

REVIEWED

By SLGFD at 2:38 pm, Nov 01, 2021

**CITY OF MOUNT HOLLY
NORTH CAROLINA**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2021

CITY OF MOUNT HOLLY NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2021

CITY COUNCIL

Mayor

Bryan Hough

City Council Members

Phyllis Harris

Charles McCorkle

Jeff Meadows

David Moore

Christina Pawlish

Lauren Shoemaker

ADMINISTRATIVE AND FINANCIAL STAFF

Miles Braswell, City Manager

Michelle Wood, Finance Director

Becky Conder, Deputy Finance Director

This page left blank intentionally.

CITY OF MOUNT HOLLY, NORTH CAROLINA

FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

TABLE OF CONTENTS

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

CITY OF MOUNT HOLLY, NORTH CAROLINA

FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

TABLE OF CONTENTS

<u>Schedule</u>		<u>Page</u>
	Required Supplemental Financial Data:	
A-1	Law Enforcement Officers' Special Separation Allowance - Schedule of Changes in Total Pension Liability	62
A-2	Law Enforcement Officers' Special Separation Allowance - Schedule of Total Pension Liability as a Percentage of Covered Payroll	63
A-3	Schedule of Changes in the Total OPEB Liability and Related Ratios	64
A-4	Local Government Employees' Retirement System - City's Proportionate Share of Net Pension Liability (Asset)	65-66
A-5	Local Government Employees' Retirement System - City of Mount Holly's Contributions	67-68
	Supplementary Information:	
	Individual Fund Statements and Schedules:	
	Major Governmental Fund:	
1	Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund	69-72
	Nonmajor Governmental Funds:	
2	Combining Balance Sheet	73
3	Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	74
	Special Revenue Funds:	
4	Emergency Telephone System Fund - Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual	75
5	Coronavirus Relief Fund - Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual	76

CITY OF MOUNT HOLLY, NORTH CAROLINA

FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

TABLE OF CONTENTS

<u>Schedule</u>		<u>Page</u>
	Capital Project Funds:	
6	Capital Reserve Fund - Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual	77
7	Capital Projects Fund - Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual	78
	Enterprise Fund:	
8	Water and Sewer Fund - Schedule of Revenues and Expenditures - Budget and Actual - (Non-GAAP)	79-81
9	Water and Sewer Capital Projects Fund Schedule of Revenues and Expenditures - Budget and Actual - (Non-GAAP)	82
10	Water and Sewer Capital Reserve Fund Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - (Non-GAAP)	83
	Supplemental Financial Data:	
11	Schedule of Ad Valorem Taxes Receivable	84
12	Analysis of Current Tax Levy - City-Wide Levy	85
13	Secondary Market Disclosures	86
14	Schedule of Principal Taxpayers	87
15	Mount Holly Tourism Development Authority - Discretely Presented Component Unit - Balance Sheet	88
16	Mount Holly Tourism Development Authority - Discretely Presented Component Unit - Schedule of Revenues and Expenditures - Budget and Actual	89
17	Emergency Telephone System Unspent Balance - PSAP Reconciliation	90

CITY OF MOUNT HOLLY, NORTH CAROLINA

FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

TABLE OF CONTENTS

Compliance Section:

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	91-92
Schedule of Findings and Responses	93-95
Corrective Action Plan	96
Schedule of Prior Year Audit Findings	97

MARTIN STARNES & ASSOCIATES, CPAs, P.A.

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

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Mount Holly, North Carolina, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the City of Mount Holly ABC Board, which represents 85%, 83%, and 97%, respectively, of the assets, net position, and revenues of the aggregate discretely presented component units. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the City of Mount Holly ABC Board, is based solely on the report of other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the City of Mount Holly ABC Board were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Mount Holly, North Carolina, as of June 30, 2021, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Law Enforcement Officers' Special Separation Allowance schedules, the Other Post-Employment Benefits' schedules, and the Local Government Employees' Retirement System's schedules, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and the other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the City of Mount Holly, North Carolina. The combining and individual fund financial statements, budget and actual schedules, supplemental ad valorem tax schedules, and other schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2021, on our consideration of the City of Mount Holly's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Mount Holly's internal control over financial reporting and compliance.

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
Hickory, North Carolina
October 13, 2021

This page left blank intentionally.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This page left blank intentionally.

Management's Discussion and Analysis

As management of the City of Mount Holly (the "City"), we offer readers of the City of Mount Holly's financial statements this narrative overview and analysis of the financial activities of the City of Mount Holly for the fiscal year ended June 30, 2021. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the City's financial statements, which follow this narrative.

Financial Highlights

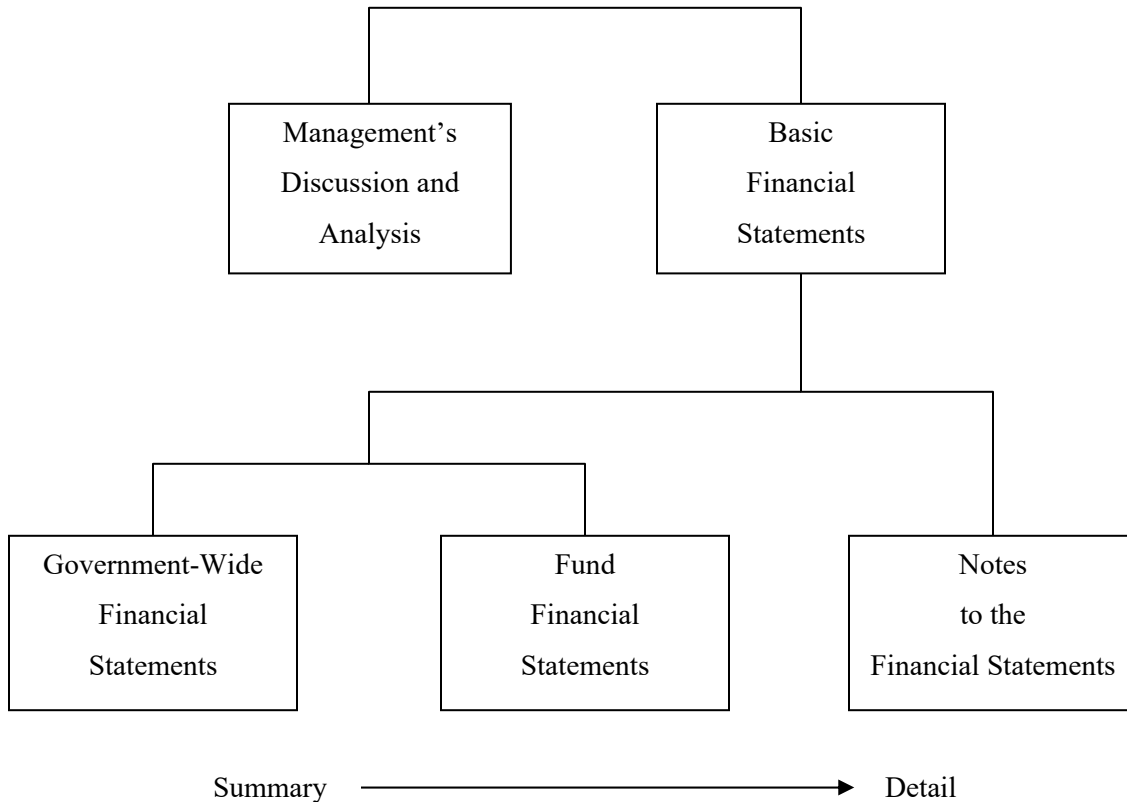
- The assets and deferred outflows of resources for the City of Mount Holly exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$68,146,062 (net position). For the Mount Holly Tourism Development Authority ("TDA"), the assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by \$243,295.
- The government's total net position increased by \$5,213,887, mainly due to an increase in the business-type activities' net position. The TDA's total net position increased by \$44,395.
- As of the close of the current fiscal year, the City of Mount Holly's governmental funds reported combined ending fund balances of \$19,211,429, with a net increase of \$3,016,473 in fund balance. Approximately 19.80% of this total amount, or \$3,804,520, is non-spendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$10,888,792, or 85.11%, of total General Fund expenditures for the fiscal year.
- The City of Mount Holly's total governmental debt decreased by \$1,061,819 and business-type activities' debt decreased by \$299,867 during the current fiscal year.
- The City maintains its bond rating of an "AA-" from Standard & Poor's and an "Aa2" from Moody's Investors Services.

Overview of the Financial Statements

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

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

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

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

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

Government-Wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

The City of Mount Holly adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the City, the management of the City, and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the City to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the City complied with the budget ordinance and whether or not the City succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the City Council; 2) the final budget as amended by the Board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges.

Proprietary Funds. The City of Mount Holly has only one kind of proprietary fund. *Enterprise funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Mount Holly uses an enterprise fund to account for its water and sewer activity. This fund is the same as those functions shown in the business-type activities in the Statement of Net Position and the Statement of Activities.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements follow Exhibit I of this report.

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

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

Government-Wide Financial Analysis

City of Mount Holly's Net Position
Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2021	2020	2021	2020	2021	2020
Assets:						
Current and other assets	\$ 19,653,714	\$ 17,524,541	\$ 18,459,489	\$ 16,630,857	\$ 38,113,203	\$ 34,155,398
Capital assets	28,485,327	29,051,056	22,906,982	21,924,797	51,392,309	50,975,853
Total assets	48,139,041	46,575,597	41,366,471	38,555,654	89,505,512	85,131,251
Deferred Outflows of Resources	2,496,574	1,539,081	733,381	537,856	3,229,955	2,076,937
Liabilities:						
Long-term liabilities						
outstanding	17,429,068	16,795,449	5,682,441	5,523,337	23,111,509	22,318,786
Other liabilities	362,947	660,040	403,307	476,379	766,254	1,136,419
Total liabilities	17,792,015	17,455,489	6,085,748	5,999,716	23,877,763	23,455,205
Deferred Inflows of Resources	525,144	613,862	186,498	206,946	711,642	820,808
Net Position:						
Net investment in						
capital assets	19,883,409	19,387,319	19,821,536	18,539,484	39,704,945	37,926,803
Restricted:						
Stabilization by						
state statute	1,239,641	1,065,411	-	-	1,239,641	1,065,411
Streets	1,906,801	1,553,084	-	-	1,906,801	1,553,084
Public safety	503,959	509,009	-	-	503,959	509,009
Capacity fees	-	-	3,466,308	1,789,188	3,466,308	1,789,188
Unrestricted	8,784,646	7,530,504	12,539,762	12,558,176	21,324,408	20,088,680
Total net position	\$ 32,318,456	\$ 30,045,327	\$ 35,827,606	\$ 32,886,848	\$ 68,146,062	\$ 62,932,175

As noted earlier, net position may serve, over time, as one useful indicator of a government's financial condition. The assets and deferred outflows of the City exceeded liabilities and deferred inflows by \$68,146,062 as of June 30, 2021. The City's net position increased by \$5,213,887 for the fiscal year ended June 30, 2021. However, the largest portion, (58.26%), reflects the City's net investment in capital assets (e.g., land, infrastructure, buildings, improvements, vehicles, and equipment). The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's net investment in capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the City's net position, \$7,116,709 represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$21,324,408 is unrestricted.

At June 30, 2021, all of the TDA's net position is restricted for tourism activity, except for \$9,967, which is restricted for stabilization by state statute. Ending net position for the TDA was \$243,295.

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

- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 99.52%, which is comparable to the state-wide average of 98.96%.
- Increase in revenues of property taxes and other taxes due to economic growth as well as significant discovery.

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

	Governmental Activities		Business-Type Activities		Total	
	2021	2020	2021	2020	2021	2020
Revenues:						
Program revenues:						
Charges for services	\$ 1,017,307	\$ 1,001,323	\$ 10,684,091	\$ 8,574,513	\$ 11,701,398	\$ 9,575,836
Operating grants and contributions	168,901	162,649	116,336	-	285,237	162,649
Capital grants and contributions	468,258	987,987	-	-	468,258	987,987
General revenues:						
Property taxes	8,779,118	7,999,631	-	-	8,779,118	7,999,631
Other taxes and licenses	4,746,492	4,348,581	-	-	4,746,492	4,348,581
Other revenues	180,928	765,482	-	-	180,928	765,482
Total revenues	<u>15,361,004</u>	<u>15,265,653</u>	<u>10,800,427</u>	<u>8,574,513</u>	<u>26,161,431</u>	<u>23,840,166</u>
Expenses:						
General government	2,046,741	1,987,611	-	-	2,046,741	1,987,611
Public safety	6,981,905	5,460,220	-	-	6,981,905	5,460,220
Planning and zoning	428,327	490,420	-	-	428,327	490,420
Transportation and environmental protection	2,382,075	2,098,391	-	-	2,382,075	2,098,391
Garage	118,984	86,680	-	-	118,984	86,680
Culture and recreation	817,849	1,217,279	-	-	817,849	1,217,279
Water and sewer	-	-	7,859,669	7,460,598	7,859,669	7,460,598
Interest and fees	311,994	322,503	-	-	311,994	322,503
Total expenses	<u>13,087,875</u>	<u>11,663,104</u>	<u>7,859,669</u>	<u>7,460,598</u>	<u>20,947,544</u>	<u>19,123,702</u>
Increase in net position before transfers	2,273,129	3,602,549	2,940,758	1,113,915	5,213,887	4,716,464
Transfers in (out)	-	(746,000)	-	746,000	-	-
Change in net position	2,273,129	2,856,549	2,940,758	1,859,915	5,213,887	4,716,464
Net Position:						
Beginning of year - July 1,	<u>30,045,327</u>	<u>27,188,778</u>	<u>32,886,848</u>	<u>31,026,933</u>	<u>62,932,175</u>	<u>58,215,711</u>
End of year - June 30	<u>\$ 32,318,456</u>	<u>\$ 30,045,327</u>	<u>\$ 35,827,606</u>	<u>\$ 32,886,848</u>	<u>\$ 68,146,062</u>	<u>\$ 62,932,175</u>

Governmental Activities. Governmental activities increased the City's net position by \$2,273,129, thereby accounting for 43.60% of the total increase in the net position of the City of Mount Holly.

Key elements of this increase are as follows:

- Increase in property tax due to revaluation and other taxes and licenses revenues.

Business-Type Activities. Business-type activities increased the City's net position by \$2,940,758, thereby accounting for 56.40% of the total increase in the net position of the City of Mount Holly.

Key elements to this increase are as follows:

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

The TDA had a change in net position of \$44,395 during the fiscal year. They received more revenues in the current year than the prior year despite the pandemic. Total revenues exceeded total expenditures at June 30, 2021.

Financial Analysis of the City's Funds

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

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

The General Fund is the chief operating fund of the City of Mount Holly. At the end of the current fiscal year, the City's fund balance available in the General Fund was \$16,002,756 while total fund balance reached \$17,396,516. The City currently has an available fund balance of 125.08% of total General Fund expenditures, while total fund balance represents 135.97% of the same amount.

At June 30, 2021, the governmental funds of the City reported a combined fund balance of \$19,211,429, with a net increase in fund balance of \$3,016,473. The primary reason for this increase was a decrease in expenditures from prior year and increase in property tax, local option sales tax, and grant revenues.

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

Amendments to the original budget during the year increased total expenditures by \$1,193,530. General government increased its budget to cover additional expenditures that occurred during the year in that function.

Proprietary Funds. The City's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the Water and Sewer Fund at the end of the fiscal year amounted to \$12,539,762. Restricted net position of \$3,466,308 accounts for system development fees on the water and sewer Capital Reserve Fund. The total change in net position for the Water and Sewer Fund was an increase of \$2,940,758. Other major factors concerning the finances of this fund have already been addressed in the discussion of the City's business-type activities above.

Capital Asset and Debt Administration

Capital Assets. The City's investment in capital assets for its governmental and business-type activities as of June 30, 2021, totals \$51,392,309 (net of accumulated depreciation). These assets include land, construction in progress, buildings, infrastructure, equipment, vehicles, etc. as noted below.

Major capital asset transactions during the year include the following:

- Property acquisitions for Veteran's Park
- Construction in progress for the new MHPD Memorial Park
- Construction in progress for Upper Dutchman's Creek
- Purchases of new equipment in the General Fund and Enterprise Fund
- Upgrades to infrastructure

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

	Governmental Activities		Business-Type Activities		Total	
	2021	2020	2021	2020	2021	2020
Land	\$ 8,450,836	\$ 7,954,365	\$ 569,712	\$ 569,712	\$ 9,020,548	\$ 8,524,077
Construction in progress	24,030	62,398	1,840,022	278,036	1,864,052	340,434
Buildings	15,368,751	15,913,160	6,547,861	6,570,703	21,916,612	22,483,863
Infrastructure	3,443,094	3,547,375	-	-	3,443,094	3,547,375
Plant and distribution systems	-	-	12,658,526	13,264,358	12,658,526	13,264,358
Building improvements	-	-	218,860	224,769	218,860	224,769
Land improvements	215,618	237,263	350,560	342,200	566,178	579,463
Office furniture and equipment	75,209	97,509	621,155	572,903	696,364	670,412
Other equipment	485,178	513,108	-	-	485,178	513,108
Vehicles	422,611	725,878	100,286	102,116	522,897	827,994
Total	\$ 28,485,327	\$ 29,051,056	\$ 22,906,982	\$ 21,924,797	\$ 51,392,309	\$ 50,975,853

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

Long-Term Debt. As of June 30, 2021, the City had total bonded debt outstanding of \$1,580,000.

City of Mount Holly's Long-Term Debt

Figure 5

	Governmental Activities		Business-Type Activities		Total	
	2021	2020	2021	2020	2021	2020
Installment purchase - direct placement	\$ 7,021,918	\$ 7,774,737	\$ 3,085,446	\$ 3,385,313	\$ 10,107,364	\$ 11,160,050
Bonds payable	1,580,000	1,889,000	-	-	1,580,000	1,889,000
Total	<u>\$ 8,601,918</u>	<u>\$ 9,663,737</u>	<u>\$ 3,085,446</u>	<u>\$ 3,385,313</u>	<u>\$ 11,687,364</u>	<u>\$ 13,049,050</u>

The City's total long-term debt decreased by \$1,361,686 (10.4%) during the 2021 fiscal year.

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

North Carolina General Statutes limit the amount of general obligation debt that a unit of government can issue to 8% of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for the City is approximately \$133,823,000.

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

Economic Factors and Next Year's Budgets and Rates

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

- Continued development of the Mount Holly TDA
- Continued operation of the U.S. National Whitewater Center across the Catawba River from the City. The Park is estimated to bring 300,000 visitors a year to the area.
- Continued work toward a greenway system that will eventually include over 10 miles of greenways within the City limits
- Continued commercial growth in the South Gateway area of the City, closing of the SRF Loan
- Continued development of an Arts Council Board
- Construction of the MHPD Memorial Plaza
- Continued property acquisition for the future Veteran's Park Project

Budget Highlights for the Fiscal Year Ending June 30, 2022

Governmental Activities. Budgeted expenditures in the General Fund are expected to increase by 5.0% to \$14,626,149.

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

The City is pursuing a bond referendum for parks & recreation facilities.

Business-Type Activities. There was an increase in utility rates.

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

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

Requests for Information

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

BASIC FINANCIAL STATEMENTS

This page left blank intentionally.

CITY OF MOUNT HOLLY, NORTH CAROLINA

STATEMENT OF NET POSITION
JUNE 30, 2021

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	City of Mount Holly ABC Board	Mount Holly Tourism Development Authority
Assets:					
Current assets:					
Cash and cash equivalents	\$ 16,015,017	\$ 12,968,587	\$ 28,983,604	\$ 664,324	\$ 233,328
Taxes receivables, net	123,147	-	123,147	-	-
Accounts receivable, net	178,500	1,678,028	1,856,528	-	-
Due from other governments	1,061,141	-	1,061,141	-	9,967
Inventories	65,310	69,009	134,319	168,834	-
Prepays	88,809	-	88,809	14,366	-
Restricted assets:					
Cash and cash equivalents	2,121,790	3,743,865	5,865,655	-	-
Total current assets	19,653,714	18,459,489	38,113,203	847,524	243,295
Non-current assets:					
Capital assets:					
Land and construction in progress	8,474,866	2,409,734	10,884,600	168,000	-
Other capital assets, net of depreciation	20,010,461	20,497,248	40,507,709	401,787	-
Total capital assets	28,485,327	22,906,982	51,392,309	569,787	-
Total non-current assets	28,485,327	22,906,982	51,392,309	569,787	-
Total assets	48,139,041	41,366,471	89,505,512	1,417,311	243,295
Deferred Outflows of Resources:					
OPEB deferrals	437,551	161,566	599,117	-	-
Contributions - OPEB	35,853	13,261	49,114	-	-
Pension deferrals	2,023,170	558,554	2,581,724	-	-
Total deferred outflows of resources	2,496,574	733,381	3,229,955	-	-
Liabilities:					
Current liabilities:					
Accounts payable and accrued liabilities	235,363	125,750	361,113	104,631	-
Accrued interest payable	43,809	-	43,809	-	-
Current portion of long-term liabilities	1,237,348	337,208	1,574,556	-	-
Distribution payable	-	-	-	145,171	-
Payable from restricted assets	83,775	277,557	361,332	-	-
Total current liabilities	1,600,295	740,515	2,340,810	249,802	-
Long-term liabilities:					
Net pension liability - LGERS	2,851,983	1,054,844	3,906,827	-	-
Total pension liability - LEOSSA	1,636,920	-	1,636,920	-	-
Total OPEB liability	3,934,424	1,456,050	5,390,474	-	-
Due in more than one year	7,768,393	2,834,339	10,602,732	-	-
Total long-term liabilities	16,191,720	5,345,233	21,536,953	-	-
Total liabilities	17,792,015	6,085,748	23,877,763	249,802	-
Deferred Inflows of Resources:					
OPEB deferrals	415,951	153,702	569,653	-	-
Pension deferrals	109,193	32,796	141,989	-	-
Total deferred inflows of resources	525,144	186,498	711,642	-	-
Net Position:					
Net investment in capital assets	19,883,409	19,821,536	39,704,945	569,786	-
Restricted for:					
Stabilization by state statute	1,239,641	-	1,239,641	-	9,967
Streets	1,906,801	-	1,906,801	-	-
Public safety	503,959	-	503,959	-	-
Capacity fees	-	3,466,308	3,466,308	-	-
Working capital	-	-	-	89,747	-
Tourism	-	-	-	-	233,328
Unrestricted	8,784,646	12,539,762	21,324,408	507,976	-
Total net position	\$ 32,318,456	\$ 35,827,606	\$ 68,146,062	\$ 1,167,509	\$ 243,295

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

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2021

		Program Revenues		
		Charges for	Operating	Capital
	Expenses	Services	Grants and	Grants and
			Contributions	Contributions
Function/Programs:				
Primary Government:				
Governmental Activities:				
General government	\$ 2,046,741	\$ 70,546	\$ 14,256	\$ -
Public safety	6,981,905	-	142,641	-
Planning and zoning	428,327	-	-	-
Transportation and environmental protection	2,382,075	893,916	12,004	468,258
Garage	118,984	-	-	-
Culture and recreation	817,849	52,845	-	-
Interest on long-term debt	311,994	-	-	-
Total governmental activities	<u>13,087,875</u>	<u>1,017,307</u>	<u>168,901</u>	<u>468,258</u>
Business-Type Activities:				
Water and Sewer	<u>7,859,669</u>	<u>10,684,091</u>	<u>116,336</u>	<u>-</u>
Total primary government	<u>\$ 20,947,544</u>	<u>\$ 11,701,398</u>	<u>\$ 285,237</u>	<u>\$ 468,258</u>
Component Units:				
ABC Board	\$ 2,966,046	\$ 3,027,252	\$ -	\$ -
Tourism Development Authority	<u>47,225</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total component units	<u>\$ 3,013,271</u>	<u>\$ 3,027,252</u>	<u>\$ -</u>	<u>\$ -</u>

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

CITY OF MOUNT HOLLY, NORTH CAROLINA

Exhibit B
Page 2 of 2STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2021

	Net (Expense) Revenue and Changes in Net Position			Component Units	
	Primary Government			City of Mount Holly ABC Board	Mount Holly Tourism Development Authority
	Governmental Activities	Business-Type Activities	Total		
Function/Programs:					
Primary Government:					
Governmental Activities:					
General government	\$ (1,961,939)	\$ -	\$ (1,961,939)		
Public safety	(6,839,264)	-	(6,839,264)		
Planning and zoning	(428,327)	-	(428,327)		
Transportation and environmental protection	(1,007,897)	-	(1,007,897)		
Garage	(118,984)	-	(118,984)		
Culture and recreation	(765,004)	-	(765,004)		
Interest on long-term debt	(311,994)	-	(311,994)		
Total governmental activities	(11,433,409)	-	(11,433,409)		
Business-Type Activities:					
Water and sewer	-	2,940,758	2,940,758		
Total primary government	(11,433,409)	2,940,758	(8,492,651)		
Component Units:					
ABC Board				\$ 61,206	\$ -
Tourism Development Authority				-	(47,225)
Total component units				61,206	(47,225)
General Revenues:					
Taxes:					
Property taxes, levied for general purposes	8,779,118	-	8,779,118	-	-
Other taxes and licenses	4,746,492	-	4,746,492	-	91,620
Unrestricted investment earnings	6,771	-	6,771	2,974	-
Miscellaneous	174,157	-	174,157	-	-
Total general revenues	13,706,538	-	13,706,538	2,974	91,620
Change in net position	2,273,129	2,940,758	5,213,887	64,180	44,395
Net Position:					
Beginning of year - July 1	30,045,327	32,886,848	62,932,175	1,103,329	198,900
End of year - June 30	\$ 32,318,456	\$ 35,827,606	\$ 68,146,062	\$ 1,167,509	\$ 243,295

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

CITY OF MOUNT HOLLY, NORTH CAROLINA

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2021

	<u>Major Fund</u> <u>General</u> <u>Fund</u>	<u>Total</u> <u>Nonmajor</u> <u>Governmental</u> <u>Funds</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
Assets:			
Cash and cash equivalents	\$ 14,200,104	\$ 1,814,913	\$ 16,015,017
Receivables, net:			
Taxes receivable	123,147	-	123,147
Accounts receivable	178,500	-	178,500
Due from other governments	1,061,141	-	1,061,141
Prepays	88,809	-	88,809
Inventories	65,310	-	65,310
Restricted cash and cash equivalents	2,121,790	-	2,121,790
Total assets	<u>\$ 17,838,801</u>	<u>\$ 1,814,913</u>	<u>\$ 19,653,714</u>
Liabilities, Deferred Inflows of Resources, and Fund Balances:			
Liabilities:			
Accounts payable and accrued liabilities	\$ 235,363	\$ -	\$ 235,363
Payable from restricted assets:			
Deposits	83,775	-	83,775
Total liabilities	<u>319,138</u>	<u>-</u>	<u>319,138</u>
Deferred Inflows of Resources:			
Unavailable revenue - property taxes receivable	<u>123,147</u>	<u>-</u>	<u>123,147</u>
Fund Balances:			
Inventories			
Non-spendable:			
Inventories	65,310	-	65,310
Prepaid items	88,809	-	88,809
Restricted:			
Stabilization by state statute	1,239,641	-	1,239,641
Streets	1,906,801	-	1,906,801
Public safety	131,214	372,745	503,959
Committed	1,072,593	1,442,168	2,514,761
Assigned	2,003,356	-	2,003,356
Unassigned	10,888,792	-	10,888,792
Total fund balances	<u>17,396,516</u>	<u>1,814,913</u>	<u>19,211,429</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 17,838,801</u>	<u>\$ 1,814,913</u>	<u>\$ 19,653,714</u>

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

CITY OF MOUNT HOLLY, NORTH CAROLINA

**BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2021**

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

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

Total fund balance - governmental funds		\$ 19,211,429
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Gross capital assets at historical cost	\$ 41,182,541	
Accumulated depreciation	<u>(12,697,214)</u>	28,485,327
Liabilities for earned revenues considered deferred inflows of resources in fund statements.		123,147
Long-term liabilities used in governmental activities are not financial uses and, therefore, are not reported in the funds.		
Accrued interest payable	(43,809)	
Gross long-term debt	<u>(9,005,741)</u>	(9,049,550)
Total pension liability - LEOSA		(1,636,920)
Total OPEB liability		(3,934,424)
Deferred outflows of resources related to OPEB are not reported in the funds.		473,404
Deferred inflows of resources related to OPEB are not reported in the funds.		(415,951)
Net pension liability - LGERS		(2,851,983)
Deferred outflows of resources related to pensions are not reported in the funds.		2,023,170
Deferred inflows of resources related to pensions are not reported in the funds.		<u>(109,193)</u>
Net position of governmental activities (Exhibit A)		<u><u>\$ 32,318,456</u></u>

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

CITY OF MOUNT HOLLY, NORTH CAROLINA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2021

	Major Fund	Total	Total
	General	Nonmajor	Total
	Fund	Governmental	Governmental
		Funds	Funds
Revenues:			
Ad valorem taxes	\$ 8,821,232	\$ -	\$ 8,821,232
Other taxes and licenses	218,929	-	218,929
Unrestricted intergovernmental	4,527,563	-	4,527,563
Restricted intergovernmental	802,466	295,517	1,097,983
Permits and fees	964,462	-	964,462
Sales and services	52,845	-	52,845
Investment earnings	6,420	351	6,771
Miscellaneous	267,468	-	267,468
Total revenues	<u>15,661,385</u>	<u>295,868</u>	<u>15,957,253</u>
Expenditures:			
Current:			
General government	1,910,763	4,685	1,915,448
Public safety	5,497,857	100,325	5,598,182
Planning and zoning	417,283	-	417,283
Transportation and environmental protection	2,073,710	-	2,073,710
Garage	103,006	-	103,006
Culture and recreation	1,453,980	-	1,453,980
Debt service:			
Principal	1,061,819	-	1,061,819
Interest and fees	275,626	41,726	317,352
Total expenditures	<u>12,794,044</u>	<u>146,736</u>	<u>12,940,780</u>
Net change in fund balances	2,867,341	149,132	3,016,473
Fund Balances:			
Beginning of year - July 1	<u>14,529,175</u>	<u>1,665,781</u>	<u>16,194,956</u>
End of year - June 30	<u>\$ 17,396,516</u>	<u>\$ 1,814,913</u>	<u>\$ 19,211,429</u>

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

CITY OF MOUNT HOLLY, NORTH CAROLINA

**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2021**

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

Net changes in fund balances - total governmental funds	\$ 3,016,473
---	--------------

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital outlay expenditures, which were capitalized	\$ 916,051	
Disposal of assets, net	(684)	
Depreciation expense for governmental assets	<u>(1,481,096)</u>	(565,729)

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	(42,114)	
Change in unavailable revenue for other receivables	<u>(553,451)</u>	(595,565)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Principal payments on long-term debt	<u>1,061,819</u>	1,061,819
--------------------------------------	------------------	-----------

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	56,912	
Accrued interest expense	5,358	
LEOSSA pension expense	(71,308)	
Pension expense - LGERS	(443,527)	
Other post-employment benefits obligation	<u>(191,304)</u>	<u>(643,869)</u>

Total changes in net position of governmental activities (Exhibit B)	<u>\$ 2,273,129</u>
--	---------------------

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

CITY OF MOUNT HOLLY, NORTH CAROLINA

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2021

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget Over/Under
Revenues:				
Ad valorem taxes	\$ 6,906,094	\$ 6,906,094	\$ 8,821,232	\$ 1,915,138
Other taxes and licenses	140,000	140,000	218,929	78,929
Unrestricted intergovernmental	3,126,552	3,126,552	4,527,563	1,401,011
Restricted intergovernmental	320,000	342,000	802,466	460,466
Permits and fees	849,375	849,375	964,462	115,087
Sales and services	68,000	68,000	52,845	(15,155)
Investment earnings	201,000	201,000	6,420	(194,580)
Miscellaneous	216,636	216,636	267,468	50,832
Total revenues	<u>11,827,657</u>	<u>11,849,657</u>	<u>15,661,385</u>	<u>3,811,728</u>
Expenditures:				
Current:				
General government	2,338,569	2,143,855	1,910,763	233,092
Public safety	5,635,406	5,765,019	5,497,857	267,162
Planning and zoning	451,900	501,875	417,283	84,592
Transportation and environmental protection	2,699,759	2,794,765	2,073,710	721,055
Garage	106,980	115,980	103,006	12,974
Culture and recreation	1,071,150	1,939,372	1,453,980	485,392
Debt service:				
Principal	874,918	1,061,819	1,061,819	-
Interest and fees	213,383	262,910	275,626	(12,716)
Total expenditures	<u>13,392,065</u>	<u>14,585,595</u>	<u>12,794,044</u>	<u>1,791,551</u>
Revenues over (under) expenditures	<u>(1,564,408)</u>	<u>(2,735,938)</u>	<u>2,867,341</u>	<u>5,603,279</u>
Other Financing Sources (Uses):				
Proceeds from property disposal	255,000	255,000	-	(255,000)
Fund balance appropriated	1,309,408	2,480,938	-	(2,480,938)
Total other financing sources (uses)	<u>1,564,408</u>	<u>2,735,938</u>	<u>-</u>	<u>(2,735,938)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>2,867,341</u>	<u>\$ 2,867,341</u>
Fund Balance:				
Beginning of year - July 1			<u>14,529,175</u>	
End of year - June 30			<u>\$ 17,396,516</u>	

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

CITY OF MOUNT HOLLY, NORTH CAROLINA

STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2021

	<u>Enterprise Fund</u> <u>Major Fund</u> <u>Water and</u> <u>Sewer</u> <u>Fund</u>
Assets:	
Current assets:	
Cash and cash equivalents	\$ 12,968,587
Accounts receivable, net	1,678,028
Inventories	69,009
Restricted assets:	
Cash and cash equivalents	3,743,865
Total current assets	<u>18,459,489</u>
Non-current assets:	
Capital assets:	
Land and other non-depreciable assets	2,409,734
Other capital assets, net of depreciation	20,497,248
Total non-current assets	<u>22,906,982</u>
Total assets	<u>41,366,471</u>
Deferred Outflows of Resources:	
OPEB deferrals	161,566
Contributions - OPEB	13,261
Pension deferrals	558,554
Total deferred outflows of resources	<u>733,381</u>
Liabilities, Deferred Inflows of Resources, and Net Position:	
Liabilities:	
Current liabilities:	
Accounts payable and accrued liabilities	125,750
Compensated absences - current	34,441
Other long-term debt - current	302,767
Payable from restricted assets:	
Customer deposits	277,557
Total current liabilities	<u>740,515</u>
Non-current liabilities:	
Net pension liability - LGERS	1,054,844
Compensated absences	51,660
Total OPEB liability	1,456,050
Other long-term debt - non-current	2,782,679
Total non-current liabilities	<u>5,345,233</u>
Total liabilities	<u>6,085,748</u>
Deferred Inflows of Resources:	
OPEB deferrals	153,702
Pension deferrals	32,796
Total deferred inflows of resources	<u>186,498</u>
Net Position:	
Net investment in capital assets	19,821,536
Restricted	3,466,308
Unrestricted	12,539,762
Total net position	<u>\$ 35,827,606</u>

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

CITY OF MOUNT HOLLY, NORTH CAROLINA

STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET POSITION - PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2021

	Enterprise Fund Major Fund Water and Sewer Fund
Operating Revenues:	
Charges for services	\$ 8,569,961
Water and sewer taps and development fees	1,882,570
Other operating revenues	149,639
Total operating revenues	<u>10,602,170</u>
Operating Expenses:	
Utility Admin	1,902,552
Water department operations	879,863
Sewer department operations	1,011,286
Storm water operations	227,532
Utilities operations	2,167,305
Utility Admin IT	96,367
Utility Admin Maintenance	332,031
Depreciation	1,159,233
Total operating expenses	<u>7,776,169</u>
Operating income (loss)	<u>2,826,001</u>
Non-Operating Revenues (Expenses):	
Non-capital grants	116,336
Rental income	81,921
Interest expense	(83,500)
Total non-operating revenues (expenses)	<u>114,757</u>
Change in net position	2,940,758
Net Position:	
Beginning of year - July 1	<u>32,886,848</u>
End of year - June 30	<u>\$ 35,827,606</u>

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

CITY OF MOUNT HOLLY, NORTH CAROLINA

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2021

	<u>Enterprise Fund</u> <u>Major Fund</u> <u>Water and</u> <u>Sewer</u> <u>Fund</u>
Cash Flows from Operating Activities:	
Cash received from customers	\$ 10,007,156
Cash paid for goods and services	(3,977,995)
Cash paid to or on behalf of employees for services	(2,490,762)
Customer deposits received (paid)	17,034
Net cash provided (used) by operating activities	<u>3,555,433</u>
Cash Flows from Non-Capital Financing Activities:	
Non-capital grants	116,336
Rental income	81,921
Net cash provided (used) by non-capital financing activities	<u>198,257</u>
Cash Flows from Capital and Related Financing Activities:	
Acquisition and construction of capital assets	(2,141,418)
Principal paid on long-term debt	(299,867)
Interest paid on long-term debt	(83,500)
Net cash provided (used) by capital and related financing activities	<u>(2,524,785)</u>
Net increase (decrease) in cash and cash equivalents	1,228,905
Cash and Cash Equivalents:	
Beginning of year - July 1	<u>15,483,547</u>
End of year - June 30	<u>\$ 16,712,452</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities :	
Operating income (loss)	<u>\$ 2,826,001</u>
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	1,159,233
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	(595,014)
(Increase) decrease in inventory	(4,713)
(Increase) decrease in deferred outflows of resources for pensions	(85,336)
Increase (decrease) in deferred inflows of resources for pensions	(2,491)
Increase (decrease) in net pension liability - LGERS	251,870
Increase (decrease) in accounts payable and accrued liabilities	(90,106)
Increase (decrease) in customer deposits	17,034
Increase (decrease) in OPEB liability	198,903
(Increase) decrease in deferred outflows of resources - OPEB	(110,189)
Increase (decrease) in deferred inflows of resources - OPEB	(17,957)
Increase (decrease) in compensated absences	8,198
Total adjustments	<u>729,432</u>
Net cash provided (used) by operating activities	<u>\$ 3,555,433</u>

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

This page left blank intentionally.

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

1. Summary of Significant Accounting Policies

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

A. Reporting Entity

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

City of Mount Holly ABC Board

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

Mount Holly Tourism Development Authority

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

B. Basis of Presentation

Government-wide Statements. The Statement of Net Position and the Statement of Activities display information about the primary government and its component units. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

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

Fund Financial Statements. The fund financial statements provide information about the City's funds. Separate statements for each fund category – *governmental and proprietary* – are presented. The City has no fiduciary funds to report. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as non-major funds.

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

The City reports the following major governmental fund:

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

The City reports the following nonmajor governmental funds:

Special Revenue Funds

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

Coronavirus Relief Fund. This fund accounts for federal CRF grant funds that are restricted for use for a particular purpose.

Capital Project Funds

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

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

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

The City reports the following major Enterprise Fund:

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

General capital asset acquisitions are reported as expenditures in governmental funds. Issuances of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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

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

D. Budgetary Data

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

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

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

All amendments must be approved by the governing board, except as otherwise noted by Section 4 of the budget ordinance. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

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

Deposits and Investments

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

State law [G.S. 159-30(c)] authorizes the City and the Authority to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States, obligations of the State of North Carolina, bonds and notes of any North Carolina local government or public authority, obligations of certain non-guaranteed federal agencies, certain high quality issues of commercial paper and bankers' acceptances, and the North Carolina Capital Management Trust (NCCMT). The City's and the Authority's investments are generally reported at fair value. The NCCMT Government Portfolio, an SEC-registered (2a-7) money market mutual fund, 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 6 months.

Cash and Cash Equivalents

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

Restricted Assets

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

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

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

Governmental Activities:

General Fund:

Drug forfeiture	\$ 131,214
Powell Bill	1,906,801
Customer deposits	<u>83,775</u>
Total governmental activities	<u>2,121,790</u>

Business-Type Activities:

Water & Sewer Fund:

Customer deposits	277,557
Capital reserve - system development fees	<u>3,466,308</u>
Total business-type activities	<u>3,743,865</u>

Total restricted cash	<u><u>\$ 5,865,655</u></u>
-----------------------	----------------------------

Ad Valorem Taxes Receivable

In accordance with state law [G.S. 105-347 and G.S. 159-13(a)], the City levies ad valorem taxes on property other than motor vehicles on July 1st, the beginning of the fiscal year. The taxes are due on September 1st (lien date); however, interest does not accrue until the following January 6th. These taxes are based on the assessed values as of January 1, 2020.

Allowances for Doubtful Accounts

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

Inventories and Prepaid Items

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

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

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

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

Capital Assets

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

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

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

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The City has three items that meet this criteria, OPEB deferrals, OPEB contributions, and pension deferrals for the 2021 fiscal year. In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The City has two items that meet the criteria for this category, OPEB deferrals and pension deferrals, on the Statement of Net Position, and one item, unavailable revenue for property taxes receivable on the governmental balance sheet.

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method that approximates the effective interest method. Bonds payable are reported net of the applicable bond premiums or discount. Bond issuance costs, except for prepaid insurance costs, are expensed in the reporting period in which they are incurred. Prepaid insurance costs are expensed over the life of the debt.

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

Compensated Absences

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

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

Net Position/Fund Balances

Net Position

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

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

Fund Balances

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

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

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

Prepaid Items – portion of fund balance that is not an available resource because it represents the year-end balance of prepaid items that are cost applicable to future accounting periods and are expensed when used, which are not spendable resources.

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

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

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

Restricted for Public Safety – in the General Fund, the portion of fund balance restricted by revenue source (drug forfeiture) for public safety purposes, \$131,214. In the Special Revenue Fund, the restricted fund balance represents the fund balance of the Emergency Telephone System Fund for operations of that fund, \$372,745.

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

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

Committed for General Government – portion of fund balance in the Capital Reserve Fund committed for future purposes in the amount of \$1,209,535. Portion of fund balance in the Capital Projects Fund maintained in the fund for upcoming governmental projects, \$232,633. Portion of fund balance in the General Fund for annual debt service payments in the amount of \$1,072,593.

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

Subsequent Year's Expenditures – portion of fund balance, \$762,959, that is appropriated in the next year's budget that is not already classified in restricted or committed. The governing body approves the appropriation.

Cultural and Recreational – portion of fund balance, \$1,240,397, that is designated by management and Council for future expenditures of this function. Of this amount, \$903,803 is assigned for parks and recreational expenditures received from ABC funds, and \$336,594 is assigned for the Greenway project expenditures received from Caromont funds.

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

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

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

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

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	\$ 17,396,516
Less:	
Inventories	65,310
Prepays	88,809
Stabilization by state statute	<u>1,239,641</u>
Total available fund balance	<u>\$ 16,002,756</u>

F. Defined Benefit Cost-Sharing Plans

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

G. Revenues, Expenditures, and Expenses

Other Resources

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

Cost Allocation

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

H. Accounting Estimates

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

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

2. Detail Notes On All Funds

A. Assets

Deposits

All the deposits of the City and the Authority are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the City's or the Authority's agents in these units' names. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the City and the Authority, these deposits are considered to be held by the City's and the Authority's agents in their names. The amount of the pledged collateral is based on an approved averaging method for non-interest-bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the City, the Authority, or the escrow agents. Because of the inability to measure the exact amounts of collateral pledged for the City and the Authority under the Pooling Method, the potential exists for under-collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The City has no formal policy regarding custodial credit risk for deposits but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The City complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured. The Authority has no formal policy regarding custodial credit risk for deposits.

At June 30, 2021, the City's deposits had a carrying amount of \$4,004,659 and a bank balance of \$4,470,518. Of the bank balance, \$500,000 was covered by federal depository insurance and the remainder of \$3,970,518 was covered by collateral held under the Pooling Method.

The carrying amount of deposits for the Authority was \$233,328, and the bank balance was \$233,328. All of the bank balance was covered by federal depository insurance.

At June 30, 2021, the City's petty cash fund totaled \$300.

Investments

At June 30, 2021, the City had \$30,844,300 invested with the North Carolina Capital Management Trust's Government Portfolio, which carried a credit rating of AAAM by Standard and Poor's and AAA-mf by Moody's Investors Service. The City has no policy regarding interest rate risk or credit risk.

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

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

Credit Risk. The City has no formal policy regarding credit risk but has internal management procedure that limits the City's investments to the provisions of G.S. 159-30 and restricts the purchase of securities to the highest possible ratings whenever particular types of securities are rated. The City's investment in the NC Capital Management Trust- Government Portfolio carried a credit rating of AAAm by Standard & Poor's and AAA-mf Moody's Investors Service as of June 30, 2021.

Receivables – Allowance for Doubtful Accounts

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

General Fund:

Taxes receivable	\$ 294,615
Accounts receivable	44,903
Total General Fund	<u>339,518</u>

Enterprise Funds:

Water and Sewer Fund	<u>399,419</u>
Total allowances	<u>\$ 738,937</u>

Due from other governments on the Statement of Net Position as of June 30, 2021 consists of:

Governmental Activities:

Other state shared revenues	\$ 220,108
Local option sales tax and franchise	570,058
Sales tax refund	178,870
Due from the state - MV	92,105
Total governmental funds	<u>\$ 1,061,141</u>

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

Capital Assets

Primary Government

Capital asset activity for the primary government for the year ended June 30, 2021 was as follows:

	<u>July 1, 2020</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>June 30, 2021</u>
Governmental Activities:					
Non-Depreciable Capital Assets:					
Land	\$ 7,954,365	\$ 496,471	\$ -	\$ -	\$ 8,450,836
Construction in progress	62,398	267,110	-	(305,478)	24,030
Total non-depreciable capital assets	<u>8,016,763</u>	<u>763,581</u>	<u>-</u>	<u>(305,478)</u>	<u>8,474,866</u>
Depreciable Capital Assets:					
Buildings	18,934,887	31,301	-	305,478	19,271,666
Infrastructure	4,723,748	-	-	-	4,723,748
Improvements	762,864	-	-	-	762,864
Office furniture, equipment, and computer equipment	351,565	-	-	-	351,565
Other equipment	1,982,281	81,492	-	-	2,063,773
Vehicles	5,543,092	39,677	48,710	-	5,534,059
Total depreciable capital assets	<u>32,298,437</u>	<u>152,470</u>	<u>48,710</u>	<u>305,478</u>	<u>32,707,675</u>
Less Accumulated Depreciation:					
Buildings	3,021,727	881,188	-	-	3,902,915
Infrastructure	1,176,373	104,281	-	-	1,280,654
Improvements	525,601	21,645	-	-	547,246
Office furniture, equipment, and computer equipment	254,056	22,300	-	-	276,356
Other equipment	1,469,173	109,422	-	-	1,578,595
Vehicles	4,817,214	342,260	48,026	-	5,111,448
Total accumulated depreciation	<u>11,264,144</u>	<u>\$ 1,481,096</u>	<u>\$ 48,026</u>	<u>\$ -</u>	<u>12,697,214</u>
Total depreciable capital assets, net	<u>21,034,293</u>				<u>20,010,461</u>
Governmental activities capital assets, net	<u>\$ 29,051,056</u>				<u>\$ 28,485,327</u>

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

General government	\$ 68,478
Public safety	1,075,694
Planning and zoning	1,321
Transportation and environmental protection	242,583
Garage	11,866
Cultural and recreational	81,154
Total	<u>\$ 1,481,096</u>

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

Business-Type Activities

Capital asset activity of the business-type activities for the year ended June 30, 2021 was as follows:

	<u>July 1, 2020</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>June 30, 2021</u>
Business-Type Activities:					
Water and Sewer Fund:					
Non-Depreciable					
Capital Assets:					
Land	\$ 569,712	\$ -	\$ -	\$ -	\$ 569,712
Construction in progress	<u>278,036</u>	<u>1,907,127</u>	<u>-</u>	<u>(345,141)</u>	<u>1,840,022</u>
Total non-depreciable capital assets	<u>847,748</u>	<u>1,907,127</u>	<u>-</u>	<u>(345,141)</u>	<u>2,409,734</u>
Depreciable Capital Assets:					
Plant and distribution systems	26,863,028	-	-	-	26,863,028
Buildings	18,370,559	9,458	-	345,141	18,725,158
Building improvements	239,835	7,400	-	-	247,235
Vehicles	671,781	32,263	8,258	-	695,786
FFC and other equipment	3,011,162	168,995	-	-	3,180,157
Land improvements	381,297	16,175	-	-	397,472
Operating manuals	<u>16,087</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,087</u>
Total depreciable capital assets	<u>49,553,749</u>	<u>234,291</u>	<u>8,258</u>	<u>345,141</u>	<u>50,124,923</u>
Less Accumulated					
Depreciation:					
Plant and distribution systems	13,598,670	605,832	-	-	14,204,502
Buildings	11,799,856	377,441	-	-	12,177,297
Building improvements	15,066	13,309	-	-	28,375
Vehicles	569,665	34,093	8,258	-	595,500
FFC and other equipment	2,438,259	120,743	-	-	2,559,002
Land improvements	39,097	7,815	-	-	46,912
Operating manuals	<u>16,087</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,087</u>
Total accumulated depreciation	<u>28,476,700</u>	<u>\$ 1,159,233</u>	<u>\$ 8,258</u>	<u>\$ -</u>	<u>29,627,675</u>
Total depreciable capital assets, net	<u>21,077,049</u>				<u>20,497,248</u>
Water and Sewer Fund capital assets, net	<u>\$ 21,924,797</u>				<u>\$ 22,906,982</u>

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

Construction Commitments

The government has active construction projects as of June 30, 2021. At year-end, the government's commitments with contractors are as follows:

<u>Project</u>	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
Greenway Project	\$ 1,525,095	\$ 860,641
Dutchman's Creek	1,829,461	670,539
South Gateway	10,561	4,699,439
Total	<u>\$ 3,365,117</u>	<u>\$ 6,230,619</u>

B. Liabilities

Payables

Payables at the government-wide level at June 30, 2021 were as follows:

	<u>Vendors</u>	<u>Salaries and Benefits</u>	<u>Total</u>
Governmental Activities:			
General Fund	<u>\$ 73,056</u>	<u>\$ 162,307</u>	<u>\$ 235,363</u>
Business-Type Activities:			
Water and sewer	<u>\$ 72,607</u>	<u>\$ 53,143</u>	<u>\$ 125,750</u>

Pension Plan and Other Post-Employment Obligations

Local Governmental Employees' Retirement System

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

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

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

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

Contributions. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. City employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The City's contractually required contribution rate for the year ended June 30, 2021, was 10.84% of compensation for law enforcement officers and 10.21% for general employees and firefighters, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the City were \$702,481 for the year ended June 30, 2021.

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

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

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

At June 30, 2021, the City reported a liability of \$3,906,827 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2019. The total pension liability was then rolled forward to the measurement date of June 30, 2020 utilizing update procedures incorporating the actuarial assumptions. The City's proportion of the net pension liability was based on a projection of the City's long-term share of future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2020 (measurement date), the City's proportion was 0.109%, which was an increase of 0.0004% from its proportion measured as of June 30, 2019.

For the year ended June 30, 2021, the City recognized pension expense of \$1,310,051. At June 30, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 493,364	\$ -
Changes of assumptions	290,745	-
Net difference between projected and actual earnings on pension plan investments	549,781	-
Changes in proportion and differences between City contributions and proportionate share of contributions	16,957	59,898
City contributions subsequent to the measurement date	702,481	-
Total	<u>\$ 2,053,328</u>	<u>\$ 59,898</u>

\$702,481 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ending June 30, 2022.

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

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

<u>Year Ending June 30</u>	<u>Amount</u>
2022	\$ 349,530
2023	487,446
2024	291,266
2025	162,707
2026	-
Thereafter	-
Total	<u>\$ 1,290,949</u>

Actuarial Assumptions. The total pension liability in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
	3.50 to 8.10 percent, including inflation and
Salary increases	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, 2019 valuation, with the exception of the discount rate, 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.

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

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

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

The information above is based on 30-year expectations developed with the consulting actuary for the 2020 asset, liability and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.00%. All rates of return and inflation are annualized.

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

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

	<u>1% Decrease (6.0%)</u>	<u>Discount Rate (7.0%)</u>	<u>1% Increase (8.0%)</u>
City's proportionate share of the net pension liability (asset)	<u>\$ 7,926,526</u>	<u>\$ 3,906,827</u>	<u>\$ 566,174</u>

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

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

Law Enforcement Officers Special Separation Allowance

Plan Description. The City of Mount Holly administers a public employee retirement system (the "Separation Allowance"), a single employer defined benefit pension plan that provides retirement benefits to the City's qualified sworn law enforcement officers under the age of 62 who have completed at least 30 years of creditable service or have attained 55 years of age and have completed five or more years of creditable service. The Separation Allowance is equal to 0.85% of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. A separate report was not issued for the Plan.

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

At December 31, 2019, the valuation date, the Separation Allowance's membership consisted of:

Retirees receiving benefits	3
Active plan members	<u>32</u>
Total	<u><u>35</u></u>

Summary of Significant Accounting Policies

Basis of Accounting. The City has chosen to fund the Separation Allowance on a pay as you go basis. Pension expenditures are made from the General Fund, which is maintained on the modified accrual basis of accounting. Benefits 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 normal actuarial cost method was used in the December 31, 2019 valuation. The total pension liability in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 percent
Salary increases	3.25 to 7.75 percent, including inflation and productivity factor
Discount rate	1.93 percent

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

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

The actuarial assumptions used in the December 31, 2019 valuation were based on the results of an experience study completed by the Actuary for the Local Government Employees' Retirement System for the five-year period ending December 31, 2019.

Mortality Assumption: All mortality rates use Pub-2010 amount-weighted tables.

Mortality Projection: All mortality rates are projected from 2010 using generational improvement with Scale MP-2019.

Deaths After Retirement (Healthy): Mortality rates are based on the Safety Mortality Table for Retirees. Rates for all members are multiplied by 97% and Set Forward by 1 year.

Deaths After Retirement (Disabled Members at Retirement): Mortality rates are based on the Non-Safety Mortality Table for Disabled Retirees. Rates are Set Back 3 years for all ages.

Deaths After Retirement (Survivors of Deceased Members): Mortality rates are based on the Below-median Teachers Mortality Table for Contingent Survivors. Rates for male members are Set Forward 3 years. Rates for female members are Set Forward 1 year. Because the contingent survivor tables have no rates prior to age 45, the Below-median Teachers Mortality Table for Employees is used for ages less than 45.

Deaths Prior to Retirement: Mortality rates are based on the Safety Mortality Table for Employees.

Contributions. The City is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the amounts necessary to cover the benefits earned on a pay as you go basis through appropriations made in the General Fund operation budget. There were no contributions made by the employees. The City's obligation to contribute to this Plan is established and may be amended by the North Carolina General Assembly. Administration costs of the Separation Allowance are financed through investment earnings. The City paid \$67,353 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, 2021, the City reported a total pension liability of \$1,636,920. The total pension liability was measured as of December 31, 2020 based on a December 31, 2019 actuarial valuation. The total pension liability was rolled forward to December 31, 2020 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2021, the City recognized pension expense of \$148,218.

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 63,918	\$ 56,559
Changes of assumptions	422,159	25,532
City benefit payments and plan administrative expense made subsequent to the measurement date	<u>42,319</u>	<u>-</u>
Total	<u><u>\$ 528,396</u></u>	<u><u>\$ 82,091</u></u>

\$42,319 paid as benefits came due subsequent to the measurement date have been reported as deferred outflows of resources and will be recognized as a decrease of the total pension liability in the year ending June 30, 2022. Other amounts reported as deferred inflows and outflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30	Amount
2022	\$ 62,419
2023	64,716
2024	70,929
2025	84,620
2026	78,769
Thereafter	<u>42,533</u>
Total	<u><u>\$ 403,986</u></u>

Sensitivity of the City's Total Pension Liability to Changes in the Discount Rate. The following presents the City's total pension liability calculated using the discount rate of 1.93%, as well as what the City's total pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (0.93%) or 1-percentage-point higher (2.93%) than the current rate:

	1% Decrease (0.93%)	Current Discount Rate (1.93%)	1% Increase (2.93%)
Total pension liability	<u><u>\$ 1,781,824</u></u>	<u><u>\$ 1,636,920</u></u>	<u><u>\$ 1,504,343</u></u>

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

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

	<u>2021</u>
Beginning balance	\$ 1,103,327
Service cost	50,928
Interest on the total pension liability	34,871
Difference between expected and actual experience in the measurement of the total pension liability	69,533
Changes of assumptions and other inputs	445,614
Benefit payments	<u>(67,353)</u>
Ending balance of the total pension liability	<u>\$ 1,636,920</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, 2019 valuation were based on the results of an actuarial experience study completed by the Actuary for the Local Governmental Employees' Retirement System for the five-year period ending December 31, 2019.

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

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

	<u>LGERS</u>	<u>LEOSSA</u>	<u>Total</u>
Proportionate share of net pension liability (asset)	0.1093%	n/a	-
Pension liability	\$ 3,906,827	\$ 1,636,920	\$ 5,543,747
Pension expense	1,310,051	148,218	1,458,269

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

	<u>LGERS</u>	<u>LEOSSA</u>	<u>Total</u>
Deferred Outflows of Resources			
Pensions - difference between expected and actual experience	\$ 493,364	\$ 63,918	\$ 557,282
Net difference between projected and actual investment earnings	549,781	-	549,781
Changes of assumptions	290,745	422,159	712,904
Pensions - change in proportion and differences between employer contributions and proportionate share of contributions	16,957	-	16,957
Benefit payments and administration costs subsequent to the measurement date	<u>702,481</u>	<u>42,319</u>	<u>744,800</u>
Total	<u><u>\$ 2,053,328</u></u>	<u><u>\$ 528,396</u></u>	<u><u>\$ 2,581,724</u></u>
Deferred Inflows of Resources			
Pensions - difference between expected and actual experience	\$ -	\$ 56,559	\$ 56,559
Changes of assumptions	-	25,532	25,532
Pensions - change in proportion and differences between employer contributions and proportionate share of contributions	<u>59,898</u>	<u>-</u>	<u>59,898</u>
Total	<u><u>\$ 59,898</u></u>	<u><u>\$ 82,091</u></u>	<u><u>\$ 141,989</u></u>

Supplemental Retirement Income Plan for Law Enforcement Officers

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

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

The City made contributions of \$83,200 for the reporting year. No amounts were forfeited.

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

Supplemental Retirement Income Plan – Employees Other Than Law Enforcement Officers

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

The City made contributions of \$251,568 for the reporting year. No amounts were forfeited.

Other Post-Employment Benefits

Healthcare Benefits

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

Benefits Provided. Non-executive employees hired on or before June 8, 2009 and participate in the North Carolina Local Governmental Employees' Retirement System ("NCLGERS") are eligible for retiree medical health care benefits sponsored by the City. Executive level employees are eligible for coverage regardless of their hire date. These individuals must have at least 10 years of credited, continuous service to the City and retire from the City.

Pre-Medicare retirees receive the same medical plan option offered to active employees, with the exception of dependent coverage. Upon reaching Medicare eligibility, retirees as well as active employees; are removed from the City's employee medical plan and given a monthly stipend.

For non-executive level employees, the City pays the following amount of the single medical premium.

- 25% of the premium for retirees with between 10 and 14 years of continuous service at retirement,
- 50% of the premium for retirees with between 15 and 19 years of continuous service at retirement,
- 75% of the premium for retirees with between 20 and 24 years of continuous service at retirement,
- 100% of the premium for retirees with 25 or more years of continuous service at retirement.

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

For executive level employees, the City pays the following amount of the single medical premium.

- 0% of the premium for retirees with between 10 and 14 years of continuous service at retirement,
- 50% of the premium for retirees with between 15 and 19 years of continuous service at retirement,
- 75% of the premium for retirees with between 20 and 24 years of continuous service at retirement,
- 100% of the premium for retirees with 25 or more years of continuous service at retirement.

At the age of 65, the City removes the retiree from the employee plan and gives the retiree a monthly amount equal to the employee-only coverage so that they may purchase any Medicare supplement of their choosing. Per prior agreement, the City pays 100% of the premium for one retiree even though that retiree had less than 25 years of service at retirement. Retiree coverage ends upon the earlier of the death of the retiree or ceasing payment of retiree contributions. Dependent coverage for Pre-Medicare retirees is available but is not paid for or reimbursed by the City. Dependents must pay the entire premium for such coverage. Dependent coverage ceases upon the earlier of the death of the retiree or ceasing payment of dependent contributions. The City Council may amend the benefit provisions. A separate report was not issued for the plan.

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

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

Total OPEB Liability

The City's total OPEB liability of \$5,390,474 was measured as of June 30, 2020 and was determined by an actuarial valuation as of July 1, 2019.

Actuarial Assumptions and Other Inputs. The total OPEB liability in the July 1, 2019 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement unless otherwise specified:

Inflation	3.00 percent
Salary increases	4.00 percent, including inflation and productivity factor
Discount rate	2.18 percent
Healthcare cost trend rates	4.50 - 6.00 percent

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

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

The discount rate is based on the yield of the S&P Municipal Bond 20 Year High-Grade Rate Index as of June 30, 2021.

Changes in the Total OPEB Liability	
	2021
Beginning balance	\$ 4,653,797
Service cost	222,312
Interest on the total OPEB liability	123,300
Changes of assumptions and other inputs	427,994
Benefit payments	<u>(36,929)</u>
Ending balance of the total pension liability	<u>\$ 5,390,474</u>

Changes in assumptions and other inputs reflect a change in the discount rate from 2.66% used in the fiscal year 2020 valuation to 2.18%.

Mortality rates were based on the PubG.H-2010 Mortality Table – General.

The results are estimates based on assumptions about future events. Assumptions may be made about participant data or other factors. All approximations and assumptions are noted. Reasonable efforts were made in this valuation to ensure that significant items in the context of the actuarial liabilities or costs are treated appropriately, and not excluded or included inappropriately. Actual future experience will differ from the assumptions used. As these differences arise, the expense for accounting purposes will be adjusted in future valuations to reflect such actual experience.

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate. The following presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (1.18 percent) or 1-percentage-point higher (3.18 percent) than the current discount rate:

	1% Decrease (1.18%)	Discount Rate (2.18%)	1% Increase (3.18%)
Total OPEB liability	<u>\$ 6,390,980</u>	<u>\$ 5,390,474</u>	<u>\$ 4,574,387</u>

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

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

	<u>1% Decrease</u>	<u>Current Rate</u>	<u>1% Increase</u>
Total OPEB liability	\$ 4,347,069	\$ 5,390,474	\$ 6,771,690

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

For the year ended June 30, 2021, the City recognized OPEB expense of \$348,104. At June 30, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 80,833	\$ 21,190
Changes of assumptions and other inputs	518,284	548,463
Benefit payments made subsequent to the measurement date	49,114	-
Total	<u>\$ 648,231</u>	<u>\$ 569,653</u>

\$49,114 reported as deferred outflows of resources related to OPEB resulting from benefit payments made incurred subsequent to the measurement date will be recognized as a decrease of the total OPEB liability in the year ending June 30, 2022. Other amounts reported as deferred inflows and outflows of resources related to OPEB will be recognized in pension expense as follows:

<u>Year Ending June 30</u>	<u>Amount</u>
2022	\$ 2,493
2023	2,493
2024	2,493
2025	2,493
2026	2,493
Thereafter	16,999
Total	<u>\$ 29,464</u>

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

Other Employment Benefits

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

The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount. Contributions are determined as a percentage of monthly payroll based on rates established annually by the State. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. The City considers these contributions to be immaterial.

Deferred Outflows and Inflows of Resources

Deferred outflows of resources are comprised of the following:

Source	Amount
OPEB deferrals	\$ 599,117
Pension deferrals	2,581,724
City benefit payments subsequent to the measurement date (OPEB)	49,114
Total	<u>\$ 3,229,955</u>

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

Source	Amount
Taxes receivable, net - General Fund	\$ 123,147
OPEB deferrals	569,653
Pension deferrals	141,989
Total	<u>\$ 834,789</u>

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City carries commercial insurance for these risks of loss and has the following types of major coverage for the amounts of risk noted; general liability (\$6,000,000), property (\$31,198,460), and workers' compensation (\$1,000,000). There have been no significant reductions in insurance coverage in the prior year, and settled claims have not exceeded coverage in the past three fiscal years.

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

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

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

Claims, Judgments and Contingent Liabilities

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

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

Long-Term Obligations

Installment Purchases

Serviced by the General Fund:

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

\$ 2,584,011

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

Beginning May 1, 2018, annual payments ranging from \$344,295 to \$437,146, final payment on May 1, 2032.

4,437,907

Total General Fund installment purchases- Direct Placement

\$ 7,021,918

Serviced by the Water and Sewer Fund:

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

\$ 975,353

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

2,110,093

Total Water and Sewer Fund installment purchases- Direct Placement

\$ 3,085,446

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

Year Ending June 30	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2022	\$ 770,819	\$ 186,401	\$ 302,767	\$ 93,667
2023	788,509	164,720	305,345	83,729
2024	807,132	142,646	308,245	73,726
2025	826,383	119,789	311,146	63,650
2026	846,595	96,495	314,368	53,500
2027-2031	2,545,332	223,922	1,335,723	124,768
2032	437,149	11,060	207,852	5,259
Total	<u>\$ 7,021,918</u>	<u>\$ 945,032</u>	<u>\$ 3,085,446</u>	<u>\$ 498,299</u>

The City's outstanding installment purchase from direct placement related to the new City Hall of \$2,584,011 is secured by a deed of trust. This borrowing contains provisions that in the event of a default, the bank may exercise any one or more of the following remedies:

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

The City's outstanding installment purchase from direct placement related to the new public works facility of \$4,437,907 from the General Fund and \$2,110,093 from the Water and Sewer Fund is secured by a deed of trust. This borrowing contains provisions that in the event of a default, the bank may exercise any one or more of the following remedies:

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

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

the City, and apply the proceeds of any such sale, lease, sublease, or other disposition, after deducting all costs and expenses, including court costs and attorneys' fees, incurred with the recovery, repair, storage and other sale, lease, sublease or other disposition, toward the balance due under the contract and, thereafter to pay any remaining proceeds to the City.

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

The City's outstanding installment purchase from direct placement related to the new water tower and booster station of \$975,353 is secured by a Deed of Trust. This borrowing contains provisions that in the event of a default, the bank may exercise the following remedy:

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

General Obligation Bonds

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

General obligation bonds payable at June 30, 2021 are comprised of the following individual issues:

Serviced by the General Fund:

\$1,938,000 2017 General Obligation Refunding Bonds issued March 15, 2017 due in annual payments ranging from \$87,000 - \$245,000 through May 1, 2026; interest at 1.95%.	\$ 980,000
\$1,400,000 General Obligation Recreation Bonds issued August 1, 2010, Series 2010, due in annual installments of \$50,000 February 1, 2011, \$75,000 February 1, 2012 - 2025, inclusive, and \$100,000 February 1, 2026 - 2028, interest at 2.00% - 4.00%.	<u>600,000</u>
Total General Fund general obligation bonds	<u><u>\$ 1,580,000</u></u>

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

Year Ending June 30	Governmental Activities	
	Principal	Interest
2022	\$ 305,000	\$ 42,110
2023	301,000	34,813
2024	296,000	27,593
2025	291,000	20,471
2026	187,000	13,447
2027-2028	200,000	12,000
Total	<u>\$ 1,580,000</u>	<u>\$ 150,434</u>

Advance Refunding

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

At June 30, 2021, the City had a legal debt margin of approximately \$133,823,000.

Changes in Long-Term Liabilities

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

	July 1, 2020	Increases	Decreases	June 30, 2021	Current Portion
Governmental Activities:					
General Obligation Bonds	\$ 1,889,000	\$ -	\$ 309,000	\$ 1,580,000	\$ 305,000
Installment purchase- Direct Placement	7,774,737	-	752,819	7,021,918	770,819
Net pension liability (LGERS)	2,171,000	680,983	-	2,851,983	-
Total pension liability (LEOSSA)	1,103,327	533,593	-	1,636,920	-
Total OPEB liability	3,396,650	537,774	-	3,934,424	-
Compensated absences	460,735	186,484	243,396	403,823	161,529
Total governmental activities	<u>16,795,449</u>	<u>1,938,834</u>	<u>1,305,215</u>	<u>17,429,068</u>	<u>1,237,348</u>
Business-Type Activities:					
Water and Sewer Fund:					
Installment purchase- Direct Placement	3,385,313	-	299,867	3,085,446	302,767
Net pension liability (LGERS)	802,974	251,870	-	1,054,844	-
Total OPEB liability	1,257,147	198,903	-	1,456,050	-
Compensated absences	77,903	47,972	39,774	86,101	34,441
Total Water and Sewer Fund	<u>5,523,337</u>	<u>498,745</u>	<u>339,641</u>	<u>5,682,441</u>	<u>337,208</u>
Total	<u>\$ 22,318,786</u>	<u>\$ 2,437,579</u>	<u>\$ 1,644,856</u>	<u>\$ 23,111,509</u>	<u>\$ 1,574,556</u>

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

C. Net Investment in Capital Assets

Net investment in capital assets at June 30, 2021 is computed as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Capital assets, net of accumulated depreciation	\$ 28,485,327	\$ 22,906,982
Less:		
Capital debt	<u>(8,601,918)</u>	<u>(3,085,446)</u>
Net investment in capital assets	<u>\$ 19,883,409</u>	<u>\$ 19,821,536</u>

D. Interfund Balances and Activity

Transfers for the year ended June 30, 2021 were as follows:

<u>Fund</u>	<u>From</u>	<u>To</u>	<u>Purpose</u>
Water and Sewer -			Transfer from operating fund for
Capital Projects Fund	\$ -	\$ 2,500,000	project
Water and Sewer Fund	<u>2,500,000</u>	<u>-</u>	
	<u>\$ 2,500,000</u>	<u>\$ 2,500,000</u>	

3. Joint Ventures

The City and the members of the City's fire department each appoint two members to the five-member local Board of Trustees for the Firemen's Relief Fund. The State Insurance Commissioner appoints one additional member to the local Board of Trustees. The Firemen's Relief Fund is funded by a portion of the fire and lightning insurance premiums which insurers remit to the state. The state passes these monies to the local Board of the Firemen's Relief Fund. The funds are used to assist firefighters in various ways. The City obtains an ongoing financial benefit from the Fund for the "on-behalf of" payments for salaries and fringe benefits made to members of the City's Fire Department by the Board of Trustees. The participating governments do not have any equity interest in the joint venture, so no equity has been reflected in the financial statements at June 30, 2021. The Firemen's Relief Fund does not issue separate audited financial statements. Instead, the local Board of Trustees files an annual financial report with the State Firemen's Association. This report can be obtained from the Association at 323 West Jones Street, Suite 40, Raleigh, NC 27603.

CITY OF MOUNT HOLLY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

4. Summary Disclosure of Significant Contingencies

Federal and State-Assisted Programs

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

5. Related Party Transactions

The Mount Holly Tourism Development Authority is a component unit of the City and, therefore, is a related party. The City collects and remits occupancy tax revenue monthly to the Authority. At June 30, 2021, the City owed \$9,967 to the Authority for occupancy taxes.

6. Subsequent Events

The City of Mount Holly was awarded \$5,181,064 from the Federal American Rescue Plan (ARP). Subsequent to year end, the City received \$2,590,532. The remaining amount of \$2,590,532 will be released no sooner than one year after the first disbursement, and may vary slightly depending on funds returned and other factors.

7. Summary Disclosure of Significant Commitments and Contingencies

Coronavirus Disease (COVID-19)

In March 2020, the World Health Organization declared the outbreak of coronavirus (COVID-19), a pandemic. As a result, economic uncertainties have arisen which are expected to continue impacting various aspects of the City's operations and financial results. At the current time, we are unable to quantify the potential effects of this pandemic.

This page left blank intentionally.

REQUIRED SUPPLEMENTAL FINANCIAL DATA

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

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

This page left blank intentionally.

CITY OF MOUNT HOLLY, NORTH CAROLINA

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

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Beginning balance	\$ 1,103,327	\$ 1,066,535	\$ 1,109,712	\$ 1,092,995	\$ 1,057,665
Service cost	50,928	43,804	49,775	43,087	45,753
Interest on the total pension liability	34,871	37,282	34,319	41,609	37,343
Difference between expected and actual experience in the measurement of the total pension liability	69,533	7,563	(39,835)	(101,997)	-
Changes of assumptions and other inputs	445,614	32,769	(40,076)	64,111	(24,506)
Benefit payments	<u>(67,353)</u>	<u>(84,626)</u>	<u>(47,360)</u>	<u>(30,093)</u>	<u>(23,260)</u>
Ending balance of the total pension liability	<u>\$ 1,636,920</u>	<u>\$ 1,103,327</u>	<u>\$ 1,066,535</u>	<u>\$ 1,109,712</u>	<u>\$ 1,092,995</u>

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

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

CITY OF MOUNT HOLLY, NORTH CAROLINA

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

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total pension liability	\$ 1,636,920	\$ 1,103,327	\$ 1,066,535	\$ 1,109,712	\$ 1,092,995
Covered payroll	1,787,119	1,590,514	1,646,772	1,716,766	1,754,577
Total pension liability as a percentage of covered payroll	91.60%	69.37%	64.77%	64.64%	62.29%

Notes to the Schedules:

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

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

CITY OF MOUNT HOLLY, NORTH CAROLINA

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

Schedule of Changes in Total OPEB Liability and Related Ratios				
	2021	2020	2019	2018
Total OPEB Liability				
Service cost at end of year	\$ 222,312	\$ 201,066	\$ 65,585	\$ 61,910
Interest on the total OPEB liability	123,300	30,411	30,098	30,132
Changes of benefit terms	-	3,870,172	-	-
Differences between expected and actual experience	-	(26,015)	-	125,978
Changes of assumptions and other inputs	427,994	(458,856)	14,389	(88,950)
Benefit payments and implicit subsidy credit	(36,929)	(36,672)	(24,366)	(22,125)
Other changes	-	(34,651)	447	49,472
Net change in total OPEB liability	736,677	3,545,455	86,153	156,417
Total OPEB liability - beginning	4,653,797	1,108,342	1,022,188	865,771
Total OPEB liability - ending	<u>\$ 5,390,474</u>	<u>\$ 4,653,797</u>	<u>\$ 1,108,342</u>	<u>\$ 1,022,188</u>
Covered payroll	\$ 3,269,556	\$ 3,237,277	\$ 3,680,715	\$ 3,800,032
Total OPEB liability as a percentage of covered payroll	165%	144%	30%	27%

Notes to the Schedule:

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

Fiscal Year	Rate
2021	2.18%
2020	2.66%
2019	2.79%
2018	2.98%

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

CITY OF MOUNT HOLLY, NORTH CAROLINA

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

	Local Government Employees' Retirement System			
	2021	2020	2019	2018
City's proportion of the net pension liability (asset) (%)	0.10933%	0.10890%	0.10358%	0.10858%
City's proportion of the net pension liability (asset) (\$)	\$ 3,906,827	\$ 2,973,974	\$ 2,457,272	\$ 1,658,802
City's covered payroll	\$ 7,063,460	\$ 6,937,144	\$ 6,513,863	\$ 6,271,423
City's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	55.31%	42.87%	37.72%	26.45%
Plan fiduciary net position as a percentage of the total pension liability **	88.61%	90.86%	91.63%	94.18%

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

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

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

CITY OF MOUNT HOLLY, NORTH CAROLINA

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

	Local Government Employees' Retirement System			
	2017	2016	2015	2014
City's proportion of the net pension liability (asset) (%)	0.11251%	0.11310%	0.11435%	0.11270%
City's proportion of the net pension liability (asset) (\$)	\$ 2,387,839	\$ 507,810	\$ (674,375)	\$ 1,358,468
City's covered payroll	\$ 6,035,349	\$ 5,805,626	\$ 5,741,436	\$ 5,418,715
City's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	39.56%	8.75%	-11.75%	25.07%
Plan fiduciary net position as a percentage of the total pension liability **	91.47%	98.09%	102.64%	94.35%

CITY OF MOUNT HOLLY, NORTH CAROLINA

**CITY OF MT. HOLLY'S CONTRIBUTIONS
REQUIRED SUPPLEMENTARY INFORMATION
LAST EIGHT FISCAL YEARS**

	Local Government Employees' Retirement System			
	2021	2020	2019	2018
Contractually required contribution	\$ 702,481	\$ 648,193	\$ 553,057	\$ 503,749
Contributions in relation to the contractually required contribution	<u>702,481</u>	<u>648,193</u>	<u>553,057</u>	<u>503,749</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered payroll	\$ 6,775,695	\$ 7,063,460	\$ 6,937,144	\$ 6,513,863
Contributions as a percentage of covered payroll	10.37%	9.18%	7.97%	7.73%

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

CITY OF MOUNT HOLLY, NORTH CAROLINA

**CITY OF MT. HOLLY'S CONTRIBUTIONS
REQUIRED SUPPLEMENTARY INFORMATION
LAST EIGHT FISCAL YEARS**

Local Government Employees' Retirement System				
	2017	2016	2015	2014
Contractually required contribution	\$ 470,372	\$ 413,424	\$ 415,575	\$ 408,178
Contributions in relation to the contractually required contribution	<u>470,372</u>	<u>413,424</u>	<u>415,575</u>	<u>408,178</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered payroll	\$ 6,271,423	\$ 6,035,349	\$ 5,805,626	\$ 5,741,436
Contributions as a percentage of covered payroll	7.50%	6.85%	7.16%	7.11%

This page left blank intentionally.

SUPPLEMENTARY INFORMATION

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

This page left blank intentionally.

THE GENERAL FUND

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

This page left blank intentionally.

CITY OF MOUNT HOLLY, NORTH CAROLINA

**GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2021**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues:			
Ad Valorem Taxes:			
Taxes	\$ 6,901,094	\$ 8,802,702	\$ 1,901,608
Interest	5,000	18,530	13,530
Total	<u>6,906,094</u>	<u>8,821,232</u>	<u>1,915,138</u>
Other Taxes and Licenses:			
Occupancy tax and other	65,000	85,179	20,179
Motor vehicle license tags	75,000	133,750	58,750
Total	<u>140,000</u>	<u>218,929</u>	<u>78,929</u>
Unrestricted Intergovernmental:			
Local option sales taxes	1,786,930	3,261,195	1,474,265
Telecommunications sales tax	78,361	62,512	(15,849)
Utility franchise tax	811,770	781,135	(30,635)
Piped natural gas tax	40,846	62,965	22,119
Video franchise fee	118,645	112,230	(6,415)
Beer and wine tax	65,000	67,526	2,526
ABC distribution	225,000	180,000	(45,000)
Total	<u>3,126,552</u>	<u>4,527,563</u>	<u>1,401,011</u>
Restricted Intergovernmental:			
Powell Bill allocation	200,000	468,258	268,258
Solid waste disposal tax	10,000	12,004	2,004
Other federal/state grants	132,000	322,204	190,204
Total	<u>342,000</u>	<u>802,466</u>	<u>460,466</u>
Permits and Fees:			
Zoning permits	60,000	70,546	10,546
Recycle and solid waste fees	329,375	388,954	59,579
Tipping fees	460,000	504,962	44,962
Total	<u>849,375</u>	<u>964,462</u>	<u>115,087</u>
Sales and Services:			
Recreation department fees	68,000	52,845	(15,155)
Investment Earnings	<u>201,000</u>	<u>6,420</u>	<u>(194,580)</u>
Miscellaneous:			
Rents	118,636	94,905	(23,731)
Public contributions	10,000	1,500	(8,500)
Miscellaneous revenue	47,000	85,350	38,350
Miscellaneous fire revenue	3,000	28,051	25,051
Miscellaneous police revenue	38,000	57,662	19,662
Total	<u>216,636</u>	<u>267,468</u>	<u>50,832</u>

CITY OF MOUNT HOLLY, NORTH CAROLINA

**GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2021**

	Budget	Actual	Variance Over/Under
Total revenues	11,849,657	15,661,385	3,811,728
Expenditures:			
General Government:			
Mayor and Council:			
Governing body compensation	60,069	60,069	-
Operating expenditures	82,650	43,898	38,752
Total	142,719	103,967	38,752
Administration:			
Salaries and employee benefits	855,000	745,174	109,826
Operating expenditures	473,200	495,820	(22,620)
Costs allocated to the Water and Sewer Fund	(118,214)	(118,214)	-
Debt service	236,438	236,428	10
Total	1,446,424	1,359,208	87,216
Admin IT:			
Operating expenditures	253,000	249,509	3,491
Admin Maintenance:			
Operating expenditures	538,150	434,507	103,643
Total general government	2,380,293	2,147,191	233,102
Public Safety:			
Police:			
Salaries and employee benefits	3,321,000	3,137,941	183,059
Operating expenditures	375,415	346,416	28,999
Capital outlay	108,140	98,700	9,440
Costs allocated to the Water and Sewer Fund	(118,214)	(118,214)	-
Debt service	236,523	236,428	95
Total	3,922,864	3,701,271	221,593
Fire:			
Salaries and employee benefits	1,810,400	1,748,509	61,891
Operating expenditures	244,278	228,116	16,162
Capital outlay	24,000	56,389	(32,389)
Debt service	267,238	294,476	(27,238)
Total	2,345,916	2,327,490	18,426
Total public safety	6,268,780	6,028,761	240,019

CITY OF MOUNT HOLLY, NORTH CAROLINA

**GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2021**

	Budget	Actual	Variance Over/Under
Planning and Zoning:			
Salaries and employee benefits	346,600	323,402	23,198
Operating expenditures	155,275	80,002	75,273
Capital outlay	-	13,879	(13,879)
Total planning and zoning	<u>501,875</u>	<u>417,283</u>	<u>84,592</u>
Transportation and Environmental Protection:			
Streets and Highways:			
Salaries and employee benefits	1,130,700	998,922	131,778
Operating expenditures	1,016,100	951,372	64,728
Capital outlay	-	8,800	(8,800)
Debt service	343,717	327,017	16,700
Total	<u>2,490,517</u>	<u>2,286,111</u>	<u>204,406</u>
Powell Bill Street Funds:			
Operating expenditures	<u>647,965</u>	<u>114,616</u>	<u>533,349</u>
Total transportation and environmental protection	<u>3,138,482</u>	<u>2,400,727</u>	<u>737,755</u>
Garage:			
Salaries and employee benefits	64,350	63,122	1,228
Operating expenditures	51,630	39,884	11,746
Debt service	75,582	77,901	(2,319)
Total garage	<u>191,562</u>	<u>180,907</u>	<u>10,655</u>
Culture and Recreation:			
Parks and Recreation:			
Salaries and employee benefits	578,500	470,433	108,067
Operating expenditures	539,628	247,765	291,863
Capital outlay	821,244	735,782	85,462
Debt service	165,231	165,195	36
Total culture and recreation	<u>2,104,603</u>	<u>1,619,175</u>	<u>485,428</u>
Total expenditures	<u>14,585,595</u>	<u>12,794,044</u>	<u>1,791,551</u>
Revenues over (under) expenditures	<u>(2,735,938)</u>	<u>2,867,341</u>	<u>5,603,279</u>
Other Financing Sources (Uses):			
Proceeds from property disposal	255,000	-	(255,000)
Fund balance appropriated	2,480,938	-	(2,480,938)
Total other financing sources (uses)	<u>2,735,938</u>	<u>-</u>	<u>(2,735,938)</u>

CITY OF MOUNT HOLLY, NORTH CAROLINA

**GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2021**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Net change in fund balance	\$ -	2,867,341	\$ 2,867,341
Fund Balance:			
Beginning of year - July 1		<u>14,529,175</u>	
End of year - June 30		<u>\$ 17,396,516</u>	

NONMAJOR GOVERNMENTAL FUNDS

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

Coronavirus Relief Fund – accounts for the federal grant funds received and associated expenditures.

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

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

This page left blank intentionally.

CITY OF MOUNT HOLLY, NORTH CAROLINA

NONMAJOR GOVERNMENTAL FUNDS

COMBINING BALANCE SHEET

JUNE 30, 2021

	Special Revenue Funds		Capital Project Funds		Total Nonmajor Governmental Funds
	Emergency Telephone System Fund	Coronavirus Relief Fund	Capital Reserve Fund	Capital Projects Fund	
Assets:					
Cash and cash equivalents	\$ 372,745	\$ -	\$ 1,209,535	\$ 232,633	\$ 1,814,913
Fund Balances:					
Restricted:					
Restricted for public safety	\$ 372,745	\$ -	\$ -	\$ -	\$ 372,745
Committed	-	-	1,209,535	232,633	1,442,168
Total fund balances	\$ 372,745	\$ -	\$ 1,209,535	\$ 232,633	\$ 1,814,913

CITY OF MOUNT HOLLY, NORTH CAROLINA

NONMAJOR GOVERNMENTAL FUNDS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES
 FOR THE YEAR ENDED JUNE 30, 2021

	Special Revenue Funds		Capital Project Funds		Total Nonmajor Governmental Funds
	Emergency Telephone System Fund	Coronavirus Relief Fund	Capital Reserve Fund	Capital Projects Fund	
Revenues:					
Restricted intergovernmental	\$ 70,602	\$ 72,039	\$ -	\$ 152,876	\$ 295,517
Investment earnings	89	-	256	6	351
Total revenues	<u>70,691</u>	<u>72,039</u>	<u>256</u>	<u>152,882</u>	<u>295,868</u>
Expenditures:					
General government	-	4,685	-	-	4,685
Public safety	<u>74,697</u>	<u>67,354</u>	<u>-</u>	<u>-</u>	<u>142,051</u>
Total expenditures	<u>74,697</u>	<u>72,039</u>	<u>-</u>	<u>-</u>	<u>146,736</u>
Net change in fund balances	(4,006)	-	256	152,882	149,132
Fund Balances:					
Beginning of year - July 1	<u>376,751</u>	<u>-</u>	<u>1,209,279</u>	<u>79,751</u>	<u>1,665,781</u>
End of year - June 30	<u>\$ 372,745</u>	<u>\$ -</u>	<u>\$ 1,209,535</u>	<u>\$ 232,633</u>	<u>\$ 1,814,913</u>

CITY OF MOUNT HOLLY, NORTH CAROLINA

SPECIAL REVENUE FUND - EMERGENCY TELEPHONE SYSTEM FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND

CHANGES IN BALANCE - BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2021

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues:			
Restricted intergovernmental:			
Wireless 911 funds	\$ 70,922	\$ 70,602	\$ (320)
Investment earnings	5,500	89	(5,411)
Total revenues	<u>76,422</u>	<u>70,691</u>	<u>(5,731)</u>
Expenditures:			
Wireless expenditures:			
Contract services	21,036	20,585	451
Furniture, fixtures, & equipment	5,000	3,686	1,314
Telephone	8,700	8,700	-
Equipment rental/lease	41,686	41,726	(40)
Total expenditures	<u>76,422</u>	<u>74,697</u>	<u>1,725</u>
Net change in fund balance	<u>\$ -</u>	<u>(4,006)</u>	<u>\$ (4,006)</u>
Fund Balance:			
Beginning of year - July 1		<u>376,751</u>	
End of year - June 30		<u>\$ 372,745</u>	

CITY OF MOUNT HOLLY, NORTH CAROLINA

SPECIAL REVENUE FUND - CORONAVIRUS RELIEF FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2021

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues:			
Restricted intergovernmental:			
Gaston County	\$ 72,039	\$ 72,039	\$ -
Expenditures:			
Operating expenditures:			
Compliance expense	72,039	72,039	-
Net change in fund balance	<u>\$ -</u>	-	<u>\$ -</u>
Fund Balance:			
Beginning of year - July 1		-	
End of year - June 30		<u>\$ -</u>	

CITY OF MOUNT HOLLY, NORTH CAROLINA

CAPITAL PROJECT FUND - CAPITAL RESERVE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2021

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues:			
Investment earnings	\$ <u>20,000</u>	\$ <u>256</u>	\$ <u>(19,744)</u>
Other Financing Sources (Uses):			
Transfers to other funds:			
General Fund	<u>(20,000)</u>	<u>-</u>	<u>20,000</u>
Net change in fund balance	\$ <u>-</u>	<u>256</u>	\$ <u>256</u>
Fund Balance:			
Beginning of year - July 1		<u>1,209,279</u>	
End of year - June 30		<u>\$ <u>1,209,535</u></u>	

CITY OF MOUNT HOLLY, NORTH CAROLINA

CAPITAL PROJECTS FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2021

		<u>Actual</u>			
	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Current Year</u>	<u>Total to Date</u>	<u>Variance Over/Under</u>
Revenues:					
Grant revenues - federal and state	\$ 800,000	\$ 647,124	\$ 152,876	\$ 800,000	\$ -
Local grants	80,000	80,000	-	80,000	-
Investment earnings	-	368	6	374	374
Total revenues	<u>880,000</u>	<u>727,492</u>	<u>152,882</u>	<u>880,374</u>	<u>374</u>
Expenditures:					
Greenway Project:					
Construction and improvements	<u>2,385,736</u>	<u>1,525,095</u>	<u>-</u>	<u>1,525,095</u>	<u>860,641</u>
Revenues over (under) expenditures	<u>(1,505,736)</u>	<u>(797,603)</u>	<u>152,882</u>	<u>(644,721)</u>	<u>861,015</u>
Other Financing Sources (Uses):					
Transfers from other fund:					
General Fund	1,505,736	788,368	-	788,368	(717,368)
Proceeds from debt	-	88,986	-	88,986	88,986
Total other financing sources (uses)	<u>1,505,736</u>	<u>877,354</u>	<u>-</u>	<u>877,354</u>	<u>(628,382)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 79,751</u>	152,882	<u>\$ 232,633</u>	<u>\$ 232,633</u>
Fund Balance:					
Beginning of year - July 1			<u>79,751</u>		
End of year - June 30			<u>\$ 232,633</u>		

ENTERPRISE FUNDS

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

Individual Fund Descriptions:

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

This page left blank intentionally.

CITY OF MOUNT HOLLY, NORTH CAROLINA

**WATER AND SEWER FUND
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2021**

	Final Budget	Actual	Variance Over/Under
Revenues:			
Operating Revenues:			
Water sales	\$ 3,221,213	\$ 3,893,452	\$ 672,239
Sewer charges	2,982,480	4,194,126	1,211,646
Water and sewer taps and development fees	103,154	205,450	102,296
Stormwater fees	251,810	276,530	24,720
Late fees and reconnection charges	44,610	205,853	161,243
Total operating revenues	<u>6,603,267</u>	<u>8,775,411</u>	<u>2,172,144</u>
Non-Operating Revenues:			
Restricted intergovernmental	-	116,336	116,336
Rental income	81,500	81,921	421
Other revenue	101,598	149,639	48,041
Total non-operating revenues	<u>183,098</u>	<u>347,896</u>	<u>164,798</u>
Total revenues	<u>6,786,365</u>	<u>9,123,307</u>	<u>2,336,942</u>
Expenditures:			
Utility Admin			
Salaries and employee benefits	1,402,500	1,039,289	363,211
Supplies	1,500	2,334	(834)
Other operating expenditures	1,016,154	762,940	253,214
Repairs and maintenance	1,000	197	803
Capital outlay	-	32,263	(32,263)
Total	<u>2,421,154</u>	<u>1,837,023</u>	<u>584,131</u>
Water Treatment and Distribution:			
Water treatment plant:			
Salaries and employee benefits	421,500	418,346	3,154
Supplies	167,230	122,819	44,411
Other operating expenditures	182,985	164,839	18,146
Repairs and maintenance	27,000	14,147	12,853
Costs allocated from the General Fund	118,214	118,214	-
Interest and other charges	69,134	54,605	14,529
Principal retirement	212,859	212,859	-
Capital outlay	-	7,400	(7,400)
Total	<u>1,198,922</u>	<u>1,113,229</u>	<u>85,693</u>

CITY OF MOUNT HOLLY, NORTH CAROLINA

WATER AND SEWER FUND
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2021

	Final Budget	Actual	Variance Over/Under
Waste Collection and Treatment:			
Salaries and employee benefits	363,900	320,624	43,276
Supplies	52,500	47,178	5,322
Other operating expenditures	460,400	455,447	4,953
Repairs and maintenance	40,500	38,835	1,665
Costs allocated from the General Fund	118,214	118,214	-
Interest and other charges	28,895	28,895	-
Principal retirement	87,008	87,008	-
Capital outlay	-	9,458	(9,458)
Total	1,151,417	1,105,659	45,758
Stormwater:			
Salaries and employee benefits	59,000	57,164	1,836
Other operating expenditures	41,410	24,164	17,246
Repairs and maintenance	151,000	140,825	10,175
Total	251,410	222,153	29,257
Utilities:			
Salaries and employee benefits	664,500	655,339	9,161
Other operating expenditures	891,545	421,191	470,354
Repairs and maintenance	971,400	962,710	8,690
Capital outlay	570,268	564,511	5,757
Total	3,097,713	2,603,751	493,962
Utility Admin IT:			
Supplies	3,500	8,330	(4,830)
Other operating expenses	102,350	88,037	14,313
Total	105,850	96,367	9,483
Utility Admin Maint:			
Supplies	5,800	3,655	2,145
Other operating expenditures	356,400	308,751	47,649
Repairs and maintenance	50,000	19,625	30,375
Total	412,200	332,031	80,169
Total expenditures	8,638,666	7,310,213	1,328,453

CITY OF MOUNT HOLLY, NORTH CAROLINA

WATER AND SEWER FUND
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2021

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues over (under) expenditures	<u>(1,852,301)</u>	<u>1,813,094</u>	<u>3,665,395</u>
Other Financing Sources (Uses):			
Transfer to other funds:			
Water and Sewer Capital Projects Fund	(2,500,000)	(2,500,000)	-
Fund balance appropriated	<u>4,352,301</u>	<u>-</u>	<u>(4,352,301)</u>
Total other financing sources (uses)	<u>1,852,301</u>	<u>(2,500,000)</u>	<u>(4,352,301)</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ (686,906)</u>	<u>\$ (686,906)</u>
Reconciliation from Budgetary Basis (Modified Accrual) to Full Accrual:			
Revenues and other financing sources over (under) expenditures and other financing uses		<u>\$ (686,906)</u>	
Reconciling items:			
Principal retirement		299,867	
Capital outlay		613,632	
Non-capitalized capital outlay expenditures		(60,724)	
Depreciation		(1,159,233)	
Change in net pension liability - LGERS		(251,870)	
Change in deferred outflows of resources - pensions		85,336	
Change in deferred inflows of resources - pensions		2,491	
Change in compensated absences		(8,198)	
Change in other post-employment benefits		(198,903)	
Change in deferred outflows of resources - OPEB		110,189	
Change in deferred inflows of resources - OPEB		17,957	
Capital Reserve Fund revenues		1,677,120	
Transfers to (from) Water and Sewer Capital Project Fund		<u>2,500,000</u>	
Total reconciling items		<u>3,627,664</u>	
Change in net position (Exhibit H)		<u>\$ 2,940,758</u>	

CITY OF MOUNT HOLLY, NORTH CAROLINA

WATER AND SEWER CAPITAL PROJECTS FUND
 SCHEDULE OF REVENUES AND EXPENDITURES -
 BUDGET AND ACTUAL (NON-GAAP)
 FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2021

		Actual			
	Project Authorization	Prior Years	Current Year	Total to Date	Variance Over/Under
Revenues:					
Investment earnings	\$ -	\$ 138	\$ -	\$ 138	\$ 138
Expenditures:					
Dutchman's Creek	2,500,000	251,512	1,577,949	1,829,461	670,539
South Gateway	4,710,000	-	10,561	10,561	4,699,439
Total expenditures	7,210,000	251,512	1,588,510	1,840,022	5,369,978
Revenues over (under) expenditures	(7,210,000)	(251,374)	(1,588,510)	(1,839,884)	5,370,116
Other Financing Sources (Uses):					
Transfers from Water and Sewer Fund	2,500,000	-	2,500,000	2,500,000	-
Proceeds from debt	4,710,000	283,000	-	283,000	(4,427,000)
Total other financing sources (uses)	7,210,000	283,000	2,500,000	2,783,000	(4,427,000)
Revenues and other financing sources over (under) expenditures and other financing uses	\$ -	\$ 31,626	\$ 911,490	\$ 943,116	\$ 943,116

CITY OF MOUNT HOLLY, NORTH CAROLINA

WATER AND SEWER - CAPITAL RESERVE FUND
 SCHEDULE OF REVENUES AND EXPENDITURES -
 BUDGET AND ACTUAL (NON-GAAP)
 FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2021

		<u>Actual</u>			
	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Current Year</u>	<u>Total to Date</u>	<u>Variance Over/Under</u>
Revenues:					
System development fees	\$ 2,500,000	\$ 2,704,211	\$ 1,677,120	\$ 4,381,331	\$ 1,881,331
Revenues over (under) expenditures	2,500,000	2,704,211	1,677,120	4,381,331	1,881,331
Other Financing Sources (Uses)					
Transfers to other funds:					
Water & Sewer Fund	(2,500,000)	(915,023)	-	(915,023)	1,584,977
Revenues and other financing sources over (under) expenditures and other financing uses	\$ -	\$ 1,789,188	\$ 1,677,120	\$ 3,466,308	\$ 3,466,308

This page left blank intentionally.

OTHER SCHEDULES

This section contains additional information on taxes receivable, the current year tax levy, secondary market disclosures and principal taxpayers, and the balance sheet and budget to actual schedule for the City of Mount Holly Tourism Development Authority as of June 30, 2021, as well as PSAP reconciliation.

This page left blank intentionally.

CITY OF MOUNT HOLLY, NORTH CAROLINA

SCHEDULE OF AD VALOREM TAXES RECEIVABLE
JUNE 30, 2021

Fiscal Year	Uncollected Balance July 1, 2020	Additions	Collections and Credits	Uncollected Balance June 30, 2021
2020-2021	\$ -	\$ 8,830,558	\$ 8,788,530	\$ 42,028
2019-2020	74,914	-	56,352	18,562
2018-2019	23,540	-	10,289	13,251
2017-2018	17,402	-	4,953	12,449
2016-2017	137,686	-	2,136	135,550
2015-2016	68,378	-	1,334	67,044
2014-2015	40,018	-	806	39,212
2013-2014	37,430	-	180	37,250
2012-2013	29,554	-	175	29,379
2011-2012	23,217	-	180	23,037
2010-2011	17,909	-	17,909	-
Total	\$ 470,048	\$ 8,830,558	\$ 8,882,844	417,762
Less allowance for uncollectible accounts:				
General Fund				<u>294,615</u>
Ad valorem taxes receivable, net				<u>\$ 123,147</u>
Reconciliation with Revenues:				
Ad valorem taxes - General Fund				<u>\$ 8,821,232</u>
Reconciling items:				
Interest collected				(18,530)
Taxes written off				17,909
Miscellaneous items				<u>62,233</u>
Total reconciling items				<u>61,612</u>
Total collections and credits				<u>\$ 8,882,844</u>

CITY OF MOUNT HOLLY, NORTH CAROLINA

ANALYSIS OF CURRENT TAX LEVY
CITY-WIDE LEVY
FOR THE YEAR ENDED JUNE 30, 2021

	City-Wide			Total Levy	
	Property Valuation	Rate	Total Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
Original Levy:					
Property taxed at current year's rate	\$ 1,785,858,144	\$ 0.485	\$ 8,661,412	\$ 7,851,010	\$ 810,402
Penalties	-		8,986	8,986	-
Total	<u>1,785,858,144</u>		<u>8,670,398</u>	<u>7,859,996</u>	<u>810,402</u>
Discoveries - Current Year Taxes	<u>38,092,784</u>		<u>184,750</u>	<u>184,750</u>	<u>-</u>
Abatements	<u>(5,070,103)</u>		<u>(24,590)</u>	<u>(24,590)</u>	<u>-</u>
Total property valuation	<u>\$ 1,818,880,825</u>				
Net Levy			8,830,558	8,020,156	810,402
Uncollected taxes at June 30, 2021			<u>42,028</u>	<u>42,028</u>	<u>-</u>
Current Year's Taxes Collected			<u>\$ 8,788,530</u>	<u>\$ 7,978,128</u>	<u>\$ 810,402</u>
Current Levy Collection Percentage			99.52%	99.48%	100.00%

CITY OF MOUNT HOLLY, NORTH CAROLINA

SECONDARY MARKET DISCLOSURES
FOR THE YEAR ENDED JUNE 30, 2021Secondary Market Disclosures:**Assessed Valuation:**

Assessment ratio	<u>100.00%</u>
Real property	\$ 1,586,685,728
Personal property	128,746,170
Public service companies	<u>103,448,927</u>
Total assessed valuation	<u>\$ 1,818,880,825</u>
Tax rate per \$100	0.485
Levy (includes discoveries, releases, adjustments, and penalties)	<u>\$ 8,830,558</u>

CITY OF MOUNT HOLLY, NORTH CAROLINA

SCHEDULE OF PRINCIPAL TAXPAYERS
FOR THE YEAR ENDED JUNE 30, 2021

Taxpayer	Type of Business	2021 Assessed Valuation	Percentage of Total Assessed Valuation
Duke Energy Corporation	Utilities	\$ 116,666,091	6.41%
Daimler Trucks	Truck Manufacturing	65,063,073	3.58%
Lennar Carolina's	Building Construction	29,775,080	1.64%
Clariant Corporation	Chemical Manufacturing	27,463,815	1.51%
American & Efird, LLC	Textiles	20,432,744	1.12%
Triangle Cloisters	Apartment Complex	14,053,670	0.77%
Lake Wylie MF LLC	Building Products Manufacturing	13,893,570	0.76%
Spectrum Southeast LLC	Utilities	10,762,086	0.59%
Napali Nine LLC	Apartment Complex	9,661,130	0.53%
Public Service Co. of North Carolina	Utilities	5,100,305	0.28%
Total		<u>\$ 312,871,564</u>	<u>17.20%</u>

CITY OF MOUNT HOLLY, NORTH CAROLINA

DISCRETELY PRESENTED COMPONENT UNIT
MOUNT HOLLY TOURISM DEVELOPMENT AUTHORITY
BALANCE SHEET
JUNE 30, 2021

	<u>Authority</u>
Assets:	
Cash and cash equivalents	\$ 233,328
Accounts receivable	<u>9,967</u>
Total assets	<u>\$ 243,295</u>
Fund Balance:	
Restricted for:	
Stabilization by state statute	\$ 9,967
Tourism	<u>233,328</u>
Total fund balance	<u>\$ 243,295</u>

CITY OF MOUNT HOLLY, NORTH CAROLINA

DISCRETELY PRESENTED COMPONENT UNIT
MOUNT HOLLY TOURISM DEVELOPMENT AUTHORITY
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2021

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues:			
Occupancy tax revenues	\$ 62,000	\$ 91,620	\$ 29,620
Expenditures:			
Operating:			
Professional services	1,500	1,200	300
Contracted services	2,350	-	2,350
Advertising and marketing	45,850	33,244	12,606
TDA stipends	3,600	2,800	800
Supplies	100	-	100
Travel/training	1,000	-	1,000
Incentive grants	3,450	-	3,450
Miscellaneous	12,000	9,981	2,019
Total expenditures	<u>69,850</u>	<u>47,225</u>	<u>22,625</u>
Revenues over (under) expenditures	(7,850)	44,395	52,245
Other Financing Sources (Uses):			
Fund balance appropriated	<u>7,850</u>	<u>-</u>	<u>(7,850)</u>
Net change in fund balance	<u>\$ -</u>	44,395	<u>\$ 44,395</u>
Fund Balance:			
Beginning of year - July 1		<u>198,900</u>	
End of year - June 30		<u>\$ 243,295</u>	

CITY OF MOUNT HOLLY, NORTH CAROLINA**EMERGENCY TELEPHONE SYSTEM UNSPENT BALANCE
PSAP RECONCILIATION
FOR THE YEAR ENDED JUNE 30, 2021**

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

Ending fund balance, reported on budget to actual	\$ 372,745
Cumulative prior period net revenues and expenditures not reported in the fund (difference in beginning fund balance - budget to actual vs. PSAP report)	<u>(13,692)</u>
Ending balance, PSAP revenue - expenditure report	<u>\$ 359,053</u>

This page left blank intentionally.

COMPLIANCE SECTION

This page left blank intentionally.

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

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

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

Independent Auditor's Report

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Mount Holly, North Carolina, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the City of Mount Holly's basic financial statements, and have issued our report thereon dated October 13, 2021. Our report includes a reference to other auditors who audited the financial statements of the City of Mount Holly ABC Board, as described in our report on the City of Mount Holly's financial statements. The financial statements of the City of Mount Holly ABC Board were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable non-compliance associated with the City of Mount Holly ABC Board.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Mount Holly's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Mount Holly's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Mount Holly's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying Schedule of Findings and Responses, we did identify certain deficiencies in internal control that we consider to be a material weakness and a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, misstatements on a timely basis.

A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Responses as item 2021-001 to be a material weakness.

A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Responses as item 2021-002 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Mount Holly's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Mount Holly's Responses to Findings

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

Purpose of This Report

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

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
Hickory, North Carolina
October 13, 2021

CITY OF MOUNT HOLLY, NORTH CAROLINA

SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED JUNE 30, 2021

1. Summary of Auditor's Results

Financial Statements

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

Internal control over financial reporting:

- | | |
|---|-----|
| • Material weakness(es) identified? | Yes |
| • Significant deficiency(ies) identified? | Yes |

Non-compliance material to financial statements noted?	No
--	----

CITY OF MOUNT HOLLY, NORTH CAROLINA

SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED JUNE 30, 2021

2. Financial Statement Findings

Material Weakness

Finding 2021-001

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

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

Effect: Several year-end closing entries had not been completed prior to sending the trial balance to the auditor. There were several full accrual journal entries that had to be corrected.

Cause: The general ledger was not reconciled to subsidiary ledgers at year-end for external financial reporting. Full accrual journal entries were not booked properly. In addition, several client provided entries still had to be booked.

Identification of a Repeat Finding: This is a repeat finding from the immediate previous audit, 2020-003, modified.

Recommendation: Management should reconcile the subsidiary ledgers at year-end and full accrual entries, along with any adjusting entries, should be posted as needed to the final trial balance, to prevent material audit adjustments in the future.

Name of Contact Person: Michelle Wood, Finance Director

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

CITY OF MOUNT HOLLY, NORTH CAROLINA

SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED JUNE 30, 2021

2. Financial Statement Findings (continued)

Significant Deficiency

Finding 2021-002

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

Condition: During our internal control test over payroll, we noted that one employee was being paid the old payrate after a new payrate had already been approved for the period we selected for testing. The City immediately rectified the situation after we brought it to their attention and the employee has been retroactively paid for the difference.

Effect: There are no internal controls in place for monitoring payrate changes to ensure that employees are being paid at the rate documented in personnel files.

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

Recommendation: We recommend that management put controls in place to ensure that payroll is processed accurately and personnel files are maintained and updated.

Name of Contact Person: Michelle Wood, Finance Director

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

This page left blank intentionally.



CITY of MOUNT HOLLY

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

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

Section II – Financial Statements Findings

Finding: 2021-001

Name of Contact Person: Michelle Wood, Finance Director

Corrective Action/Management's Response: Management concurs and will diligently review the general ledger and reconcile to the subsidiary ledgers and assure all entries are posted to the final trial balance. The prior fiscal year's audit was just completed on April 28, 2021 and due to turnover in the Finance Department it took more time to complete year end entries for June 30, 2021. Our final field work trial balance was due July 19, 2021; therefore, several entries were needed after sending the final trial balance to the auditors. The Finance Director will work diligently with the Deputy Finance Director to ensure the proper entries are entered to prevent adjustments in the final trial balance.

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

Finding: 2020-002

Name of Contact Person: Michelle Wood, Finance Director

Corrective Action/Management's Response: Management concurs and processes have been changed and an internal control has been put into place for monitoring payrate changes along with a new payroll system for more accurate payroll processing.

Proposed Completion Date: Management has already implemented the above procedure and transitioned to a new payroll system as of September 19, 2021.

CITY OF MOUNT HOLLY, NORTH CAROLINA

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2021

2020-001: corrected

2020-002: corrected

2020-003: modified and repeated as 2021-001.

2020-004: corrected