

CITY OF CHERRYVILLE, NORTH CAROLINA

FINANCIAL STATEMENTS

Year Ended June 30, 2020

City Council Members

H. L. Beam, Mayor
John Abernethy
Gary Freeman
Malcolm Parker
Jill Parker Puett

Administrative and Financial Staff

Jeff Cash, City Manager
Dixie Wall, Finance Director

City of Cherryville, North Carolina
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FINANCIAL SECTION

December 21, 2020

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Cherryville, North Carolina, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the City of Cherryville'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 Cherryville ABC Board. Those statements were audited by another auditor whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the City of Cherryville ABC Board, is based solely on the report of another auditor. 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 *Governmental Auditing Standards*, issued by the Comptroller of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the City of Cherryville 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 entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall 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 discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Cherryville, North Carolina as of June 30, 2020, 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 on pages 2 – 11, the Other Postemployment Benefits Schedule of Changes in the Total OPEB Liability and Related Ratios on page 64, the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Liability (Asset) and Contributions on pages 60 and 61, respectively, and the Law Enforcement Officers' Special Separation Allowance schedules of the Changes in Total Pension Liability and Total Pension Liability as a Percentage of Covered Payroll on pages 62 and 63, respectively, be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We 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 City of Cherryville's basic financial statements. The introductory information, combining and individual fund statements, budgetary schedules, and other schedules, as well as the accompanying schedule of expenditures of federal and state awards as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and State Single Audit Implementation Act 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, budgetary schedules, other schedules, and the schedule of expenditures of federal and state awards are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or 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 other auditors, the combining and individual fund financial statements, budgetary schedules, other schedules, and the schedule of expenditures of federal and state awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory information and the statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2020 on our consideration of the City of Cherryville'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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Cherryville's internal control over financial reporting and compliance.

Butler & Stone

Management's Discussion and Analysis

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

Financial Highlights

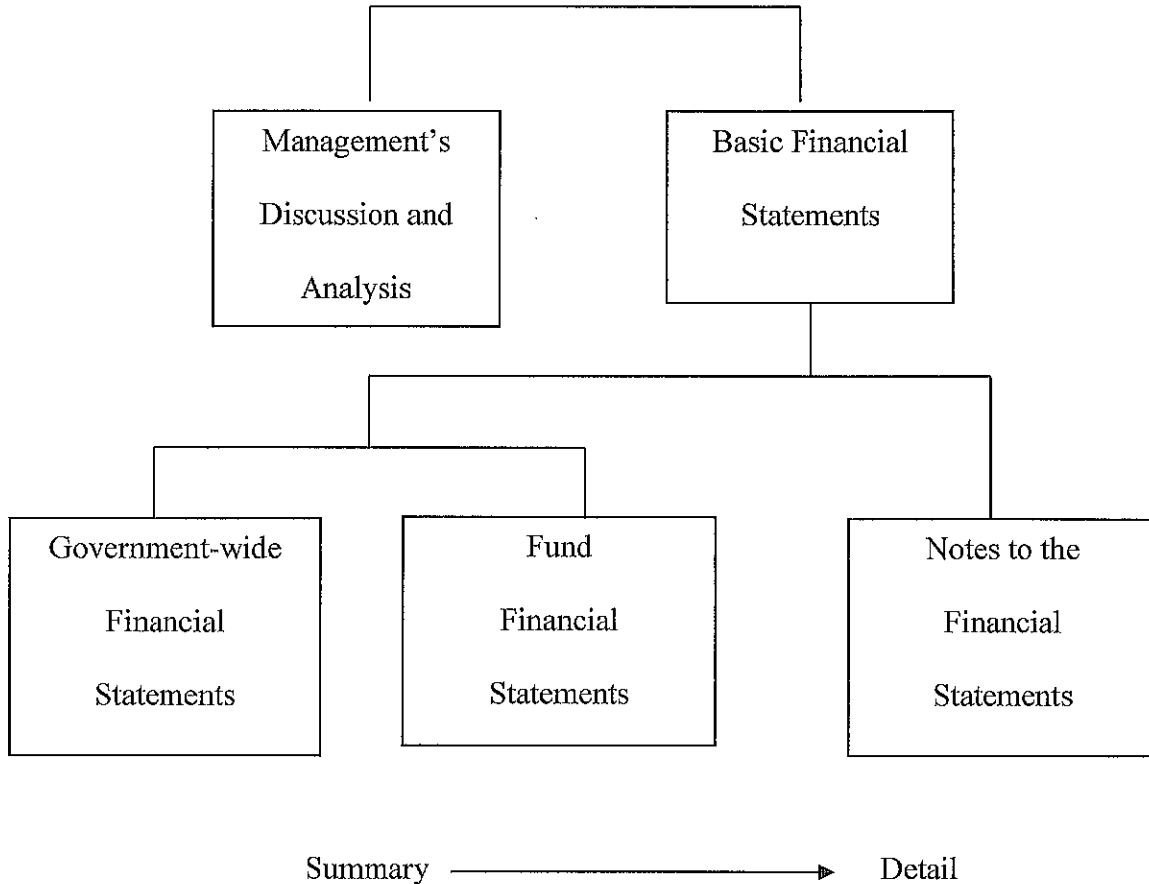
- The cumulative assets and deferred outflows of resources (net position) of the City of Cherryville exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$20,356,523 (*net position*).
- The government's total net position for the fiscal year 2020 *increased* by \$551,433, due to an increase in the governmental activities net position of \$121,441 and an increase in the business type activities net position of \$429,992.
- As of the close of the current fiscal year, the City of Cherryville's governmental funds reported combined ending fund balances of \$2,321,163, an increase of \$138,737 in comparison with the prior year.
- At the end of the fiscal year 2020, the unassigned fund balance for the General Fund was \$782,293 or 17.15 percent of total general fund expenditures for the fiscal year.
- The City of Cherryville's total debt decreased by \$295,293 (16.3%) during the current fiscal year. The decrease in debt was a result of scheduled principal payments during the fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Cherryville's basic financial statements. The City of Cherryville'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 of Cherryville 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 Cherryville.

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

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

The next statements (Exhibits 3 through 8) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the City of Cherryville 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 of Cherryville's individual funds. Budgetary information required by the 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 basic services such as public safety, parks and recreation, and general administration. 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. These include the water and sewer and electric services offered by the City. The final category is the component unit. Although legally separate from the City, the Cherryville ABC Board is important to the City. The City exercises control over the Board by appointing its members and the Board is required to distribute its profits to the City.

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

Fund Financial Statements

The fund financial statements provide a more detailed look at the 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 Cherryville, 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 City of Cherryville 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* that provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the 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.

Management's Discussion and Analysis City of Cherryville

The City of Cherryville 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 board; 2) the final budget as amended by the board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges. To account for the difference between the budgetary basis of accounting and the modified accrual basis, a reconciliation showing the differences in the reported activities is shown at the end of the budgetary statement.

Proprietary Funds – City of Cherryville has one proprietary fund. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. City of Cherryville uses the enterprise fund to account for its water and sewer activity and for its electric operations. These funds are 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 begin on page 23 of this report.

Other Information – In addition to the basic financial statements and accompanying notes, this report includes required supplementary information concerning the City of Cherryville's progress in funding its obligations to provide pension benefits to its employees. Required supplementary information can be found beginning on page 60 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.

Management's Discussion and Analysis
City of Cherryville

Government-Wide Financial Analysis

The City of Cherryville's Net Position

Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2020	2019	2020	2019	2020	2019
Current and other assets	\$ 2,616,859	\$ 2,391,844	\$ 4,678,270	\$ 4,026,249	\$ 7,295,129	\$ 6,418,093
Capital assets	5,443,029	5,512,088	13,242,114	13,549,295	18,685,143	19,061,383
Deferred outflows of resources	427,805	443,816	295,222	309,505	723,027	753,321
Total assets	8,487,693	8,347,748	18,215,606	17,885,049	26,703,299	26,232,797
Long-term liabilities	3,201,930	3,191,233	1,152,793	1,142,262	4,354,723	4,333,495
Other liabilities	462,449	458,437	923,884	1,020,606	1,386,333	1,479,043
Deferred inflows of resources	177,862	174,067	47,858	441,102	225,720	615,169
Total liabilities	3,842,241	3,823,737	2,124,535	2,603,970	5,966,776	6,427,707
Net position:						
Net investment in capital assets	4,057,484	3,963,206	13,113,242	13,288,465	17,170,726	17,251,671
Restricted	841,004	642,966	37,471	36,986	878,475	679,952
Unrestricted	(253,036)	(82,161)	2,560,358	1,955,628	2,307,322	1,873,467
Total net position	\$ 4,645,452	\$ 4,524,011	\$ 15,711,071	\$ 15,281,079	\$ 20,356,523	\$ 19,805,090

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The cumulative assets and deferred outflows of the City of Cherryville exceeded liabilities and deferred inflows by \$20,356,523 as of June 30, 2020. The City's net position *increased* by \$551,433 for the fiscal year ended June 30, 2020. However, a large portion (84.35%) reflects the City's net investment in capital assets (e.g. land, buildings, machinery, and equipment net of depreciation); less any related debt still outstanding that was issued to acquire those items. The City of Cherryville uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Cherryville'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 \$878,475 (4.3%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$2,307,322 is unrestricted.

Management's Discussion and Analysis
City of Cherryville

One aspect of the City's financial operations positively influenced the total unrestricted governmental net position. The City continued its diligence in collecting property taxes by maintaining a tax collection percentage of 97.94%. The statewide average in fiscal year 2019 was 98.78%.

City of Cherryville Changes in Net Position

Figure 3

	Governmental Activities		Business-Type Activities		Total	
	2020	2019	2020	2019	2020	2019
Revenues:						
Program revenues:						
Charges for services	\$ 721,292	\$ 719,636	\$ 9,481,558	\$ 8,713,832	\$ 10,202,850	\$ 9,433,468
Operating grants and contributions	183,019	184,626		5,000	183,019	189,626
Capital grants and contributions	1,964,190	1,040,218		27,545	1,964,190	1,067,763
General revenues:						
Property taxes	2,068,822	1,793,001			2,068,822	1,793,001
Other taxes	1,208,495	1,224,117			1,208,495	1,224,117
Other	305,781	268,637	10,224	(179,978)	316,005	88,659
Total revenues	6,451,599	5,230,235	9,491,782	8,566,399	15,943,381	13,796,634
Expenses:						
General Government	807,879	646,173			807,879	646,173
Public safety	3,922,979	2,190,678			3,922,979	2,190,678
Transportation	514,463	520,665			514,463	520,665
Economic development	244,279				244,279	
Sanitation	524,780	560,465			524,780	560,465
Recreation	251,336	274,193			251,336	274,193
Cemetery	64,442	61,951			64,442	61,951
Interest on long-term debt		69,901			-	69,901
Water and sewer			2,890,956	2,687,497	2,890,956	2,687,497
Electric			6,170,834	6,041,542	6,170,834	6,041,542
Total expenses	6,330,158	4,324,026	9,061,790	8,729,039	15,391,948	13,053,065
Increase in net position	121,441	906,209	429,992	(162,640)	551,433	743,569
Net position, beginning	4,524,011	3,617,802	15,281,079	15,443,719	19,805,090	19,061,521
Net position, ending	\$ 4,645,452	\$ 4,524,011	\$ 15,711,071	\$ 15,281,079	\$ 20,356,523	\$ 19,805,090

Management's Discussion and Analysis
City of Cherryville

Governmental activities. Governmental activities increased the City's net position by \$121,441, and accounted for 22.02% of the total growth in net position of the City of Cherryville. This increase was the result of a continued effort to control costs and manage expenditures.

Business-type activities: Business-type activities increased the City of Cherryville's net position by \$429,992, accounting for 77.98% of the total growth in the government's net position.

Financial Analysis of the City's Funds

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

Governmental Funds. The focus of the City of Cherryville'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 Cherryville's financing requirements. Specifically, unassigned fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the City of Cherryville. At the end of the current fiscal year, the City of Cherryville's fund balance available in the General Fund was \$782,293 while the total fund balance increased to \$2,200,757. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 17.15 percent of total General Fund expenditures.

At June 30, 2020, the governmental funds of City of Cherryville reported a combined fund balance of \$2,321,163 with a net increase in fund balance of \$138,767, a 6.35 percent increase from last year.

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. The majority of the budget amendments made during the City's fiscal year involved budgeting for grant awards and donations given from various sources throughout the fiscal year.

Management's Discussion and Analysis
 City of Cherryville

Proprietary Funds. The City of Cherryville'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 \$152,684, and those for the Electric Fund amounted to \$2,407,674. The total decrease in net position for the water and sewer fund and the increase in net position for Electric Fund were (\$266,781) and \$696,773, respectively.

Capital Asset and Debt Administration

Capital assets. The City of Cherryville's investment in capital assets for its governmental and business-type activities (net of accumulated depreciation) as of June 30, 2020, totals \$17,569,514 (see Figure 4). These assets include buildings, infrastructure, land, machinery and equipment, vehicles and improvements to property.

There were no significant demolitions or disposals of major capital assets during fiscal year 2020. Major capital asset transactions during the year included the following:

- Additions to equipment and system for Water and Sewer capital assets of \$181,360.
- Additions to equipment and system for Electric Fund capital assets of \$346,841.
- Additions to equipment and other improvements in the General Fund of \$289,489.

**City of Cherryville's Capital Assets
 (net of depreciation)**

Figure 4

	Governmental Activities		Business-Type Activities		Total	
	2020	2019	2020	2019	2020	2019
Land	\$ 862,700	\$ 862,700	\$ 102,929	\$ 102,929	\$ 965,629	\$ 965,629
Idle asset	50,000	50,000	100,000	100,000	150,000	150,000
Buildings and systems	2,269,464	2,345,096	11,599,375	12,482,933	13,868,839	14,828,029
Improvements other than buildings	1,305,059	1,352,927			1,305,059	1,352,927
Machinery and equipment	786,746	682,505	1,439,810	846,633	2,226,556	1,529,138
Infrastructure	169,060	211,930			169,060	211,930
Construction in progress		6,930		16,800	-	23,730
	<u>\$ 5,443,029</u>	<u>\$ 5,512,088</u>	<u>\$ 13,242,114</u>	<u>\$ 13,549,295</u>	<u>\$ 18,685,143</u>	<u>\$ 19,061,383</u>

Management's Discussion and Analysis
City of Cherryville

Additional information on the City of Cherryville's capital assets can be found in Note 2 of the Basic Financial Statements.

Long-term Debt: As of June 30, 2020, the City of Cherryville had no bonded debt outstanding. The City of Cherryville's total debt decreased by \$295,2935 (16.3%) during the past fiscal year due to scheduled payments of principal.

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for City of Cherryville is \$22,215,144. The City has no bonds authorized but un-issued at June 30, 2020.

Additional information regarding the City of Cherryville's long-term debt can be found in Note 2 beginning on page 55 of this report.

Economic Factors and Next Year's Budgets and Rates

The following key economic indicators that negatively impact the stability of the City:

- The State of North Carolina unemployment numbers increased from 3.8% in June 2019 to 7.6% in June 2020. Moreover, Gaston County's unemployment rate increased to 8.3% for June 2020. Cherryville's unemployment rate is also reflective of the state and county's upward trending numbers. This economic downturn is majorly due to the COVID-19 pandemic that started in March of 2020.

The following key economic indicators and initiatives positively impact the stability of the City:

- Modern Polymers, a Cherryville based company that manufactures parts for BMW and Mercedes automotive assembly facilities is one of Cherryville's largest employers.
- With several other large employers including Farris Fabricators, FleetNet, and Peak Resources, the City of Cherryville is not dependent on one large employer whose reduction would considerably influence City revenues.

Budget Highlights for the Fiscal Year Ending June 30, 2021

Governmental Activities: The City tax rate will increase to 0.52 cents per one hundred dollars of valuation of fiscal year 2021. Budgeted expenditures in the General Fund are expected to increase less than 5% (\$157,85) to \$4,306,923 in fiscal year 2021. This increase is due primarily to the cost of living adjustments and the purchase of various big ticket items like a Boom Truck, Fire Truck and fire apparatus. Also, the City plans to issue bonds that include downtown beautification.

Management's Discussion and Analysis
City of Cherryville

Business – type Activities: The City's Water and Sewer Residential, Commercial, and Industrial rates will increase to \$6.50 per 1,000 gallons for customers in fiscal year 2021. This increase is due primarily to the issue of bonds for water and sewer infrastructure needs and repairs. Also, the City needs to have more "skin in the game" when applying for water and sewer infrastructure grants. Electric rates will remain constant for residential customers in fiscal year 2021.

Requests for Information

This report is designed to provide an overview of the City's finances. Questions concerning any of the information found in this report or requests for additional information should be directed to the Director of Finance, City of Cherryville, 116 South Mountain Street, Cherryville NC 28021. You may also call 704-435-1711 or visit our web site at www.cityofcherryville.com.

BASIC FINANCIAL STATEMENTS

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

	Primary Government			City of Cherryville ABC Board
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 1,081,628	\$ 2,306,739	\$ 3,388,367	\$ 309,049
Receivables:				
Taxes receivables (net)	117,478		117,478	-
Cemetery	1,300		1,300	-
Utilities	58,205		58,205	-
Other governments	442,329		442,329	-
Miscellaneous		18,205	18,205	-
Trade		1,492,386	1,492,386	-
Prepaid expenses		15,396	15,396	-
Internal balances	(112,869)	112,869	-	-
Inventory of supplies, at cost		465,088	465,088	168,502
Deposits				11,412
Restricted cash and cash equivalents	1,028,788	287,587	1,296,375	-
Total current assets	<u>2,616,859</u>	<u>4,678,270</u>	<u>7,295,129</u>	<u>488,963</u>
Non-current assets:				
Capital assets (Note 4):				
Land and other non-depreciable assets	912,700	202,929	1,115,629	77,084
Depreciable capital assets:				
Other capital assets, net of depreciation	4,530,329		4,530,329	49,103
Electric System		1,732,882	1,732,882	
Water & sewer system		11,306,303	11,306,303	
Total depreciable capital assets, net of depreciation	<u>4,530,329</u>	<u>13,039,185</u>	<u>17,569,514</u>	<u>49,103</u>
Total capital assets	<u>5,443,029</u>	<u>13,242,114</u>	<u>18,685,143</u>	<u>126,187</u>
Total assets	<u>8,059,888</u>	<u>17,920,384</u>	<u>25,980,272</u>	<u>615,150</u>
DEFERRED OUTFLOWS OF RESOURCES				
Pension deferrals	406,960	281,198	688,158	29,673
OPEB deferrals	20,845	14,024	34,869	-
Total deferred outflows of resources	<u>427,805</u>	<u>295,222</u>	<u>723,027</u>	<u>29,673</u>
LIABILITIES				
Current liabilities:				
Accounts payable	177,478	479,131	656,609	136,866
Compensated absences	186,810	150,165	336,975	-
Emergency water loan		64,436	64,436	-
Accrued interest payable	9,409	38	9,445	-
Installment obligations	88,752		88,752	-
Payable from restricted assets		230,116	230,116	-
Total current liabilities	<u>462,449</u>	<u>923,884</u>	<u>1,386,333</u>	<u>136,866</u>
Long-term liabilities:				
Other post employment obligations	1,290,032	684,828	1,974,860	
Net pension liability	615,105	403,529	1,018,634	14,201
Installment obligations	1,296,793		1,296,793	
Emergency water loan		64,436	64,436	-
Total noncurrent liabilities	<u>3,201,930</u>	<u>1,162,793</u>	<u>4,354,723</u>	<u>14,201</u>
Total liabilities	<u>3,664,379</u>	<u>2,076,677</u>	<u>5,741,056</u>	<u>151,067</u>
DEFERRED INFLOWS OF RESOURCES				
Pension deferrals	117,044	3,384	120,428	-
OPEB deferrals	60,818	40,918	101,736	-
Prepaid rent income		383,556	383,556	-
Total deferred inflows of resources	<u>177,862</u>	<u>427,858</u>	<u>605,720</u>	<u>-</u>
NET POSITION				
Net investment in capital assets	4,057,484	13,113,242	17,170,726	126,187
Restricted for:				
Stabilization by State Statute	501,834		501,834	-
Streets	218,764		218,764	-
Fire grant	120,406		120,406	-
Working Capital				40,157
Electric Rate Stabilization		37,471	37,471	-
Unrestricted	(253,036)	2,560,358	2,307,322	327,412
Total net position	<u>\$ 4,645,452</u>	<u>\$ 15,711,071</u>	<u>\$ 20,356,523</u>	<u>\$ 493,756</u>

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

City of Cherryville, North Carolina
Statement of Activities
For the Year Ended June 30, 2020

Functions/Programs	Program Revenues						Net (Expense) Revenue and Changes in Net Position				
	Charges for Services			Operating Grants and Contributions		Capital Grants and Contributions		Primary Government			
	Expenses	Charges for Services	Operating Grants and Contributions	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	City of Cherryville ABC Board		
Primary government:											
Governmental Activities:											
General government	\$ 807,879	\$	\$	\$ 105,215	\$	(702,664)	\$	(702,664)	\$	(2,064,004)	
Public safety	3,922,979			1,858,975		(2,064,004)		(331,444)		(244,279)	
Transportation	514,463		183,019			(331,444)		104,389		(251,336)	
Economic development	244,279					(244,279)		27,681			
Economic protection	524,780	629,169				104,389					
Recreation	251,336					(251,336)					
Cemetery	64,442	92,123				27,681					
Total governmental activities	6,330,158	721,292	183,019	1,964,190		(3,461,657)		(3,461,657)			
(See Note 1)											
Business-type activities:											
Water and sewer	2,890,956	2,623,789				(267,167)		(267,167)			
Electric	6,170,834	6,857,769				686,935		686,935			
Total business-type activities	9,061,790	9,481,558	-	-	-	419,768		419,768			
Total primary government	\$ 15,391,948	\$ 10,202,850	\$ 183,019	\$ 1,964,190		(3,461,657)		419,768		(3,041,889)	
Component unit:											
ABC Board	\$ 1,313,612	\$ 1,346,082	\$	\$							32,470
Total component unit	\$ 1,313,612	\$ 1,346,082	\$	\$							32,470
General revenues:											
Taxes:											
Property taxes, levied for general purpose						2,068,822		2,068,822			
Other taxes						1,208,495		1,208,495			
Investment earnings						49,508	3,774	53,282			829
Miscellaneous						256,273	6,450	262,723			
Total general revenues						3,583,098	10,224	3,593,322			829
Change in net position						121,441	429,992	551,433			33,299
Net position, beginning						4,524,011	15,281,079	19,805,090			460,457
Net position, ending						\$ 4,645,452	\$ 15,711,071	\$ 20,356,523			\$ 493,756

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

City of Cherryville, North Carolina
Balance Sheet
Governmental Funds
June 30, 2020

	General	Total Non-Major Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 1,081,628	\$ -	\$ 1,081,628
Restricted cash and cash equivalents	1,028,788	-	1,028,788
Receivables, net:			
Taxes	117,478	-	117,478
Due from other governments	424,335	-	424,335
Due from other funds	-	120,406	120,406
Other	77,499	-	77,499
Total assets	<u>2,729,728</u>	<u>120,406</u>	<u>2,850,134</u>
LIABILITIES			
Accounts payable and accrued liabilities	178,218	-	178,218
Due to other funds	233,275	-	233,275
	<u>411,493</u>	<u>-</u>	<u>411,493</u>
DEFERRED INFLOWS OF RESOURCES			
Property taxes and tags receivable	117,478	-	117,478
Unearned revenue			
Prepaid taxes		-	-
Total deferred inflows of resources	<u>117,478</u>	<u>-</u>	<u>117,478</u>
FUND BALANCES			
Restricted:			
Stabilization by State Statute	501,834	-	501,834
Streets	218,764	-	218,764
Fire Grant		120,406	120,406
Committed:			
Reserved for USDA	40,160		40,160
Economic Development	657,706	-	657,706
Unassigned	782,293	-	782,293
Total fund balances	<u>2,200,757</u>	<u>120,406</u>	<u>2,321,163</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 2,729,728</u>	<u>\$ 120,406</u>	

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

Exhibit 3
(cont)

Amounts reported for governmental activities in the Statement of Net Position (Exhibit 1) are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	\$ 5,443,029
Deferred outflows of resources related to pensions are not reported in the funds	406,960
Deferred outflows of resources related to OPEB are not reported in the funds.	20,845
Other long-term assets (accrued interest receivable from taxes) are not available to pay for current-period expenditures and, therefore, are inflows of resources in the funds.	
Earned revenues considered deferred inflows of resources in fund statements.	117,478
Deferred inflows of resources related to pensions are not reported in the funds.	(117,044)
Deferred inflows of resources related to OPEB are not reported in the funds	(60,818)
Other long-term liabilities (bonds payable, accrued interest, and compensated absences) are not due and payable in the current period	<u>(3,486,161)</u>
Net position of governmental activities	<u>\$ 4,645,452</u>

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

City of Cherryville, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2020

	Major Funds		
	General Fund	Total Non-Major Funds	Total Governmental Funds
REVENUES			
Ad valorem taxes	\$ 2,012,505	\$	\$ 2,012,505
Other taxes and licenses	122,613		122,613
Unrestricted intergovernmental	1,233,740		1,233,740
Restricted intergovernmental	213,299		213,299
Permits and fees	12,153		12,153
Sales and services	726,842		726,842
Investment earnings	49,508		49,508
Grant revenue		1,829,984	1,829,984
Miscellaneous	208,789		208,789
Total revenues	4,579,449	1,829,984	6,409,433
EXPENDITURES			
Current:			
Administration	476,273		476,273
Economic development	243,955		243,955
Police	1,474,583		1,474,583
Fire	941,349	1,709,578	2,650,927
Public works	100,004		100,004
Streets	180,885		180,885
Powell Bill	194,427		194,427
Sanitation	658,677		658,677
Recreation	228,899		228,899
Cemetery	62,066		62,066
Total expenditures	4,561,118	1,709,578	6,270,696
Excess (deficiency) of revenues over expenditures	18,331	120,406	138,737
Fund balances, beginning	2,182,426		2,182,426
Fund balances, ending	\$ 2,200,757	\$ 120,406	\$ 2,321,163

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

City of Cherryville, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2020

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

Net changes in fund balances - total governmental funds		\$ 138,737
<p>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</p>		
Capital outlay expenditures which were capitalized	\$ 289,489	
Depreciation expense for governmental assets	<u>(358,548)</u>	(69,059)
<p>Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities</p>		
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
Change in unavailable revenue for tax revenues		42,165
<p>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.</p>		
Principal payments on long-term debt	163,337	
Decrease in accrued interest payable	<u>8,464</u>	171,801
<p>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.</p>		
Compensated absences	(11,466)	
Pension expense	(116,585)	
OPEB plan expense	<u>(34,152)</u>	(162,203)
Total changes in net position of governmental activities		<u>\$ 121,441</u>

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

City of Cherryville, North Carolina
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the Year Ended June 30, 2020

	General Fund			
	Original	Final	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues:				
Ad valorem taxes	\$ 1,853,500	\$ 1,854,500	\$ 2,012,505	\$ 158,005
Other taxes and licenses	123,800	122,600	122,613	13
Unrestricted intergovernmental	1,226,743	1,226,743	1,233,740	6,997
Restricted intergovernmental	192,000	216,791	213,299	(3,492)
Permits and fees	6,000	6,000	12,153	6,153
Sales and services	712,600	712,600	726,842	14,242
Investment earnings	25,100	35,600	49,508	13,908
Miscellaneous	531,850	1,671,309	208,789	(1,462,520)
Total revenues	<u>4,671,393</u>	<u>5,846,143</u>	<u>4,579,449</u>	<u>(1,266,694)</u>
Expenditures:				
Current:				
Administration	462,300	482,300	476,273	6,027
Economic development	65,527	1,095,309	243,955	851,354
Police	1,515,552	1,551,020	1,474,583	76,437
Fire	1,004,534	1,004,534	941,349	63,185
Public works	122,500	122,500	100,004	22,496
Streets	213,600	213,600	180,885	32,715
Powell Bill	259,850	259,850	194,427	65,423
Sanitation	715,100	695,100	658,677	36,423
Recreation	236,150	349,650	228,899	120,751
Cemetery	76,280	72,280	62,066	10,214
Total expenditures	<u>4,671,393</u>	<u>5,846,143</u>	<u>4,561,118</u>	<u>1,285,025</u>
Revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>18,331</u>	<u>18,331</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>18,331</u>	<u>\$ 18,331</u>
Fund balances, beginning			<u>2,182,426</u>	
Fund balances, ending			<u>\$ 2,200,757</u>	

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

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

	Major Enterprise Funds		
	Electric Fund	Water and Sewer Fund	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 1,798,996	\$ 507,743	\$ 2,306,739
Accounts receivable (net)	983,317	509,069	1,492,386
Other receivables		18,205	18,205
Inventories	282,298	182,790	465,088
Prepaid expenses	15,396		15,396
Due from other funds	112,869		112,869
Restricted cash and cash equivalents	196,935	70,652	267,587
Total current assets	<u>3,389,811</u>	<u>1,288,459</u>	<u>4,678,270</u>
Noncurrent assets:			
Capital assets:			
Land and other non-depreciable assets	50,000	152,929	202,929
Other capital assets, net of depreciation	1,732,882	11,306,303	13,039,185
Capital assets (net)	<u>1,782,882</u>	<u>11,459,232</u>	<u>13,242,114</u>
Total noncurrent assets	1,782,882	11,459,232	13,242,114
Total assets	<u>\$ 5,172,693</u>	<u>\$ 12,747,691</u>	<u>\$ 17,920,384</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension deferrals	\$ 112,399	\$ 168,799	\$ 281,198
OPEB deferrals	5,387	8,637	14,024
Total deferred outflows of resources	<u>\$ 117,786</u>	<u>\$ 177,436</u>	<u>\$ 295,222</u>
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities	423,990	55,141	479,131
Accrued interest payable	36		36
Compensated absences - current	38,708	111,457	150,165
Emergency water loan - current		64,436	64,436
Liabilities payable from restricted assets:			
Customer deposits	159,464	70,652	230,116
Total current liabilities	<u>622,198</u>	<u>301,686</u>	<u>923,884</u>
Noncurrent liabilities:			
Other post employment benefits	263,068	421,760	684,828
Net pension liability	160,011	243,518	403,529
Emergency Water Loan	-	64,436	64,436
Total noncurrent liabilities	<u>423,079</u>	<u>729,714</u>	<u>1,152,793</u>
Total liabilities	<u>1,045,277</u>	<u>1,031,400</u>	<u>2,076,677</u>
DEFERRED INFLOWS OF RESOURCES			
Pension deferrals	1,457	1,927	3,384
OPEB deferrals	15,718	25,200	40,918
Total rent income		383,556	383,556
Total deferred inflows of resources	<u>17,175</u>	<u>410,683</u>	<u>427,858</u>
NET POSITION			
Net investment in capital assets	1,782,882	11,330,360	13,113,242
Restricted - rate stabilization	37,471	-	37,471
Unrestricted	2,407,674	152,684	2,560,358
Total net position	<u>\$ 4,228,027</u>	<u>\$ 11,483,044</u>	<u>15,711,071</u>

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

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

	Major Enterprise Funds		
	Electric Fund	Water and Sewer Fund	Total
OPERATING REVENUES			
Charges for services	\$ 5,973,812	\$ 2,516,834	\$ 8,490,646
Water and sewer taps		70,513	70,513
Other operating revenues	883,957	36,442	920,399
Total operating revenues	6,857,769	2,623,789	9,481,558
OPERATING EXPENSES			
Salaries and benefits	722,865	717,591	1,440,456
Other operating expenses	1,321,295	420,502	1,741,797
Electric power purchases	3,913,721		3,913,721
Water treatment and distribution		686,187	686,187
Waste collection and treatment		461,046	461,046
Depreciation	212,953	605,630	818,583
Total operating expenses	6,170,834	2,890,956	9,061,790
Operating income (loss)	686,935	(267,167)	419,768
NONOPERATING REVENUES (EXPENSES)			
Investment earnings	3,388	386	3,774
Grant and donation revenue	-		-
Other	6,450		6,450
Façade grants			-
Interest and other charges	-		-
Total nonoperating revenue (expenses)	9,838	386	10,224
Income (loss) before contributions and transfers	696,773	(266,781)	429,992
Transfers to other funds	-	-	-
Change in net position	696,773	(266,781)	429,992
Total net position, beginning	3,531,254	11,749,825	15,281,079
Total net position, ending	\$ 4,228,027	\$ 11,483,044	\$ 15,711,071

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

City of Cherryville, North Carolina
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2020

	Major Enterprise Funds		
	Electric Fund	Water and Sewer Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 6,872,726	\$ 2,289,881	\$ 9,162,607
Cash paid for goods and services	(5,165,394)	(1,032,818)	(6,198,212)
Cash paid to or on behalf of employees for services	(697,013)	(1,143,394)	(1,840,407)
Customer deposits received		7,780	7,780
Customer deposits returned	(4,762)		(4,762)
Other operating revenues		35,161	35,161
Net cash provided (used) by operating activities	<u>1,005,557</u>	<u>156,610</u>	<u>1,162,167</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Increase in due from other funds	(112,869)		(112,869)
Insurance and other recoveries	6,450		6,450
Total cash flows from noncapital financing activities	<u>(106,419)</u>	<u>-</u>	<u>(106,419)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	(330,040)	(181,362)	(511,402)
Instalment principal payments	(14,444)	(117,513)	(131,957)
Interest paid on debt		(1,063)	(1,063)
Net cash provided (used) by capital and related financing activities	<u>(344,484)</u>	<u>(299,938)</u>	<u>(644,422)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Increase in Electric Rate Stabilization			
Interest and dividends	3,388	386	3,774
Net increase (decrease) in cash and cash equivalents	558,042	(142,942)	415,100
Balances, beginning	1,437,889	721,337	2,159,226
Balances, ending	<u>\$ 1,995,931</u>	<u>\$ 578,395</u>	<u>\$ 2,574,326</u>

(continued)

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

City of Cherryville, North Carolina
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2020

(continued)

	Major Enterprise Funds		
	Electric Fund	Water and Sewer Fund	Total
Reconciliation of operating income to net cash provided by operating activities			
Operating income	\$ 686,935	\$ (267,167)	\$ 419,768
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	212,953	605,630	818,583
Changes in assets, deferred outflows of resources, and liabilities:			
(Increase) decrease in accounts receivable	156,097	(177,307)	(21,210)
Increase (decrease) in allowance for doubtful accounts	(40,242)	(11,064)	(51,306)
(Increase) decrease in other receivables		(15,544)	(15,544)
(Increase) decrease in inventory	44,133	(109,095)	(64,962)
(Increase) decrease in prepaid items	1,323	102	1,425
(Increase) decrease in due from other governments		27,545	27,545
(Increase) decrease in deferred outflows of resources - pensions	11,529	16,710	28,239
(Increase) decrease in deferred outflows of resources - OPEB	(5,360)	(8,596)	(13,956)
Increase (decrease) in net pension liability	21,492	33,442	54,934
Increase (decrease) in deferred inflows of resources - pensions	(1,253)	(1,950)	(3,203)
Increase (decrease) in deferred inflows of resources - OPEB	(484)	(443)	(927)
Increase (decrease) in deferred inflows of resources - prepaid rents		(9,114)	(9,114)
Increase (decrease) in accounts payable and accrued liabilities	(76,732)	(17,680)	(94,412)
Increase (decrease) in customer deposits	(4,762)	7,780	3,018
Increase (decrease) in accrued vacation pay	(11,655)	60,467	48,812
Increase (decrease) in OPEB liability	11,583	22,894	34,477
Total adjustments	318,622	423,777	742,399
Net cash provided by operating activities	<u>\$ 1,005,557</u>	<u>\$ 156,610</u>	<u>\$ 1,162,167</u>

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

City of Cherryville, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Cherryville and its discretely presented component unit 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 of Cherryville is a municipal corporation that is governed by an elected mayor and a four-member council. As required by generally accepted accounting principles, these financial statements present the City and its component unit, a legally separate entity for which the City is financially accountable. The discretely presented component unit presented below is reported in a separate column in the City's financial statements in order to emphasize that it is legally separate from the City.

City of Cherryville ABC Board

The members of the ABC Board's governing board are appointed by the City. 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 Cherryville ABC Board, 112-A N Cherry Street, Cherryville, NC 28021.

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 unit. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a specific 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

City of Cherryville, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 specific 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, including the fiduciary fund. Separate statements for each fund category – *governmental and proprietary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as non-major funds.

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

The City reports the following major governmental funds:

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

The City reports the following non-major governmental funds:

Grant Project Special Revenue Fund. This fund is used to account for grant funds that are restricted for use for a particular purpose.

The City reports the following major enterprise funds:

Electric Fund. This fund is used to account for the City's electric operations.

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

City of Cherryville, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 enterprise funds are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the water and sewer system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

City of Cherryville, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Sales taxes and certain intergovernmental revenues, such as the utilities franchise tax, collected and held by the State at year-end on behalf of the City are recognized as revenue. Sales taxes are considered a shared revenue for the City of Cherryville because the tax is levied by Gaston County and then remitted to and distributed by the State. Most intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. All taxes, including those dedicated for specific purposes are reported as general revenues rather than program revenues. Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net 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 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 and the Enterprise Funds. All annual appropriations lapse at the fiscal year-end. Project ordinances are adopted for the Grant Projects Special Revenue Fund and the Enterprise Capital Projects Funds. The enterprise fund projects are consolidated with their respective operating fund for reporting purposes.

City of Cherryville, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the project level for the multi-year funds. Amendments are required for any revisions that alter total expenditures of any fund or that change departmental appropriations by more than \$2,500. All amendments must be approved by the governing board. 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

1. Deposits and Investments

All deposits of the City and the ABC Board are made in board-designated official depositories and are secured as required by State law [G.S. 159-31]. The City and the ABC Board may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the City and the ABC Board 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 ABC Board 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 ABC Board's investments are reported at fair value. The NCCMT Government Portfolio, a SEC-registered (2a-7) money market mutual fund, is measured at fair value. The NCCMT- Term Portfolio is a bond fund, has no rating and is measured at fair value. As of June 30, 2020, The Term portfolio has a duration of .11 years. Because the NCCMT Government and Term Portfolios have a weighted average maturity of less than 90 days, they are presented as an investment with a maturity of less than 6 months.

2. Cash and Cash Equivalents

The City pools money from several funds to facilitate disbursement and investment and to maximize investment income and considers all cash and investments to be cash and cash equivalents. The ABC Board considers all highly liquid investments (including restricted assets) with a maturity of twelve months or less when purchased to be cash and cash equivalents.

City of Cherryville, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3. Restricted Assets

Customer deposits held by the City before any services are supplied are restricted to the service for which the deposit was collected. Powell Bill funds 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

City of Cherryville Restricted Cash

Governmental Activities

General Fund

Streets	\$	218,764
Fire Grant		120,406
Cemetary		31,912
Economic Development		657,706
Total governmental activities	\$	<u>1,028,788</u>

Business-type activities

Electric Fund

Customer deposits	\$	159,464
Rate stabilization fund		37,471
Water and Sewer Fund		
Customer deposits		70,652
Total business-type activities	\$	<u>267,587</u>
Total Restricted Cash	\$	<u>1,296,375</u>

City of Cherryville, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4. Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the City levies ad valorem taxes on property other than motor vehicles on July 1st, the beginning of the fiscal year. The taxes are due on September 1st (lien date); however, interest does not accrue until the following January 6th. These taxes are based on the assessed values as of January 1, 2019.

5. Allowances for Doubtful Accounts

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

6. Inventory and Prepaid Items

The inventories of the City and the ABC Board are valued at cost (first-in, first-out), which approximates market.

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

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

7. Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. Minimum capitalization costs are as follows: land, \$10,000; buildings, improvements, substations, lines, and other plant and distribution systems, \$15,000; infrastructure, \$20,000; equipment and furniture, \$5,000; vehicles \$10,000. Donated capital assets received prior to June 30, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 30, 2015 are recorded at acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical cost. General infrastructure assets acquired prior to July 1, 2003, consist of the road network and water and sewer system assets that were acquired or that received substantial

City of Cherryville, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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	30
Buildings	50
Improvements	25
Vehicles	6
Furniture and equipment	10
Computer equipment	3

Property, plant, and equipment of the ABC Board are depreciated over their useful lives on a straight-line basis as follows:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	40
Furniture and equipment	7

8. Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The City has one item that meets this criterion, pension deferrals for the 2020 fiscal year. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The City has several items that meet the criterion for this category - prepaid taxes, property taxes receivable, unearned rents, and pension deferrals.

City of Cherryville, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

9. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts 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 withheld from the actual debt proceeds received or not, are reported as debt service expenditures.

10. 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 is considered to be immaterial; thus no current liability is reflected in the government-wide and proprietary 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.

11. Net Position/Fund Balances

City of Cherryville, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Position

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

Fund Balances

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

The governmental fund types classify fund balances as follows:

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

Prepaid items - portion of fund balance that is not an available resource because it represents the year-end balance of prepaid items, 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

City of Cherryville, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

reduced by inventories and prepaids as they are classified as nonspendable. Outstanding Encumbrances are included within RSS. RSS is included as a component of Restricted Net position and Restricted fund balance on the face of the balance sheet.

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

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

Assigned fund balance – portion of fund balance that City of Cherryville intends to use for specific purposes.

Subsequent year’s expenditures – portion of fund balance that is appropriated in the next year’s budget that is not already classified in restricted or committed. The governing body approves the appropriation; however, the budget ordinance authorizes the manager to modify the appropriations by resource or appropriation within funds up to \$2,500.

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

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

12. Defined Benefit Cost-Sharing Plans

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about

City of Cherryville, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

the fiduciary net position of the Local Governmental Employees' Retirement System (LGERS) and additions to/deductions from LGERS' fiduciary net position have been determined on the same basis as they are reported by LGERS. For this purpose, plan member contributions are recognized in the period in which the contributions are due. The City of Cherryville's employer contributions are recognized when due and the City of Cherryville has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of LGERS. Investments are reported at fair value.

NOTE 2: DETAIL NOTES ON ALL FUNDS

A. Assets

1. Deposits

All the deposits of the City and the ABC Board 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 ABC Board'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 ABC Board, these deposits are considered to be held by the City's and the ABC Board's agents in the entities' 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 ABC Board, or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the City and the ABC Board under the Pooling Method, the potential exists for under-collateralization. This risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The 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 ABC Board has no formal policy regarding custodial credit risk for deposits.

City of Cherryville, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2020

NOTE 2: DETAIL NOTES ON ALL FUNDS (CONTINUED)

At June 30, 2020, the City's deposits had a carrying amount of \$617,544 and a bank balance of \$780,151. Of the bank balance, \$250,000 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method. At June 30, 2020, the City's cash change funds totaled \$500. The carrying amount of deposits for the ABC Board was \$306,749 and the bank balance was \$297,373. All of the bank balance was covered by federal depository insurance. The ABC Board has cash on hand of \$2,300.

2. Investments

At June 30, 2020, the City of Cherryville had \$4,066,698 invested with the North Carolina Capital Management Trust's Government Portfolio, which carried a credit rating of AAAM by Standard and Poor's. The City has no policy regarding credit risk.

Interest Rate Risk. The City and the ABC Board have no formal investment policy regarding interest rate risk.

Credit Risk. The City and the ABC Board have no formal policy regarding credit risk.

3. Receivables - Allowances for Doubtful Accounts

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

General Fund:	
Taxes receivable	\$ 2,397
Accounts receivable	1,188
Total General Fund	<u>3,585</u>
Enterprise Funds	14,674
Total	<u>\$ 18,259</u>

City of Cherryville, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2020

NOTE 2: DETAIL NOTES ON ALL FUNDS (CONTINUED)

4. Capital Assets

Primary Government

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

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 862,700	\$ -	\$ -	\$ 862,700
Idle asset	50,000			50,000
Construction in progress	6,930	-	6,930	-
Total capital assets not being depreciated	<u>919,630</u>	<u>-</u>	<u>6,930</u>	<u>912,700</u>
Capital assets being depreciated:				
Other improvements	2,149,910		638,231	1,511,679
Buildings	6,394,968	-	-	6,394,968
Equipment	1,107,385	105,707	328,668	884,424
Vehicles and motorized equipment	3,125,346	183,782	343,084	2,966,044
Infrastructure	949,418	-	281,841	667,577
Total capital assets being depreciated	<u>13,727,027</u>	<u>289,489</u>	<u>1,591,824</u>	<u>12,424,692</u>
Less accumulated depreciation for:				
Other improvements	796,983	47,868	638,231	206,620
Buildings	4,049,872	75,632	-	4,125,504
Equipment	836,416	85,108	328,668	592,856
Vehicles and motorized equipment	2,713,810	107,070	350,014	2,470,866
Infrastructure	737,488	42,870	281,841	498,517
Total accumulated depreciation	<u>9,134,569</u>	<u>358,548</u>	<u>1,598,754</u>	<u>7,894,363</u>
Total capital assets being depreciated, net	<u>4,592,458</u>			<u>4,530,329</u>
Governmental activity capital assets, net	<u>\$ 5,512,088</u>			<u>\$ 5,443,029</u>

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

General government	\$ 12,871
Public safety	129,278
Transportation	85,051
Environmental protection	66,858

City of Cherryville, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2020

NOTE 2: DETAIL NOTES ON ALL FUNDS (CONTINUED)

Cultural and recreational	62,160
Cemetery	<u>2,330</u>
Total depreciation expense	<u>\$ 358,548</u>

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
<i>Electric Fund</i>				
Capital assets not being depreciated:				
Idle asset	\$ 50,000	\$ -	\$ -	\$ 50,000
Construction in progress	16,800	-	16,800	-
Total assets not being depreciated	<u>66,800</u>	<u>-</u>	<u>16,800</u>	<u>50,000</u>
Capital assets being depreciated:				
Substations, lines, and related equipment	3,518,753		611,978	2,906,775
Furniture and equipment	511,842		37,362	474,480
Vehicles and motorized equipment	753,280	346,841	97,907	1,002,214
Computer equipment	135,314		66,167	69,147
Total capital assets being depreciated	<u>4,919,189</u>	<u>346,841</u>	<u>813,414</u>	<u>4,452,616</u>
Less accumulated depreciation for:				
Substations, lines, and related equipment	2,347,039	80,855	405,003	2,022,891
Furniture and equipment	258,630	68,934	192,911	134,653
Vehicles and motorized equipment	625,156	49,229	149,333	525,052
Computer equipment	89,370	13,935	66,167	37,138
Total accumulated depreciation	<u>3,320,195</u>	<u>\$ 212,953</u>	<u>\$ 813,414</u>	<u>2,719,734</u>
Total capital assets being depreciated, net	<u>1,598,994</u>			<u>1,732,882</u>
Electric fund capital assets, net	<u>\$ 1,665,794</u>			<u>\$ 1,782,882</u>
 <i>Water and Sewer Fund</i>				
Capital assets not being depreciated:				
Land	102,929	-	-	102,929
Idle asset	50,000	-	-	50,000
Total capital assets not being depreciated	<u>152,929</u>	<u>-</u>	<u>-</u>	<u>152,929</u>

City of Cherryville, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2020

NOTE 2: DETAIL NOTES ON ALL FUNDS (CONTINUED)

Capital assets being depreciated:				
Plant and distribution systems	22,335,440	181,360	1,126,335	21,390,465
Furniture and equipment	840,222		61,219	779,003
Vehicles and motorized equipment	500,099		330,093	170,006
Computer equipment	132,818		52,822	79,996
Total capital assets being depreciated	<u>23,808,579</u>	<u>181,360</u>	<u>1,570,469</u>	<u>22,419,470</u>
Less accumulated depreciation for:				
Plant and distribution systems	11,024,221	466,374	815,621	10,674,974
Furniture and equipment	506,513	110,441	385,579	231,375
Vehicles and motorized equipment	470,228	11,376	324,638	156,966
Computer equipment	77,045	17,438	44,631	49,852
Total accumulated depreciation	<u>12,078,007</u>	<u>605,629</u>	<u>1,570,469</u>	<u>11,113,167</u>
Total capital assets being depreciated, net	<u>11,730,572</u>			<u>11,306,303</u>
Water and Sewer fund capital assets, net	<u>11,883,501</u>			<u>11,459,232</u>
Business-type activities capital assets, net	<u><u>\$ 13,549,295</u></u>			<u><u>\$ 13,242,114</u></u>

Discretely presented component unit

Activity for the ABC Board for the year ended June 30, 2020, was as follows:

	Beginning			Ending
	Balances	Increases	Decreases	Balances
Capital assets, non depreciable:				
Land	\$ 77,084			\$ 77,084
Capital assets being depreciated:				
Buildings	222,794			222,794
Furniture and equipment	102,104		3,380	98,724
Total	<u>324,898</u>		<u>3,380</u>	<u>321,518</u>
Less accumulated depreciation for:				
Buildings	176,511	5,570		182,081
Furniture and equipment	85,835	7,879	3,380	90,334
Total	<u>262,346</u>	<u>13,449</u>	<u>3,380</u>	<u>272,415</u>
ABC capital assets, net of depreciation	<u>62,552</u>			<u>49,103</u>
Total capital assets, net of depreciation	<u><u>\$139,636</u></u>			<u><u>\$126,187</u></u>

City of Cherryville, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2020

NOTE 2: DETAIL NOTES ON ALL FUNDS (CONTINUED)

5. Idle Asset

The City purchased property formerly used as a bank on June 8, 2006. This property adjoins the property owned by the City currently used as City Hall. The intent at the time of purchase was to renovate and up-fit the property for use as the City Hall. These plans were abandoned in the years since the purchase. The City has no intended use for the property and it is available for sale. The original cost of the property was \$331,010. Management believes the current fair value of the property is \$150,000. This property is reflected in these financial statements as an idle asset in the Governmental Activities, the Electric Fund and the Water and Sewer Fund at \$50,000 each.

B. Liabilities

1. Pension Plan Obligations

a. Local Governmental Employees' Retirement System

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

Benefits Provided. LGERS provides retirement and survivor benefits. Retirement benefits are determined as 1.85% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation.

City of Cherryville, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2020

NOTE 2: DETAIL NOTES ON ALL FUNDS (CONTINUED)

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 of Cherryville employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The City of Cherryville's contractually required contribution rate for the year ended June 30, 2020, was 9.70% of compensation for law enforcement officers and 8.95% for general employees and firefighters, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the City of Cherryville were \$271,744 for the year ended June 30, 2020.

Refunds of Contributions – City employees who have terminated service as a contributing member of LGERS, may file an application for a refund of their contributions. By state

City of Cherryville, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2020

NOTE 2: DETAIL NOTES ON ALL FUNDS (CONTINUED)

law, refunds to members with at least five years of service include 4% interest. State law requires a 60 day waiting period after service termination before the refund may be paid. The acceptance of a refund payment cancels the individual's right to employer contributions, or any other benefit provided by LGERS.

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

At June 30, 2020, the City reported a liability of \$1,018,634 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2018. The total pension liability was then rolled forward to the measurement date of June 30, 2019 utilizing update procedures incorporating the actuarial assumptions. The City's proportion of the net pension liability was based on a projection of the City's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2019 (measurement date), the City's proportion was 0.03730%, which was an increase of 0.00006% from its proportion measured as of June 30, 2018.

For the year ended June 30, 2020, the City recognized pension expense of \$468,299. At June 30, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 174,416	\$ -
Changes of assumptions	166,020	-
Net difference between projected and actual earnings on pension plan investments	24,846	-
Changes in proportion and differences between City contributions and proportionate share of contributions	25,953	7,162
City contributions subsequent to the measurement date	271,744	-
Total	\$ 662,979	\$ 7,162

\$271,744 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a decrease

City of Cherryville, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2020

NOTE 2: DETAIL NOTES ON ALL FUNDS (CONTINUED)

of the net pension liability in the year ended June 30, 2021. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2020	\$ 186,117
2021	59,159
2022	104,389
2023	34,409
2024	-
Thereafter	-
	<u>\$ 384,074</u>

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

Inflation	3.0 percent
Salary increases	3.50 to 8.10 percent, including inflation and productivity factor
Investment rate of return	7.00 percent, net of pension plan investment expense, including inflation

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

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

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

City of Cherryville, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2020

NOTE 2: DETAIL NOTES ON ALL FUNDS (CONTINUED)

The projected long-term investment returns, and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2019 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	29.0%	1.4%
Global Equity	42.0%	5.3%
Real Estate	8.0%	4.3%
Alternatives	8.0%	8.9%
Credit	7.0%	6.0%
Inflation Protection	6.0%	4.0%
Total	<u>100%</u>	

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

Discount rate. The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was

City of Cherryville, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2020

NOTE 2: DETAIL NOTES ON ALL FUNDS (CONTINUED)

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 7.00 percent, as well as what the City's proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00 percent) or one percentage point higher (8.00 percent) than the current rate:

	<u>1% Decrease (6.00%)</u>	<u>Discount Rate (7.00%)</u>	<u>1% Increase (8.00%)</u>
City's proportionate share of the net pension liability (asset)	\$ 2,329,802	\$ 1,018,634	\$ (71,212)

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

b. Law Enforcement Officers Special Separation Allowance

1. Plan Description.

The City of Cherryville 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 percent of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

City of Cherryville, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2020

NOTE 2: DETAIL NOTES ON ALL FUNDS (CONTINUED)

All full-time City law enforcement officers are covered by the Separation Allowance. At December 31, 2018, the Separation Allowance's membership consisted of:

Retirees receiving benefits	1
Terminated plan members entitled to but not yet receiving benefits	0
Active plan members	14
Total	<u>15</u>

2. Summary of Significant Accounting Policies

Basis of Accounting. The City has chosen to fund the Separation Allowance on a pay as you go basis. Pension expenditures are made from the General Fund, which is maintained on the modified accrual basis of accounting. Benefits 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.

3. Actuarial Assumptions

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

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

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

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

City of Cherryville, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2020

NOTE 2: DETAIL NOTES ON ALL FUNDS (CONTINUED)

3. Contributions.

The City is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the amounts necessary to cover the benefits earned on a pay as you go basis through appropriations made in the General Fund operating budget. There were no contributions made by 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 \$5,310 as benefits came due for the reporting period.

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

At June 30, 2020, the City reported a total pension liability of \$272,156. The total pension liability was measured as of December 31, 2019 based on a December 31, 2018 actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2019 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2020, the City recognized pension expense of \$4,935.

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u> </u>	<u> </u>
Differences between expected and actual experience	\$ -	\$ 99,770
Changes of assumptions	22,524	13,496
County benefit payments and plan administrative expense made subsequent to the measurement date	2,655	-
	<u> </u>	<u> </u>
Total	<u>\$ 25,179</u>	<u>\$ 113,266</u>

\$2,655 paid as benefits came due subsequent to the measurement date have been reported as deferred outflows of resources. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

City of Cherryville, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2020

NOTE 2: DETAIL NOTES ON ALL FUNDS (CONTINUED)

Year ended June 30:

2020	\$	(20,320)
2021		(20,320)
2022		(19,996)
2023		(19,887)
2024		(9,873)
Thereafter		(346)

Sensitivity of the City's total pension liability to changes in the discount rate. The following presents the City's total pension liability calculated using the discount rate of 3.26 percent, as well as what the City's total pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.26 percent) or 1-percentage-point higher (4.26 percent) than the current rate:

	1% Decrease (2.26%)	Discount Rate (3.26%)	1% Increase (4.26%)
Total pension liability	\$ 299,927	\$ 272,156	\$ 246,823

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

	<u>2020</u>
Beginning balance	\$ 275,549
Service Cost	15,322
Interest on the total pension liability	9,933
Changes of benefit terms	-
Differences between expected and actual experience in the measurement of the total pension liability	(33,246)
Changes of assumptions or other inputs	9,908
Benefit payments	(5,310)
Other changes	-
Ending balance of the total pension liability	<u>\$ 272,156</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

City of Cherryville, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2020

NOTE 2: DETAIL NOTES ON ALL FUNDS (CONTINUED)

studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

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

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

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

	LGERS	LEOSSA	Total
Pension Expense	\$ 468,299	\$ 4,935	\$ 473,234
Pension Liability	1,018,634	272,156	1,290,790
Proportionate share of the net pension liability	0.03730%	n/a	
 Deferred Outflows of Resources			
Differences between expected and actual experience	174,416	-	174,416
Changes of assumptions	166,020	22,524	188,544
Net difference between projected and actual earnings on plan investments	24,846	-	24,846
Changes in proportion and differences between contributions and proportionate share of contributions	25,953	-	25,953
Benefit payments and administrative costs paid subsequent to the measurement date	271,744	2,655	274,399
 Deferred Inflows of Resources			
Differences between expected and actual experience	-	99,770	99,770
Changes of assumptions	-	13,496	13,496
Net difference between projected and actual earnings on plan investments	-	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	7,162	-	7,162

c. Supplemental Retirement Income Plan for Law Enforcement Officers

Plan Description. The City contributes to the Supplemental Retirement Income Plan (Plan), a defined contribution pension plan administered by the Department of State

City of Cherryville, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2020

NOTE 2: DETAIL NOTES ON ALL FUNDS (CONTINUED)

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

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

The City made contributions of \$42,571 for the reporting year. No amounts were forfeited.

d. Supplemental Retirement Income Plan for Employees Other Than Law Enforcement

Plan Description. All full-time employees of the City can elect to participate in the Supplemental Retirement Income Plan, a defined contribution plan.

Funding Policy. The City voluntarily contributes each month an amount equal to five percent of each employee's salary, and all amounts contributed are vested immediately.

The City made contributions of \$111,279 for the reporting year. No amounts were forfeited.

City of Cherryville, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2020

NOTE 2: DETAIL NOTES ON ALL FUNDS (CONTINUED)

e. Other Postemployment Benefit

Healthcare Benefits

Plan Description. Under the terms of a City resolution, the City administers a single-employer defined benefit Healthcare Benefits Plan (the HCB Plan). The City Council has the authority to establish and amend the benefit terms and financing requirements. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 75.

Benefits Provided. This plan provides postemployment healthcare benefits to retirees of the City, provided they participate in the North Carolina Local Governmental Employees' Retirement System (System) and 25 years of creditable service with the City. Also, the City's retirees can purchase coverage for their dependents at the City's group rates. The City pays the full cost of coverage for employees' benefits through private insurers. Retirees who qualify for coverage receive the same benefits as active employees. Coverage ceases for all retirees who are eligible for Medicare at age 65. The City Council may amend the benefit provisions. A separate report was not issued for the plan.

Membership of the HCB Plan consisted of the following at June 30, 2019, the date of the latest actuarial valuation.

	General Employees	Law Enforcement Officers
Retirees receiving benefits	4	0
Terminated plan members entitled to but not yet receiving benefits	0	0
Active plan members	53	14
Total	<u>57</u>	<u>14</u>

City of Cherryville, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2020

NOTE 2: DETAIL NOTES ON ALL FUNDS (CONTINUED)

Total OPEB Liability

The City's total OPEB liability of \$1,702,704 was measured as of June 30, 2019 (measurement date) based on data, assumptions, and results of the actuarial valuation as of June 30, 2018 (valuation date).

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

Inflation	2.5 percent
Salary increases	3.5 – 7.75 percent, average, including inflation
Discount rate	3.50 percent
Healthcare cost trend rates	
Pre-Medicare	7.00 percent for 2019 decreasing to an ultimate rate of 4.50 percent by 2026

The discount rate is based on the yield of the Bond Buyer 20-year General Obligation Municipal Bond Index as of the measurement date.

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at June 30, 2019	\$ 1,614,140
Changes for the year	
Service cost	60,422
Interest	61,848
Changes of benefit terms	-
Differences between expected and actual experience	(24,685)
Changes in assumptions or other inputs	39,887
Benefit payments	(48,908)
Net changes	<u>88,564</u>
Balance at June 30, 2020	<u>\$ 1,702,704</u>

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

Mortality rates were based on the RP-2014 Total Data Set for Healthy Annuitants Mortality Table.

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period January 2010 through December 2014.

City of Cherryville, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2020

NOTE 2: DETAIL NOTES ON ALL FUNDS (CONTINUED)

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 (2.50 percent) or 1-percentage-point higher (4.50 percent) than the current discount rate:

	<u>1% Decrease</u>	<u>Discount Rate (3.50%)</u>	<u>1% Increase</u>
Total OPEB liability	\$ 1,854,058	\$ 1,702,704	\$ 1,564,914

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</u>	<u>1% Increase</u>
Total OPEB liability	\$ 1,536,693	\$ 1,702,704	\$ 1,894,454

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

For the year ended June 30, 2020, the City recognized OPEB expense of \$103,029. At June 30, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 136	\$ 21,666
Changes of assumptions	34,734	80,070
Benefit payment and administrative costs made subsequent to the measurement date	<u>\$ 34,870</u>	<u>\$ 101,736</u>

City of Cherryville, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2020

NOTE 2: DETAIL NOTES ON ALL FUNDS (CONTINUED)

\$0 reported as deferred outflows of resources related to pensions resulting from benefit payments made and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total pension liability in the year ended June 30, 2020. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

2021	\$	(19,241)
2022		(19,241)
2023		(19,241)
2024		(11,327)
2025		(1,234)
Thereafter		3,418

2. Other Employment Benefits

The City has elected to provide death benefits to law enforcement officers 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 officers 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 officer'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 upon rates established annually by the State. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. The City considers these contributions to be immaterial.

City of Cherryville, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2020

NOTE 2: DETAIL NOTES ON ALL FUNDS (CONTINUED)

Deferred Outflows and Inflows of Resources

The City has several deferred outflows of resources. Deferred outflows of resources is comprised of the following:

Source	Amount
Contributions to pension plan in current fiscal year	\$ 271,744
Benefit payments and administrative expenses for LEOSA made subsequent to measurement date	2,655
Differences between expected and actual experience	174,552
Changes in assumptions	223,278
Net difference between projected and actual earnings on pension plan investments	24,846
Changes in proportion and differences between employer contributions and proportionate share of contributions	25,952
Total	\$ 723,027

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

	Statement of Net Position	General Fund Balance Sheet
Taxes receivable (General Fund)	\$ -	\$ 117,478
Prepaid rent income (Water and Sewer Fund)	383,556	-
Changes in assumptions	93,566	-
Differences between expected and actual experience	121,436	
Changes in proportion and differences between employer contributions and proportionate share of contributions	7,162	
Total	\$ 605,720	\$ 117,478

City of Cherryville, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2020

NOTE 2: DETAIL NOTES ON ALL FUNDS (CONTINUED)

4. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City participates in three self-funded risk-financing pools administered by the North Carolina League of Municipalities. Through these pools, the City obtains general liability coverage of \$2 million per occurrence, auto liability coverage of \$1 million per occurrence, property coverage up to the total insurance values of the property policy, and workers' compensation coverage up to statutory limits. The liability and property exposures are reinsured through commercial carriers for claims in excess of retentions as selected by the Board of Trustees each year. Excess insurance coverage is purchased by the Board of Trustees to protect against large workers' compensation claims that exceed certain dollar cost levels. Medical stop loss insurance is purchased by the Board of Trustees to protect against large medical claims that exceed certain dollar cost levels. Specific information on the limits of the reinsurance, excess and stop loss policies purchased by the Board of Trustees can be obtained by contacting the Risk Management Services Department of the NC League of Municipalities. The pools are audited annually by certified public accountants, and the audited financial statements are available to the City upon request.

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

The City does not carry flood insurance because the City and its major properties are not in a flood plain as mapped by the State of North Carolina.

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 director is bonded for \$50,000. The remaining employees that have access to funds are bonded under a blanket bond.

6. Long-Term Obligations

a. Installment Purchases

In September 2005, the City entered into an installment agreement to finance the expansion of a recreation facility. The amount financed was \$540,000 requiring payments of \$36,000 annually plus interest at 3.79%. This installment loan was paid out in 2020.

City of Cherryville, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2020

NOTE 2: DETAIL NOTES ON ALL FUNDS (CONTINUED)

In September of 2005 the City entered into an installment financing agreement for a water and sewer project. The agreement was for \$460,000 requiring annual payments of \$39,734 including interest at 3.79%. This installment loan was paid out in 2020. In June of 2006, the City entered into an installment agreement for \$325,000 to finance the purchase of a building to be used for a City Hall. Payments are \$21,667 annually plus interest at 4.12%. This installment loan was paid out in 2020. In March of 2007, the City entered into an installment agreement to construct a new fire station for \$2,450,000. Upon completion, the US Department of Agriculture funded \$1,500,000 of this agreement. The remainder will be payable \$32,759 semi-annually plus interest at 3.91% through April 2022. The US Department of Agriculture loan is payable \$80,070 annually including interest at 4.5% through April 2048.

Annual debt service payments of the installment purchases as of June 30, 2020 are as follows:

Year Ending June 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2021	\$ 88,872	\$ 60,936	\$	\$
2022	89,797	57,119		
2023	25,373	54,315		
2024	26,514	53,173		
2025-2029	151,580	246,857		
2030-2034	188,897	209,541		
2035-2039	235,400	163,038		
2040-2044	293,351	105,087		
2045-2048	285,761	32,869		
Total	\$1,385,545	\$ 982,935	\$	\$

b. Emergency Water Loan

The City received a loan for \$1,088,000 from the Division of Environmental Health for a water construction project. The project was completed and placed in service in prior years. The obligation calls for annual principal payments of \$64,436 plus interest paid semi-annually at a 2.42% interest rate.

City of Cherryville, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2020

NOTE 2: DETAIL NOTES ON ALL FUNDS (CONTINUED)

The future required payments as of June 30, 2020 are as follows:

Year Ending June 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2021	\$	\$	\$ 64,436	\$1,559
2022			64,436	780
Total	\$	\$	\$128,872	\$2,339

At June 30, 2020, the City of Cherryville had a legal debt margin of \$22,215,144. There were no authorized but unissued bonds at that date.

c. Changes in Long-Term Liabilities

	Beginning			Ending Balance	Current Portion of Balance
	Balance	Increases	Decreases		
Governmental activities:					
Installment purchase	\$ 1,548,881	\$ -	\$ 163,336	\$ 1,385,545	\$ 88,752
Compensated absences	175,344	11,466	-	186,810	186,810
Total OPEB liability	963,789	54,087	-	1,017,876	
Net pension liability (LGERS)	534,866	80,239	-	615,105	
Total pension obligation (LEO)	275,549	-	3,393	272,156	
Governmental activity long-term liabilities	<u>\$ 3,498,429</u>	<u>\$ 145,792</u>	<u>\$ 166,729</u>	<u>\$ 3,477,492</u>	<u>\$ 275,562</u>
Business-type activities:					
Installment purchase	\$ 67,521	\$ -	\$ 67,521	\$ -	\$ -
Emergency Water Loan	193,308	-	64,436	128,872	64,436
Total OPEB liability	650,351	34,477	-	684,828	
Net pension liability (LGERS)	348,595	54,934	-	403,529	
Compensated absences	101,353	48,812	-	150,165	150,165
Business-type activity long-term liabilities	<u>\$ 1,361,128</u>	<u>\$ 138,223</u>	<u>\$ 131,957</u>	<u>\$ 1,367,394</u>	<u>\$ 214,601</u>

City of Cherryville, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2020

NOTE 2: DETAIL NOTES ON ALL FUNDS (CONTINUED)

d. Interfund Balances and Activity

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

Due to the Electric Fund for the allocation of costs from the:

General Fund	<u>\$112,869</u>
--------------	------------------

Due to the Fire Grant Fund for the allocation of costs from the:

General Fund	<u>\$120,406</u>
--------------	------------------

The interfund balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

C. Net Investment in Capital Assets

	<u>Governmental</u>	<u>Business-type</u>
Capital assets	\$ 5,443,029	\$ 13,242,143
Less: long-term debt	1,385,545	128,872
Add: unexpended debt proceeds		
Net investment in capital assets	<u>\$ 4,057,484</u>	<u>\$ 13,113,271</u>

D. Fund Balance

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

<i>Total fund balance-General Fund</i>	<i>\$2,200,757</i>
Less:	
Stabilization by State Statute	501,834
Streets-Powell Bill	218,764
Committed for USDA reserves	40,160
Committed for Economic Development	657,706
Remaining Fund Balance	782,293

City of Cherryville, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2020

NOTE 2: DETAIL NOTES ON ALL FUNDS (CONTINUED)

E. Prepaid Rental Revenue

In August 2012, the City entered into an agreement with a private company to lease space on water tanks owned and utilized by the City's Water and Sewer Fund for a term of 50 years. The company paid a one-time, non-refundable advance payment in the amount of \$455,710. For the business-type activity statements, this revenue is recognized over the period it is earned (50 years) on a straight-line basis. The unearned balance, \$383,556 at June 30, 2020, is presented in the Business-type Activities and the Proprietary Funds Statements of Net Position as a deferred inflow of resources.

NOTE 3: JOINTLY GOVERNED ORGANIZATIONS

The City, in conjunction with eight counties and fifty other municipalities, established the Centralina Council of Governments (Council). The participating governments established the Council to coordinate various funding received from federal and State agencies. Each participating government appoints one member to the Council's governing board. The City paid membership fees of \$1,421 to the Council during the fiscal year ended June 30, 2020.

The City, in conjunction with twenty other local governments, is a member of the North Carolina City Electric Agency (Electric Agency). The Electric Agency was formed to enable municipalities that own electric distribution systems to finance, construct, own, operate, and maintain generation and transmission facilities. Each participating government appoints one commissioner to the Electric Agency's governing board. The twenty-one members, who receive power from the Electric Agency, have signed power sales agreement to purchase a specified share of the power generated by the Electric Agency. Except for the power sales purchase requirements, no local government participant has any obligation, entitlement, or residual interest. The City's purchases of power for the fiscal year ended June 30, 2020 were \$3,913,721.

NOTE 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 moneys 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 moneys.

REQUIRED SUPPLEMENTARY FINANCIAL DATA

City of Cherryville, North Carolina
City of Cherryville's Proportionate Share of Net Pension Liability (Asset)
Required Supplementary Information
Last Six Fiscal Years *

Local Government Employees' Retirement System

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Cherryville's proportion of the net pension liability (asset) (%)	0.03730%	0.03724%	0.40450%	0.04355%	0.04310%	0.04162%
Cherryville's proportion of the net pension liability (asset) (\$)	\$ 1,018,634	\$ 883,460	\$ 617,964	\$ 924,279	\$ 193,433	\$ (245,454)
Cherryville's covered payroll	\$2,772,834	\$2,733,573	\$2,733,573	\$2,683,416	\$2,717,483	\$2,605,003
Cherryville's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	36.74%	32.32%	22.61%	34.44%	7.12%	(9.42%)
Plan fiduciary net position as a percentage of the total pension liability**	91.63%	94.18%	94.18%	91.47%	98.09%	102.64%

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

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

City of Cherryville, North Carolina
City of Cherryville's Contributions
Required Supplementary Information
Last Six Fiscal Years

Local Government Employees' Retirement System

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 271,744	\$ 233,727	\$ 211,397	\$ 201,755	\$ 186,693	\$ 184,508
Contributions in relation to the contractually required contribution	271,744	233,727	211,397	201,755	186,693	184,508
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Cherryville's covered payroll	\$ 2,772,834	\$ 2,733,573	\$ 2,733,573	\$ 2,683,416	\$ 2,717,483	\$ 2,605,003
Contributions as a percentage of covered payroll	10.15%	8.55%	7.73%	7.52%	6.87%	7.08%

City of Cherryville, North Carolina
Schedule of Changes in Total Pension Liability
Law Enforcement Officers' Special Separation Allowance
June 30, 2020

	2020	2019	2018	2017
Beginning balance	\$ 275,549	\$ 362,221	\$ 323,129	\$ 309,942
Service Cost	15,322	16,871	17,578	17,143
Interest on the total pension liability	9,933	11,362	12,372	10,970
Changes of benefit terms	-	-	-	-
Differences between expected and actual experience in the measurement of the total pension liability	(33,246)	(95,641)	(11,932)	-
Changes of assumptions or other inputs	9,908	(13,954)	26,282	(9,616)
Benefit payments	(5,310)	(5,310)	(5,208)	(5,310)
Other changes	-	-	-	-
Ending balance of the total pension liability	<u>\$ 272,156</u>	<u>\$ 275,549</u>	<u>\$ 362,221</u>	<u>\$ 323,129</u>

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

City of Cherryville, North Carolina
Schedule of Total Pension Liability as a Percentage of Covered Payroll
Law Enforcement Officers' Special Separation Allowance
June 30, 2020

	2020		2019		2018		2017
Total pension liability	\$ 272,156	\$	275,549	\$	362,221	\$	323,129
Covered payroll	621,821		591,973		613,686		599,059
Total pension liability as a percentage of covered payroll	43.77%		46.55%		59.02%		53.94%

Notes to the schedules:

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

City of Cherryville, North Carolina
Schedule of Changes in the Total OPEB Liability and Related Ratios
June 30, 2020

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total OPEB Liability			
Service cost	60,422	62,630	67,975
Interest	61,848	55,650	47,165
Changes of benefit terms	-	-	-
Differences between expected and actual experience	(24,685)	198	(320)
Changes of assumptions	39,887	(50,172)	(85,629)
Benefit payments	(48,908)	(34,422)	(31,524)
Net change in total OPEB liability	<u>88,564</u>	<u>33,884</u>	<u>(2,333)</u>
Total OPEB liability - beginning	<u>1,614,140</u>	<u>1,580,256</u>	<u>1,582,589</u>
Total OPEB liability - ending	<u><u>1,702,704</u></u>	<u><u>1,614,140</u></u>	<u><u>1,580,256</u></u>
Covered payroll	2,670,874	3,116,422	2,564,819
Total OPEB liability as a percentage of covered payroll	63.75%	51.79%	61.61%

Notes to Schedule

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

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

INDIVIDUAL FUND FINANCIAL STATEMENTS

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

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Ad valorem taxes:			
Taxes	\$	\$ 1,791,690	\$
Vehicle taxes		212,860	
Penalties and interest		7,955	
Total	<u>1,854,500</u>	<u>2,012,505</u>	<u>158,005</u>
Other taxes and licenses:			
Payments-in-lieu-of taxes		108,600	
Motor vehicle licenses		14,013	
Total	<u>122,600</u>	<u>122,613</u>	<u>13</u>
Unrestricted intergovernmental:			
Local option sales taxes		711,555	
Gaston County hold harmless tax		114,732	
Utility franchise tax		352,004	
Beer and wine tax		25,686	
ABC profit distribution		29,763	
Total	<u>1,226,743</u>	<u>1,233,740</u>	<u>6,997</u>
Restricted intergovernmental:			
Powell Bill allocation		183,019	
General grants		970	
Police & Fire Dept grants		24,791	
Solid waste disposal tax		4,519	
Total	<u>216,791</u>	<u>213,299</u>	<u>(3,492)</u>
Permits and fees:			
Zoning permits		7,275	
Court fees		4,878	
Total	<u>6,000</u>	<u>12,153</u>	<u>6,153</u>
Sales and services:			
Cemetery sales		92,123	
Yard waste fees		98,973	
Garbage late fees		5,209	
Fire protection charges		5,550	
Sanitary landfill fees		524,987	
Recreation department fees	<u>712,600</u>	<u>726,842</u>	<u>14,242</u>
Investment earnings:			
General Fund		42,137	
Interest earned-Powell Bill		7,371	
Total	<u>35,600</u>	<u>49,508</u>	<u>13,908</u>

cont.

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

	Budget	Actual	Variance Positive (Negative)
Miscellaneous:			
Rents and leases		10,971	
Sale of surplus properties		6,812	
Other revenues		191,006	
Total	<u>1,671,309</u>	<u>208,789</u>	<u>(1,462,520)</u>
Total revenues	<u>5,846,143</u>	<u>4,579,449</u>	<u>(1,266,694)</u>
Expenditures:			
Administration			
Governing board:			
Salaries and employee benefits		38,493	
Election expense		6,974	
Total	<u>45,700</u>	<u>45,467</u>	<u>233</u>
Administration:			
Salaries and employee benefits		134,479	
Professional services		36,832	
Other operating expenditures		251,745	
Debt service		7,750	
Total	<u>436,600</u>	<u>430,806</u>	<u>5,794</u>
Total administration	<u>482,300</u>	<u>476,273</u>	<u>6,027</u>
Economic development:			
Salaries and employee benefits		57,873	
Grants		24,749	
Other operating expenditures		11,502	
Cherryville Main Street program		149,831	
Total economic development	<u>1,095,309</u>	<u>243,955</u>	<u>851,354</u>
Police:			
Salaries and employee benefits		1,265,068	
Vehicle maintenance		9,902	
Other operating expenditures		148,535	
Capital outlay		51,078	
Total Police	<u>1,551,020</u>	<u>1,474,583</u>	<u>76,437</u>
Fire:			
Salaries and employee benefits		620,969	
Maintenance		33,253	
Other operating expenditures		128,724	
Debt Service		152,632	
Capital outlay		5,771	
Total Fire	<u>1,004,534</u>	<u>941,349</u>	<u>63,185</u>
Public Works:			
Salaries and employee benefits		66,591	
Other operating expenditures		33,413	
Total Public Works	<u>122,500</u>	<u>100,004</u>	<u>22,496</u>

cont.

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

	Budget	Actual	Variance Positive (Negative)
Streets:			
Salaries and employee benefits		146,345	
Maintenance		9,302	
Other operating expenditures		25,238	
Capital outlay			
Total Streets	<u>213,600</u>	<u>180,885</u>	<u>32,715</u>
Powell Bill:			
Salaries and employee benefits		60,644	
Maintenance		1,371	
Other operating expenditures		63,947	
Capital outlay		68,465	
Total Powell Bill	<u>259,850</u>	<u>194,427</u>	<u>65,423</u>
Sanitation:			
Salaries and employee benefits		303,919	
Other operating expenditures		65,532	
Tipping fees		105,444	
Capital outlay		183,782	
Total sanitation	<u>695,100</u>	<u>658,677</u>	<u>36,423</u>
Recreation:			
Salaries and employee benefits		82,439	
Maintenance and repairs		23,195	
Other operating expenditures		86,242	
Debt service		37,023	
Total recreation	<u>349,650</u>	<u>228,899</u>	<u>120,751</u>
Cemetery:			
Salaries and employee benefits		7,405	
Contract services		54,297	
Other operating expenditures		364	
Total Cemetery	<u>72,280</u>	<u>62,066</u>	<u>10,214</u>
Total expenditures	<u>5,846,143</u>	<u>4,561,118</u>	<u>1,285,025</u>
Net change in fund balance	<u>\$ -</u>	18,331	<u>\$ 18,331</u>
Fund balances, beginning		<u>2,182,426</u>	
Fund balances, ending		<u>\$ 2,200,757</u>	

**City of Cherryville
Balance Sheet
Nonmajor Governmental Funds
For the Year Ended June 30, 2020**

	Grant Project Fund	Total Nonmajor Governmental Funds
Assets		
Due from other funds	\$ 120,406	\$ 120,406
Total assets	<u>\$ 120,406</u>	<u>\$ 120,406</u>
Liabilities and Fund Balances		
Liabilities:		
Accounts payable and accrued liabilities	\$	\$
Fund balances:		
Restricted Fire Grant	120,406	120,406
Total liabilities and fund balances	<u>\$ 120,406</u>	<u>\$ 120,406</u>

City of Cherryville, North Carolina
Special Revenue Fund - Grant Project Fund
Schedule of Revenues and Expenditures
and Changes in Fund Balances - Budget and Actual
From Inception and for the Fiscal Year Ended June 30, 2020

	Project Author - ization	Actual		Total to Date	Variance Positive (Negative)
		Prior Year	Current Year		
Revenues					
Revenues					
Fire Grant Project					
Restricted intergovernmental:					
Fire Grant - Federal	\$1,660,187	\$ -	\$ 1,660,187	\$ 1,660,187	\$ -
Fire Grant - Local	169,797		169,797	169,797	
	<u>\$1,829,984</u>		<u>\$ 1,829,984</u>	<u>\$ 1,829,984</u>	
Expenditures					
Township Grant Project:					
Capital outlay					
Purchase of radios	1,829,984	-	1,709,578	1,709,578	120,406
Revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	120,406	<u>\$ 120,406</u>	<u>\$ 120,406</u>
Fund balance, beginning					
Fund balance, ending			<u>\$ 120,406</u>		

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

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Operating revenues:			
Electric sales		\$ 6,053,962	
Other operating revenues		837,264	
	<u>\$ 6,817,528</u>	<u>6,891,226</u>	<u>\$ 73,698</u>
Nonoperating revenues:			
Insurance reimbursement		6,450	
Interest		3,388	
	<u>11,300</u>	<u>9,838</u>	<u>(1,462)</u>
Total revenues	<u>6,828,828</u>	<u>6,901,064</u>	<u>72,236</u>
Expenditures:			
Electric operations:			
Salaries and employee benefits		697,013	
Travel and training		15,032	
Total	<u>721,100</u>	<u>712,045</u>	<u>9,055</u>
Operating expenditures:			
Insurance		61,474	
System maintenance		290,120	
Vehicle maintenance		6,773	
Contract services		225,905	
Other operating expenditures		352,238	
Sales tax on electric sales		353,945	
Total	<u>1,673,850</u>	<u>1,290,455</u>	<u>383,395</u>
Electrical power purchases	<u>3,942,028</u>	<u>3,913,721</u>	<u>28,307</u>
Capital outlay:			
Equipment		346,840	
Total	<u>447,750</u>	<u>346,840</u>	<u>100,910</u>
Debt Service:			
Interest Expense		-	
Principal retirement		28,299	
	<u>44,100</u>	<u>28,299</u>	<u>15,801</u>
Total expenditures	<u>6,828,828</u>	<u>6,291,360</u>	<u>537,468</u>
Revenues over expenditures	-	609,704	609,704 (cont.)

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

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues and other financing sources over expenditures	<u>\$ -</u>	<u>\$ 609,704</u>	<u>\$ 609,704</u>
Reconciliation from budgetary basis (modified accrual) to full accrual:			
Reconciling items:			
Principal retirement		28,299	
Capital outlays		346,840	
Depreciation		(212,953)	
Increase (decrease) in accrued revenues		(49,265)	
Decrease in accrued compensated absences		11,655	
Decrease in deferred outflows of resources - pensions		(11,529)	
Decrease in deferred inflows of resources-pensions		1,253	
Increase in net pension liability		(21,493)	
Increase in deferred outflows of resources-OPEB		5,361	
Decrease in deferred inflows of resources-OPEB		484	
Increase in accrued OPEB		<u>(11,583)</u>	
Total		<u>87,069</u>	
Change in net position		<u>\$ 696,773</u>	

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

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Operating revenues:			
Water sales		\$ 1,372,286	
Sewer charges		993,446	
Water and sewer taps		70,513	
Other operating revenues		27,328	
	<u>\$ 2,387,360</u>	<u>2,463,573</u>	<u>\$ 76,213</u>
Nonoperating revenues:			
Interest earnings		386	
Other		7,833	
	<u>4,700</u>	<u>8,219</u>	<u>3,519</u>
Total revenues	<u>2,392,060</u>	<u>2,471,792</u>	<u>79,732</u>
Expenditures:			
Water and sewer administration:			
Salaries and employee benefits		558,931	
Travel and training		3,196	
Supplies		7,209	
Vehicle maintenance		2,859	
Insurance		54,535	
Other operating expenditures		349,601	
Debt service		116,899	
	<u>1,366,600</u>	<u>1,093,230</u>	<u>273,370</u>
Water treatment and distribution:			
Salaries and employee benefits		344,465	
Chemicals		88,090	
Other operating expenditures		270,280	
Capital outlay - other improvements		116,176	
	<u>857,060</u>	<u>819,011</u>	<u>38,049</u>
Waste collection and treatment:			
Salaries and employee benefits		239,998	
Chemicals		8,605	
Supplies		6,198	
Other operating expenditures		221,105	
Capital outlay - equipment		34,823	
Capital outlay - other improvements		30,361	
	<u>576,400</u>	<u>541,090</u>	<u>35,310</u>

(cont.)

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

	Budget	Actual	Variance Positive (Negative)
Total expenditures	2,800,060	2,453,331	346,729
Revenues over(under) expenditures	(408,000)	18,461	426,461
Fund balance appropriated	408,000		(408,000)
Revenues and other sources over expenditures and other uses	\$ -	\$ 18,461	\$ 18,461

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

Revenues and other sources over expenditures and other uses	\$ 18,461
Reconciling items:	
Principal retirement	116,899
Capital outlay	181,360
Depreciation	(605,630)
Increase in accrued revenues	134,476
Decrease in accrued interest payable	1,063
Increase in accrued compensated absences	(60,467)
Decrease in deferred inflows of resources - prepaid rents	9,114
Decrease in deferred outflows of resources-pensions	(16,710)
Decrease in deferred inflows of resources -pensions	1,950
Increase in net pension liability	(33,442)
Increase in deferred outflows of resources-OPEB	8,596
Decrease in deferred inflows of resources-OPEB	443
Increase in accrued OPEB	(22,894)
Total reconciling items	(285,242)
Change in net position	\$ (266,781)

OTHER SCHEDULES

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

<u>Fiscal Year</u>	<u>Uncollected Balance June 30, 2019</u>	<u>Additions</u>	<u>Collections And Credits</u>	<u>Uncollected Balance June 30, 2020</u>
2019-2020	\$	\$ 2,087,222	\$ 2,044,242	\$ 42,980
2018-2019	25,671	--	11,522	14,149
2017-2018	13,462	--	2,828	10,634
2016-2017	10,328	--	1,717	8,611
2015-2016	8,163	--	580	7,583
2014-2015	11,130	--	466	10,664
2013-2014	10,457	--	1,623	8,834
2012-2013	11,230	--	3,080	8,150
2011-2012	7,160	--	2,781	4,379
2010-2011	6,124	--	2,233	3,891
2009-2010	7,013	--	7,013	0
	<u>\$ 110,738</u>	<u>\$ 2,087,222</u>	<u>\$ 2,078,085</u>	<u>119,875</u>
Less: allowance for uncollectible accounts:				
General Fund				<u>2,397</u>
Ad valorem taxes receivable - net				<u>\$ 117,478</u>
<u>Reconciliation to revenues:</u>				
Ad valorem taxes - General Fund				\$ 2,012,505
Reconciling items:				
Interest collected				(7,955)
Prior year releases and adjustments				10,206
Taxes written off				<u>63,329</u>
Subtotal				<u>65,580</u>
Total collections and credits				<u>\$ 2,078,085</u>

City of Cherryville, North Carolina
Analysis of Current Tax Levy
City - Wide Levy
June 30, 2020

	City - Wide		Total Levy		
	Property Valuation	Rate	Total Levy	Property excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Property taxed at current rate	<u>\$ 453,743,913</u>	0.46	\$ 2,087,222	\$ 1,874,362	\$ 212,860
Net levy			2,087,222	1,874,362	212,860
Uncollected taxes at June 30, 2020			<u>42,980</u>	<u>42,980</u>	<u>-</u>
Current year's taxes collected			<u>\$2,044,242</u>	<u>\$1,831,382</u>	<u>\$212,860</u>
Current levy collection percentage			<u>97.94%</u>	<u>97.71%</u>	<u>100.00%</u>

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
*Government Auditing Standards***

Independent Auditor's Report

December 21, 2020

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

We have audited, in accordance with the 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 financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Cherryville, North Carolina, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprises the City of Cherryville's basic financial statements, and have issued our report thereon dated December 21, 2020. Our reports include a reference to other auditors who audited the financial statements of the City of Cherryville ABC Board, as described in our report on the City of Cherryville's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported separately by those auditors. The financial statements of the City of Cherryville ABC Board were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented,

or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results 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.

Butler & Stowe

**Report On Compliance for Each Major Federal Program; Report on Internal Control
Over Compliance; With OMB Uniform Guidance and the State Single Audit
Implementation Act**

Independent Auditor's Report

December 21, 2020

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

Report on Compliance For Each Major Federal Program

We have audited the City of Cherryville, North Carolina compliance with the types of compliance requirements described in the OMB *Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of the City of Cherryville's major federal programs for the year ended June 30, 2020. The City of Cherryville's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with Federal and State statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Cherryville's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and the *State Single Audit Implementation Act*. Those standards, the Uniform Guidance and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Cherryville's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Cherryville's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Cherryville complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

Report on Internal Control Over Compliance

Management of the City of Cherryville is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Cherryville's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Cherryville's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Butler & Stow

CITY OF CHERRYVILLE, NORTH CAROLINA
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
For the Year Ended June 30, 2020

<u>Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>State Pass-through Grantor's Number</u>	<u>Fed. (Direct & Pass-through) Expenditures</u>	<u>State Expenditures</u>	<u>Local Expenditures</u>
Federal Grants:					
Cash Programs					
<u>Department of Homeland Security</u>					
Assistance to Firefighters Grant	97.044		\$ 1,539,781	\$	\$ 169,797
Total assistance - federal programs			<u>1,539,781</u>		<u>169,797</u>
<u>N.C. Department of Transportation:</u>					
Powell Bill				<u>193,889</u>	
Total assistance - State programs				<u>193,889</u>	<u>-</u>
Total assistance			<u>\$ 1,539,781</u>	<u>\$ 193,889</u>	<u>\$ 169,797</u>

Notes to the Schedule of Expenditures of Federal and State Financial Awards

Note 1: Basis of Presentation

The accompanying schedule of expenditures of federal and State awards (SEFSA) includes the federal and State grant activity of the City of Cherryville under the programs of the federal government and the State of North Carolina for the year ended June 30, 2020. The information in the SEFSA is presented in accordance with the requirements of Title 2 US Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and the State Single Audit Implementation Act. Because the Schedule presents only a selected portion of the operations of the City of Cherryville, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City of Cherryville.

Note 2: Summary of Significant Policies

Expenditures reported in the SEFSA are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3: Indirect Cost Rate

The City of Cherryville has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

CITY OF CHERRYVILLE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Fiscal Year Ended June 30, 2020

Section I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness identified? yes no
- Significant deficiencies identified that are
not considered to be material weaknesses? yes no

Noncompliance material to financial statements noted yes no

Federal awards

Internal control over major federal programs:

- Material weaknesses identified? yes no
- Significant Deficiency(s) identified? yes none reported

Type of auditor's report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? yes no

Identification of Major Federal Program:

<u>CFDA No.</u>	<u>Name of Federal Program or Cluster</u>
97.044	Assistance to Firefighters Grant

Dollar threshold used to distinguish between Type A and Type B Programs \$ 750,000

Auditee qualified as low-risk auditee? Yes no

CITY OF CHERRYVILLE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Fiscal Year Ended June 30, 2020

Section II – Financial Statement Findings

None reported

Section III. Federal Award Findings and Questioned Costs

None reported.

Schedule IV. State Award Findings and Questioned Costs

None reported.

**CITY OF CHERRYVILLE
CORRECTIVE ACTION PLAN
For the Fiscal Year Ended June 30, 2020**

Section II – Financial Statement Findings

None.

CITY OF CHERRYVILLE, NORTH CAROLINA
Status of Prior Year Findings
For the Fiscal Year Ended June 30, 2020

There were no prior year findings.