	\$ -
Expenditures					
Planning and design	183,600	23,618	136,104	159,722	23,878
Construction	1,704,950	-	-	-	1,704,950
Legal and testing expenses	94,025	-	-	-	94,025
Contingency	160,695	-	5,755	5,755	154,940
Total expenditures	<u>2,143,270</u>	<u>23,618</u>	<u>141,859</u>	<u>165,477</u>	<u>1,977,793</u>
Other financing sources					
NCDEQ State reserve project loan proceeds	2,101,245	-	-	-	(2,101,245)
Transfer from General fund	-	-	-	-	-
Transfer from Water/Sewer fund	42,025	-	-	-	(42,025)
Total other financing sources	<u>2,143,270</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,143,270)</u>
Revenues over expenditures	<u>\$ -</u>	<u>\$(23,618)</u>	(141,859)	<u>\$(165,477)</u>	<u>\$(165,477)</u>
Fund balance, beginning			(23,618)		
Fund balance, ending			<u>\$(165,477)</u>		

Other Schedules

This section includes additional information on property taxes.

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

TOWN OF NORWOOD
SCHEDULE OF AD VALOREM TAXES RECEIVABLE
June 30, 2020

Exhibit C-1

<u>Fiscal Year</u>	<u>Uncollected Balance June 30, 2019</u>	<u>Additions</u>	<u>Collections and Credits</u>	<u>Uncollected Balance June 30, 2020</u>
2019-2020	\$ -	\$ 1,190,659	\$ 1,164,181	\$ 26,478
2018-2019	23,921	-	10,135	13,786
2017-2018	8,381	1,337	-	9,718
2016-2017	8,309	-	1,881	6,428
2015-2016	7,038	-	1,574	5,464
2014-2015	5,897	-	954	4,943
2013-2014	6,952	-	764	6,188
2012-2013	7,489	-	664	6,825
2011-2012	6,118	-	717	5,401
2010-2011	7,002	-	657	6,345
2009-2010	4,900	-	4,900	-
	<u>\$ 86,007</u>	<u>\$ 1,191,996</u>	<u>\$ 1,186,427</u>	91,576
Less: allowance for doubtful accounts: General Fund				<u>40,000</u>
Ad valorem taxes receivable - net				<u>\$ 51,576</u>
<u>Reconcilement with revenues:</u>				
Ad valorem taxes - General Fund				\$ 1,181,579
Reconciling items:				
Taxes written off				<u>4,848</u>
Total collections and credits				<u>\$ 1,186,427</u>

TOWN OF NORWOOD
ANALYSIS OF CURRENT TAX LEVY
TOWN-WIDE LEVY
June 30, 2020

Exhibit C-2

	Town - Wide			Total Levy	
	Property Valuation	Rate	Total Levy	Property excluding Registered Motor Vehicles	Registered Motor Vehicles
Original Levy:					
Property taxed at current year's rate	\$ 304,731,795	0.39	\$ 1,188,454	\$ 1,106,800	\$ 81,654
Discoveries	917,436	0.39	3,578	3,578	-
Abatements	<u>(352,051)</u>	0.39	<u>(1,373)</u>	<u>(1,373)</u>	<u>-</u>
Total property valuation	<u>\$ 305,297,180</u>				
Net Levy:			1,190,659	1,109,005	81,654
Uncollected taxes at June 30, 2020			<u>(26,478)</u>	<u>(26,273)</u>	<u>(205)</u>
Current year's taxes collected			<u>\$ 1,164,181</u>	<u>\$ 1,082,732</u>	<u>\$ 81,449</u>
Current levy collection percentage			<u>97.78%</u>	<u>97.63%</u>	<u>99.75%</u>

COMPLIANCE SECTION

220 East Washington Street
Post Office Box 697
Rockingham, North Carolina 28380
(910) 557-1176

Other Office Locations:
Seven Lakes, North Carolina
Gastonia, North Carolina
Statesville, North Carolina

INDEPENDENT AUDITORS' REPORT

**Report on Internal Control Over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed In Accordance
with Government Auditing Standards**

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Norwood, North Carolina, as of and for the year ended June 30, 2020 and the related notes to the financial statements, which collectively comprises the Town of Norwood's basic financial statements, and have issued our report thereon dated January 28, 2021.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2020-1 and 2020-2 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Norwood's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards: 2020-3*.

Town of Norwood's Response to Findings

The Town of Norwood's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Town's response was not subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on it.

Purpose of this Report

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

A handwritten signature in black ink that reads "Anderson Smith + Wike PLLC". The signature is written in a cursive, flowing style.

January 28, 2021
Rockingham, North Carolina

**Town of Norwood, North Carolina
Schedule of Findings and Responses
For the Fiscal Year Ended June 30, 2020**

Section I. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? No
- Significant deficiency(s) identified that are not considered to be material weaknesses? Yes

Noncompliance material to financial statements noted? Yes

Federal Awards

No major Federal programs reported

State Awards

No major State programs reported

Section II. Financial Statement Findings

Finding 2020-01

SIGNIFICANT DEFICIENCY

Segregation of Duties

Criteria: Segregation of duties provides checks and balances to reduce possibilities for misstatements resulting from errors in judgment, dishonesty, personal carelessness, distraction and fatigue

Condition: The Town has a limited number of personnel for accounting functions which creates inherent limitations on the effectiveness of certain controls due to the lack of segregation of duties among the Town's personnel.

Effect: Potential misstatement of financial statements.

Cause: The Town has a limited number of personnel for accounting functions which creates inherent limitations on the effectiveness of certain controls due to the lack of segregation of duties among the Town's personnel.

Recommendations: The Board should continually keep in mind that internal controls are limited due to the size of the Town's staff.

Views of responsible officials and planned corrective actions: The Board agrees with this finding.

**Town of Norwood, North Carolina
Schedule of Findings and Responses
For the Fiscal Year Ended June 30, 2020**

Finding 2020-2

SIGNIFICANT DEFICIENCY
Other Post Employment Benefits

- Criteria: Procedures and controls must be in place to ensure that Other Post Employment Benefits are paid in accordance with policy approved by the Town Council.
- Condition: The Town has an other post employment benefit policy that provides healthcare to employees that have 20 years of service, provided the last 10 years of the 20 years of service are consecutive. During Fiscal Year 2019, the Town had no procedures in place to determine who was eligible for benefits upon retirement and were not knowledgeable of the Town's policy.
- Effect: Individuals could have retired and not been provided with postemployment benefits.
- Cause: Lack of oversight by management.
- Recommendation: The Town should implement controls and procedures to ensure that each retiree receives the benefits that are due at retirement.

Views of responsible officials and planned corrective actions: The Council agrees with this finding.

Finding 2020-3

MATERIAL NON-COMPLIANCE
Exceeded authorized appropriations

- Criteria: G.S. 159-8(a) states that all monies received and expended by a local government or public authority should be included in the budget ordinance,
- Condition: The Town of Norwood's expenditures exceeded the authorized appropriations made by the governing board in the General fund's Police Department by \$92,304, and in Debt service by \$74,556 and in the Wastewater Treatment Improvement Project fund by \$13,368.
- Effect: Money was spent that had not been appropriated.
- Cause: The Town expended more than had been budgeted for in the budget ordinance and a budget amendment was not adopted.
- Recommendation: Budget amendments should be adopted before expenditures exceeded budgeted expenditures in the budget ordinance.

Views of responsible officials and planned corrective actions. The Town agrees with this finding. Budget amendments will be adopted prior to making expenditures that exceeded budgeted amounts.

Section III. Federal Award Findings and Responses

None reported

Section IV. State Award Findings and Responses

None reported



The Gateway to Lake Tillery

TOWN ADMINISTRATOR

Scott Howard

TOWN CLERK

Kelly Caudle

FINANCE OFFICER

DeRita Carpenter

MAYOR

Linda Campbell

MAYOR PRO-TEM

James Lilly

COUNCILMEMBERS

Robbie Cohen

Betty Harrison

Wes Hartsell

Re: Corrective Action Plan

Finding 2020-1

Name of Contact Person: Scott Howard, Town Administrator

Corrective Action Plan: The Town should continually keep in mind that internal controls are limited due to the size of the Town's staff and monitor accordingly and the Town is soliciting external CPA firms to perform the Town's accounting and financial reporting services

Proposed Completion Date: Immediately

Finding 2020-2

Name of Contact Person: Scott Howard, Town Administrator

Corrective Action Plan: The Town is developing a formal policy that will satisfy all OPEB requirements in regards to this area.

Proposed Completion Date: Immediately

Finding 2020-3

Name of Contact Person: Scott Howard, Town Administrator

Corrective Action Plan: Management and the board will more closely review the budget reports to ensure compliance in future years.

Proposed Completion Date: Immediately

**Town of Norwood, North Carolina
Prior Year Findings
For the Fiscal Year Ended June 30, 2020**

Finding: 2019 – 1

Status: Corrected

Finding: 2019 – 2

Status: Corrected

Finding: 2019 – 3

Status: Similar comment found in current year. See Finding 2020-1

Finding: 2019 – 4

Status: Similar comment found in current year. See Finding 2020-2