

# CITY OF CHERRYVILLE

Cherryville, North Carolina

Report of Certified Public Accountants

Financial Statements and Schedules

Year Ended June 30, 2018

Council Members

H. L. Beam, Mayor

Brian Dalton

Gary Freeman

Malcom 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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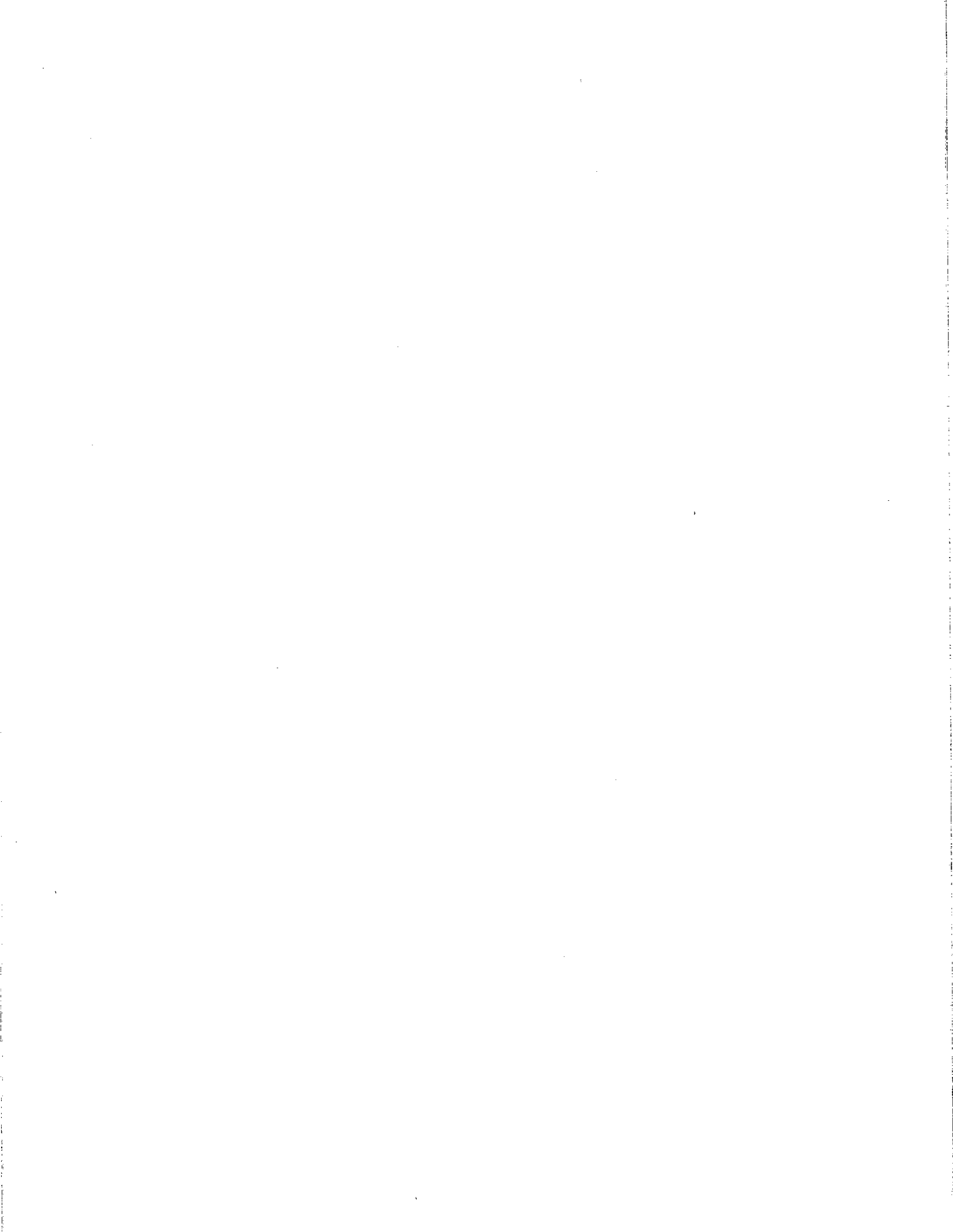
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**FINANCIAL SECTION**



**COLLIS AND ASSOCIATES, CPAs, P.C.**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**103 EAST THIRD AVENUE  
GASTONIA, NORTH CAROLINA 28052  
704 / 867-0201**

Independent Auditor's Report

To the Honorable Mayor  
and Members of the City Council  
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, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

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

***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the City of 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 misstatements 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 includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation of the financial statements.

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

### ***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, 2018, and the respective changes in financial position and cash flows, where appropriate, thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages iv through xiv, the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Liability and Contributions, on pages 44 and 45, respectively, the Law Enforcement Officer's Special Separation Allowance schedules of the Changes in Total Pension Liability and Total Pension Liability as a Percentage of Covered Payroll on pages 46 and 47, respectively, and the Other Postemployment Benefits Schedules of Changes in Total OPEB Liability and Related Ratios on Page 48, be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and the other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information

for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Supplementary and Other Information*

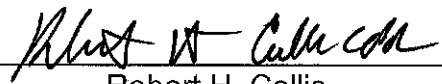
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the City of Cherryville, North Carolina. The combining of individual fund statements, budgetary schedules and other schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated April 29, 2019 on our consideration of City of Cherryville's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Cherryville's internal control over financial reporting and compliance.

COLLIS AND ASSOCIATES, CPAs, P.C.

By:   
Robert H. Collis

Gastonia, North Carolina  
April 29, 2019



## **Management's Discussion and Analysis**

## **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, 2018. 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:**

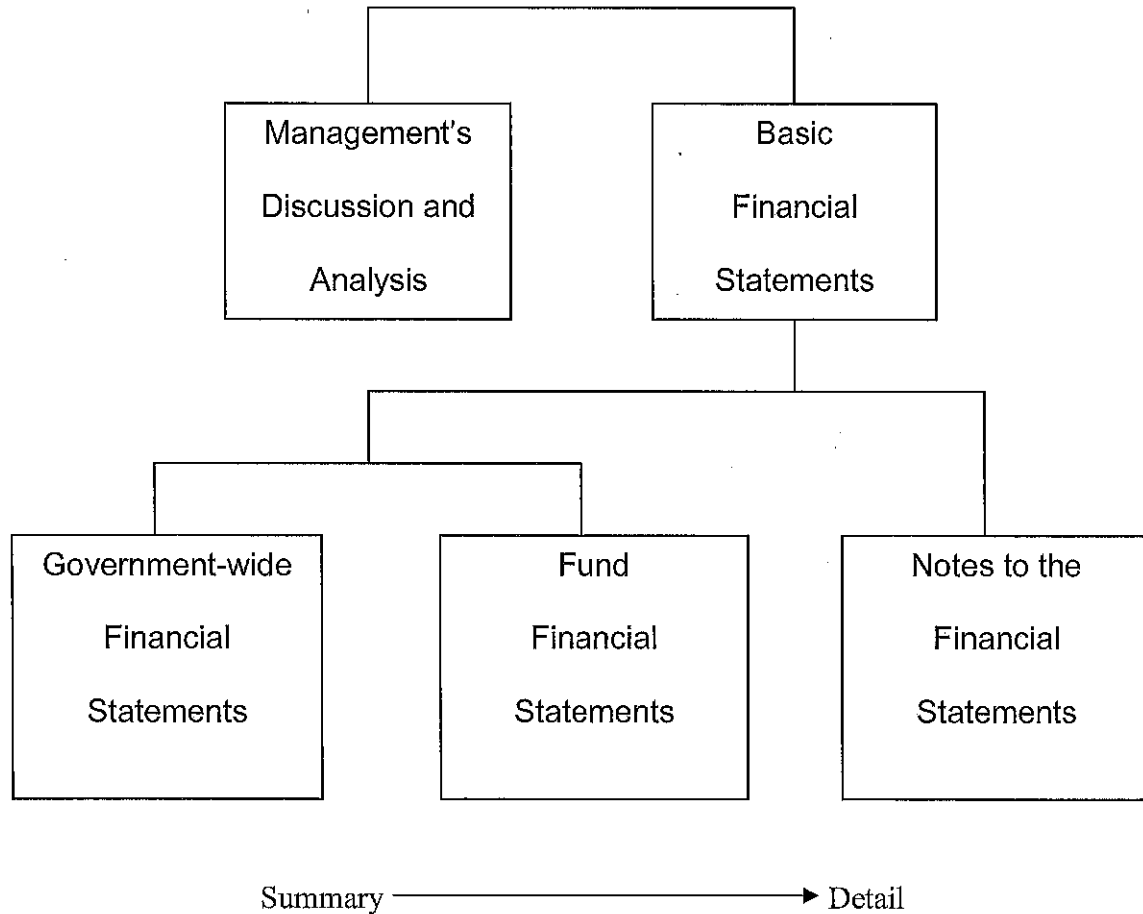
- The cumulative assets and deferred outflows of resources (net position) of the City of Cherryville exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$19,061,521.
- The government's total net position for fiscal year 2018 increased by \$130,647, due to an increase in the governmental activities net position of \$116,264 and an increase in the business type activities net position of \$14,383.
- As of the close of the fiscal year 2018, the City of Cherryville's governmental funds reported combined ending fund balances of \$1,235,781, an increase of \$249,511 in comparison with the prior year.
- At the end of the fiscal year 2018, unassigned fund balance for the General Fund was \$324,522 or 7.8 percent of total general fund expenditures for the fiscal year.
- The City of Cherryville's total debt decreased by \$244,673 (10.6%) during the current fiscal year. The decrease in debt was as 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 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 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 of Cherryville'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 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.

Management Discussion and Analysis  
**City of Cherryville**

The next section of the basic financial statements is the **notes**. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, **supplemental information** is provided to show details about the City's individual funds. Budgetary information required by the 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 changed. Net position is the difference between the City's total assets and deferred outflows of resources and total liabilities and deferred inflows of resources. Measuring net position is one way to gauge the City's financial condition.

The government-wide statements are divided into three categories: 1) governmental activities; 2) business-type activities; and 3) component units. The governmental activities include most of the City's basic services such as 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 of Cherryville. 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 at 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

Management Discussion and Analysis  
**City of Cherryville**

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.

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 Council 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 kind of proprietary fund. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. City of Cherryville uses enterprise funds 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 are on pages 11 to 42 of this report.

**Other Information** – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the City of Cherryville's progress in funding its obligation to provide pension benefits to its

Management Discussion and Analysis  
**City of Cherryville**

employees. Required supplementary information can be found beginning on page 43 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.

**Government-Wide Financial Analysis**

**The City of Cherryville's Net Position**

**Figure 2**

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Current and other assets	\$ 1,458,924	\$ 1,278,238	\$ 4,380,371	\$ 4,359,311	\$ 5,839,295	\$ 5,637,549
Capital assets	5,632,284	5,795,159	13,483,858	13,509,492	19,116,142	19,304,651
Deferred outflow of resources	301,994	473,559	215,479	344,189	517,473	817,748
Total assets	7,393,202	7,546,956	18,079,708	18,212,992	25,472,910	25,759,948
Long-term liabilities outstanding	3,225,764	3,498,114	1,117,241	941,881	4,343,005	4,439,995
Other liabilities	480,604	520,380	1,074,791	970,448	1,555,395	1,490,828
Deferred inflows of resources	69,032	26,924	443,957	424,559	512,989	451,483
Total liabilities	3,775,400	4,045,418	2,635,989	2,336,888	6,411,389	6,382,306
Net position:						
Net investment in capital assets	3,952,519	3,985,440	13,106,939	13,017,854	17,059,458	17,003,294
Restricted	720,836	507,609	36,214	35,789	757,050	543,398
Unrestricted	(1,055,553)	(991,511)	2,300,566	2,375,693	1,245,013	1,384,182
Total net position	\$ 3,617,802	\$ 3,501,538	15,443,719	15,429,336	19,061,521	18,930,874

As noted earlier, Net Position may serve over time as one useful indicator of a government's financial condition (see Figures 2 and 3). The cumulative assets and deferred outflows of the City of Cherryville exceeded liabilities and deferred inflows by \$19,061,521 as of June 30, 2018. The City's Net Position increased by \$130,647 for the fiscal year ended June 30, 2018. However, the largest portion (89.5%) reflects the City's 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 investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the City of Cherryville's Net Position, \$757,050 (4.0%), represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$1,245,013 is unrestricted.

Management 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 98.55%. This is equal to the statewide average of 98.55% for similar sized municipalities with electrical systems.

**City of Cherryville's Changes in Net Position**  
 Figure 3

	Governmental Activities		Business Type Activities		Total	
	2018	2017	2018	2017	2018	2017
<b>Revenues:</b>						
Program revenues:						
Charges for services	704,353	668,439	8,791,079	8,517,425	9,495,432	9,215,864
Operating grants and contributions	193,926	187,785	11,710	5,000	205,636	192,785
Capital grants and contributions	321,367	248,965	4,189	146,094	325,556	395,059
General revenues:						
Property taxes	1,741,859	1,694,876			1,741,859	1,694,876
Other taxes	1,202,640	1,200,717			1,202,640	1,200,717
Grants and contributions not restricted to specific programs	-	-			-	-
Other	263,812	114,996	3,956	31,990	267,768	146,986
<b>Total revenues</b>	<b>4,427,957</b>	<b>4,135,778</b>	<b>8,810,934</b>	<b>8,700,509</b>	<b>13,238,891</b>	<b>12,836,287</b>
<b>Expenses:</b>						
General government	899,018	603,545			899,018	603,545
Public safety	2,094,115	2,025,216			2,094,115	2,025,216
Transportation	386,207	594,309			386,207	594,309
Sanitation	512,898	499,447			512,898	499,447
Recreation	289,538	230,471			289,538	230,471
Cemetery	54,672	52,016			54,672	52,016
Interest on long-term debt	75,245	80,370			75,245	80,370
Water and sewer	-	-	2,524,496	2,222,214	2,524,496	2,222,214
Electric	-	-	6,272,055	6,224,683	6,272,055	6,224,683
<b>Total expenses</b>	<b>4,311,663</b>	<b>4,065,374</b>	<b>8,796,551</b>	<b>8,446,897</b>	<b>13,108,244</b>	<b>12,532,271</b>
Increase in net position before transfers	116,264	50,404	14,383	253,612	130,647	304,016
Transfers	-	-	-	-	-	-
<b>Increase in net position</b>	<b>116,264</b>	<b>50,404</b>	<b>14,383</b>	<b>253,612</b>	<b>130,647</b>	<b>304,016</b>
Net position, July 1, as previously reported	4,131,309	4,280,111	15,876,104	15,622,492	20,007,413	19,902,603
Restatement	(629,771)	(199,206)	(446,768)	-	(1,076,539)	(199,206)
<b>Net position, July 1, as restated</b>	<b>3,501,538</b>	<b>4,080,905</b>	<b>15,429,336</b>	<b>15,622,492</b>	<b>18,930,874</b>	<b>19,703,397</b>
<b>Net position, June 30</b>	<b>\$ 3,617,802</b>	<b>\$ 4,131,309</b>	<b>15,443,719</b>	<b>15,876,104</b>	<b>19,061,521</b>	<b>20,007,413</b>

Management Discussion and Analysis  
**City of Cherryville**

**Governmental Activities:** Governmental activities increased the City's Net Position by \$116,264, and accounted for 89.0% of the total growth in the Net Position of the City of Cherryville. This increase is attributable to a concerted effort to control and manage expenditures within budget.

**Business-type Activities:** Business-type activities increased the City of Cherryville's Net Position by \$14,383, accounting for 11.0% of the total growth in the government's Net Position. Key elements of this increase are as follows:

- Inflows of cash, primarily through increased revenues from water and sewer sales to customers. This was primarily through additional growth of Modern Polymers expanded its operating capacity with a new facility.

### **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, unassigned fund balance of the General Fund was \$324,522, while total fund balance increased to \$1,235,781. 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 7.8 percent of total General Fund expenditures.

At June 30, 2018, the governmental funds of City of Cherryville reported a combined fund balance of \$1,235,781, with a net increase in fund balance of \$249,511, a 25.30 percent increase from last year.



Management Discussion and Analysis  
**City of Cherryville**

**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.

**Proprietary Funds:** The City's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted Net Position of the Water and Sewer Fund at the end of the fiscal year amounted to \$609,119, and those for the Electric Fund amounted to \$1,691,447. The total decrease in Net Position for the Water and Sewer Fund and the increase in Net Position for Electric Fund were (\$335,275 and \$349,658 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, 2018, totals \$19,116,142 (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 2018.

**City of Cherryville's Capital Assets**  
 (Net of Depreciation)

**Figure 4**

	Governmental Activities 2018	Governmental Activities 2017	Business-type Activities 2018	Business-type Activities 2017	Total 2018	Total 2017
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	2,420,728	2,495,702	12,894,213	12,884,590	15,314,941	15,380,292
Improvements other than buildings	1,370,195	1,406,296			1,370,195	1,406,296
Machinery and equipment	666,931	675,111	369,916	405,173	1,036,847	1,080,284
Infrastructure	254,800	298,420			254,800	298,420
Construction in progress	6,930	6,930	16,800	16,800	23,730	23,730
<b>Total</b>	<b>\$ 5,632,284</b>	<b>\$ 5,795,159</b>	<b>13,483,858</b>	<b>13,509,492</b>	<b>19,116,142</b>	<b>19,304,651</b>

Additional information on the City of Cherryville capital assets can be found in note II.A.4 of the Basic Financial Statements.

**Long-term Debt:** As of June 30, 2018, the City of Cherryville had no bonded debt outstanding. The City of Cherryville' total debt decreased by \$244,673 (10.6%) 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 \$28,472,151. The City has no bonds authorized but un-issued at June 30, 2018.

Management Discussion and Analysis  
**City of Cherryville**

Additional information regarding the City of Cherryville's long-term debt can be found in note II.B.5 beginning on page 39 of this report.

**Economic Factors and Next Year's Budgets and Rates**

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

- The State of North Carolina unemployment numbers dropped from 4.4% in June 2017 to 4.2% in June 2018. Moreover, Gaston County's unemployment rate declined from 4.2% in June 2017 to 3.7% in June 2018. Cherryville's unemployment rate is also reflective of the state and county's downward trending numbers.
- 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.
- Cherryville is working aggressively on revitalizing its downtown. To that end, the City anticipates new businesses will come to the downtown central business district. In turn, we will benefit from an increase in capital investment to Cherryville's Main Street and growth in our commercial tax base.

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**Budget Highlights for the Fiscal Year Ending June 30, 2019**

**Governmental Activities:** The City tax rate will remain unchanged at 0.46 cents per one hundred dollars of valuation of fiscal year 2018. Budgeted expenditures in the General Fund are expected to increase less than 3.25% (\$135,952) to \$4,316,595 in fiscal year 2019. This increase is due primarily to the cost of living adjustments and the purchase of various pieces of equipment.

**Business-Type Activities:** The City's Electric rates will decrease 2%, for Residential, Commercial, and Industrial. However, Water and Sewer rates will remain unchanged for customers in fiscal year 2019. Electric and Water and Sewer expenditures are expected to stay increased due to the implementation of an Automation Metering Infrastructure that will be completed in fiscal year 2019.

Management Discussion and Analysis  
**City of Cherryville**

**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](http://www.cityofcherryville.com).

## **Basic Financial Statements**

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City of Cherryville, North Carolina  
Statement of Net Position  
June 30, 2018

Exhibit 1

	Primary Government			City of Cherryville ABC
	Governmental Activities	Business-type Activities	Total	
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 657,423	2,167,561	2,824,984	\$ 227,883
Receivables				
Taxes, net	63,454	-	63,454	-
Accrued interest receivable on taxes	14,980	-	14,980	-
Cemetery	4,850	-	4,850	-
Utilities	49,833	-	49,833	-
Other governments	376,150	1,224	377,374	-
Misc	3,888	15,472	19,360	-
Trade	-	1,519,837	1,519,837	-
Prepaid expenses	2,184	16,481	18,665	-
Inventory of supplies, at cost	-	397,159	397,159	139,861
Restricted cash and cash equivalents	286,162	262,637	548,799	-
Total current assets	1,458,924	4,380,371	5,839,295	367,744
Non-current assets:				
Net pension asset	-	-	-	-
Capital assets:				
Non-depreciable:				
Land and construction in progress	919,630	219,729	1,139,359	77,084
Depreciable assets:				
Other assets, net of depreciation	4,712,654	-	4,712,654	76,910
Electric system	-	1,441,136	1,441,136	-
Water & sewer system	-	11,822,993	11,822,993	-
Total depreciable, net of depreciation	4,712,654	13,264,129	17,976,783	76,910
Total capital assets	5,632,284	13,483,858	19,116,142	153,994
Total assets	7,091,208	17,864,229	24,955,437	521,738
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Contributions to pension plan in current fiscal year	301,994	215,479	517,473	25,934
Total deferred outflows of resources	301,994	215,479	517,473	25,934
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	143,880	613,029	756,909	91,161
Compensated absences	187,131	90,440	277,571	-
Emergency water loan	-	64,356	64,356	-
Accrued interest payable	18,710	1,661	20,371	-
Installment obligations	130,883	78,881	209,764	-
Payable from restricted assets-customer deposits	-	226,424	226,424	-
Total current liabilities	480,604	1,074,791	1,555,395	91,161
Noncurrent liabilities:				
Other post employment obligations	1,305,874	636,603	1,942,477	-
Net pension liability	371,009	246,956	617,965	9,167
Installment obligations	1,548,881	40,293	1,589,174	-
Emergency water loan	-	193,389	193,389	-
Total liabilities	3,706,368	2,192,032	5,898,400	100,328
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Pension deferrals	69,032	42,173	111,205	259
Prepaid taxes	-	-	-	-
Prepaid rent income	-	401,784	401,784	-
Total deferred inflows of resources	69,032	443,957	512,989	259
<b>NET POSITION</b>				
Net invested in capital assets	3,952,519	13,106,939	17,059,458	153,994
Restricted for:				
Stabilization by State Statute	434,674	-	434,674	-
Streets	286,162	-	286,162	-
Working Capital	-	-	-	31,457
Electric Rate Stabilization	-	36,214	36,214	-
Unrestricted	(1,055,563)	2,300,566	1,245,013	261,634
Total net position	\$ 3,617,802	16,443,719	19,061,521	\$ 447,085

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, 2018

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			City of Cherryville ABC Board
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-type Activities	Total	
<b>Primary government:</b>								
<b>Governmental Activities:</b>								
General government	\$ 899,018	-	-	310,273	(588,745)	-	(588,745)	-
Public safety	2,094,115	-	7,500	11,094	(2,075,521)	-	(2,075,521)	-
Transportation	386,207	-	186,426	-	(199,781)	-	(199,781)	-
Environmental protection	512,898	621,958	-	-	109,060	-	109,060	-
Recreation	289,538	-	-	-	(289,538)	-	-	-
Cemetery	54,672	82,395	-	-	27,723	-	27,723	-
Interest Expense	75,245	-	-	-	(75,245)	-	(75,245)	-
Total governmental activities (See Note 1)	4,311,693	704,353	193,926	321,367	(3,092,047)	-	(3,092,047)	-
<b>Business-type activities:</b>								
Electric	6,164,450	6,606,918	11,710	-	-	454,178	454,178	-
Water and sewer	2,524,496	2,184,161	-	4,189	-	(336,146)	(336,146)	-
Total business-type activities	8,688,946	8,791,079	11,710	4,189	-	118,032	118,032	-
Total primary government	\$ 13,000,639	9,495,432	205,636	325,556	(3,092,047)	118,032	(2,974,015)	-
<b>Component unit:</b>								
ABC Board	\$ 1,053,493	1,050,439	-	-	-	-	-	(3,054)
Total component unit	\$ 1,053,493	1,050,439	-	-	-	-	-	(3,054)
<b>General revenues:</b>								
<b>Taxes:</b>								
Property taxes					1,741,859	-	1,741,859	-
Other taxes					1,202,640	-	1,202,640	-
Interest					13,303	3,956	17,259	366
Franchise Fees					-	-	-	-
Other Revenues(expenses)					250,509	(107,605)	142,904	-
<b>Transfers</b>								
Total general revenues and transfers					3,208,311	(103,649)	3,104,662	366
Change in net position					116,264	14,383	130,647	(2,688)
Net position, beginning as previously reported					4,131,309	15,876,104	20,007,413	449,773
Prior period adjustment					(629,771)	(446,768)	(1,076,539)	-
Net position, beginning as restated					3,501,538	15,429,336	18,930,874	449,773
Net position, ending					\$ 3,617,802	15,443,719	19,061,521	447,085

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

City of Cherryville, North Carolina  
 Balance Sheet  
 Governmental Funds  
 June 30, 2018

	General	Total Non-Major Funds	Total Governmental Funds
<b>ASSETS</b>			
Cash and cash equivalents	\$ 653,646	3,777	657,423
Restricted cash	286,162	-	286,162
Receivables, net:			
Taxes	63,454	-	63,454
Due from other governments	353,358	-	353,358
Due from other funds	-	-	-
Other	81,363	-	81,363
Prepaid expenses	2,184	-	2,184
Total assets	<u>\$ 1,440,167</u>	<u>3,777</u>	<u>1,443,944</u>
<b>LIABILITIES</b>			
Liabilities:			
Accounts payable and accrued liabilities	\$ 140,103	-	140,103
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Property taxes and tags receivable	64,283	-	64,283
Unearned revenue	-	3,777	3,777
Prepaid taxes	-	-	-
Total deferred inflows of resources	<u>64,283</u>	<u>3,777</u>	<u>68,060</u>
<b>FUND BALANCES</b>			
Non-spendable			
Prepaid expenses	2,184	-	2,184
Restricted:			
Stabilization by State statute	433,892	-	433,892
Streets	286,162	-	286,162
Committed:			
Reserved for USDA	24,021	-	24,021
Assigned			
Subsequent-year's expenditures	165,000	-	165,000
Unassigned	324,522	-	324,522
Total fund balances	<u>1,235,781</u>	<u>-</u>	<u>1,235,781</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 1,440,167</u>	<u>3,777</u>	

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.	5,632,284
Net pension liability	(371,009)
Contributions to the pension plan in the current fiscal year are deferred outflows of resources on the Statement of Net Position	301,995
Other long-term assets (accrued interest receivable from taxes) are not available to pay for current-period expenditures and therefore are deferred in the funds.	14,980
Liabilities for earned revenues considered deferred inflows of resources in fund statements	64,283
Pension related deferrals	(69,033)
Some liabilities, including bonds payable, accrued interest, and compensated absences are not due and payable in the current period and therefore are not reported in the funds (Note 5).	(3,191,479)
Net position of governmental activities	<u>\$ 3,617,802</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, 2018**

	Major Funds		Total Governmental Funds
	General Fund	Total Non-Major Funds	
<b>REVENUES</b>			
Ad valorem taxes	\$ 1,747,972	-	1,747,972
Other taxes and licenses	96,353	-	96,353
Unrestricted intergovernmental	1,221,272	-	1,221,272
Restricted intergovernmental	507,412	-	507,412
Permits and fees	7,354	-	7,354
Sales and services	709,720	-	709,720
Investment earnings	13,303	-	13,303
Grant revenue	-	-	-
Miscellaneous	130,739	-	130,739
Total revenues	4,434,125	-	4,434,125
<b>EXPENDITURES</b>			
Current:			
Administration	414,083	-	414,083
Economic development	305,793	-	305,793
Police	1,281,219	-	1,281,219
Fire	1,008,612	-	1,008,612
Public works	114,573	-	114,573
Streets	138,527	-	138,527
Powell Bill	87,726	-	87,726
Sanitation	487,232	-	487,232
Recreation	272,959	-	272,959
Cemetery	73,890	-	73,890
Total expenditures	4,184,614	-	4,184,614
Excess (deficiency) of revenues over expenditures	249,511	-	249,511
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers from other funds	-	-	-
Transfers to other funds	-	-	-
Total other financing sources (uses)	-	-	-
Net change in fund balance	249,511	-	249,511
Fund balances (deficit), beginning	986,270	-	986,270
Fund balances, ending	\$ 1,235,781	-	1,235,781

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, 2018**

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

Net changes in fund balances - total governmental funds		\$ 249,511
<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	\$ 122,103	
Depreciation expense for governmental assets	<u>(284,978)</u>	(162,875)
<p>Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities</p>		
		119,546
<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		(6,167)
<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		129,955
Accrued interest expense		646
<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>		
Net pension obligation	(25,600)	
Pension expense	(125,082)	
Compensated absences	(22,599)	
Other post employment benefits	<u>(41,071)</u>	<u>(214,352)</u>
Total changes in net position of governmental activities		<u>\$ 116,264</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, 2018**

	General Fund			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
<b>Revenues:</b>				
Ad valorem taxes	\$ 1,702,700	1,702,700	1,747,972	45,272
Other taxes and licenses	92,200	92,200	96,353	4,153
Unrestricted intergovernmental	1,230,625	1,230,625	1,221,272	(9,353)
Restricted intergovernmental	219,300	525,324	507,412	(17,912)
Permits and fees	4,300	4,300	7,354	3,054
Sales and services	701,000	701,000	709,720	8,720
Investment earnings	2,000	2,000	13,303	11,303
Miscellaneous	43,300	99,850	130,739	30,889
Total revenues	<u>3,995,425</u>	<u>4,357,999</u>	<u>4,434,125</u>	<u>76,126</u>
<b>Expenditures:</b>				
Current:				
Administration	471,864	476,864	414,083	62,781
Economic development	26,700	353,535	305,793	47,742
Police	1,366,650	1,385,360	1,281,219	104,141
Fire	1,031,168	1,041,192	1,008,612	32,580
Public works	137,570	122,736	114,573	8,163
Streets	133,250	157,068	138,527	18,541
Powell Bill	210,900	210,900	87,726	123,174
Sanitation	483,850	499,366	487,232	12,134
Recreation	239,561	293,811	272,959	20,852
Cemetery	79,130	80,130	73,890	6,240
Total expenditures	<u>4,180,643</u>	<u>4,620,962</u>	<u>4,184,614</u>	<u>436,348</u>
Revenues over (under) expenditures	<u>(185,218)</u>	<u>(262,963)</u>	<u>249,511</u>	<u>512,474</u>
<b>Other financing sources (uses):</b>				
Transfers from other funds	-	-	-	-
Transfers to other funds	-	-	-	-
Loan proceeds	-	-	-	-
Fund balance appropriated	185,218	262,963	-	(262,963)
Total other financing sources (uses)	<u>185,218</u>	<u>262,963</u>	<u>-</u>	<u>(262,963)</u>
Net change in fund balance	<u>\$ -</u>	<u>-</u>	<u>249,511</u>	<u>249,511</u>
Fund balances, beginning			986,270	
Fund balances, ending			<u>\$ 1,235,781</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, 2018

	Major Enterprise Funds		
	Electric Fund	Water and Sewer Fund	Total
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 998,913	1,168,648	2,167,561
Accounts receivable (net)	1,192,196	327,641	1,519,837
Other receivables	7,727	7,745	15,472
Inventories	325,299	71,860	397,159
Prepaid expenses	16,481	-	16,481
Due from other governments	461	763	1,224
Restricted cash and cash equivalents	209,159	53,478	262,637
Total current assets	<u>2,750,236</u>	<u>1,630,135</u>	<u>4,380,371</u>
Noncurrent assets:			
Net pension asset	-	-	-
Capital assets:			
Land and other non-depreciable assets	66,800	152,929	219,729
Other capital assets, net of depreciation	1,441,136	11,822,993	13,264,129
Capital assets (net)	<u>1,507,936</u>	<u>11,975,922</u>	<u>13,483,858</u>
Total noncurrent assets	1,507,936	11,975,922	13,483,858
Total assets	<u>\$ 4,258,172</u>	<u>13,606,057</u>	<u>17,864,229</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pension and OPEB deferrals	86,833	128,646	215,479
Total deferred outflows	<u>\$ 86,833</u>	<u>128,646</u>	<u>215,479</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable and accrued liabilities	530,370	82,659	613,029
Accrued interest payable	56	1,605	1,661
Compensated absences- current	45,289	45,151	90,440
Installment purchase - current portion	7,222	71,659	78,881
Emergency water loan - current portion	-	64,356	64,356
Liabilities payable from restricted assets:			
Customer deposits	172,945	53,479	226,424
Total current liabilities	<u>755,882</u>	<u>318,909</u>	<u>1,074,791</u>
Noncurrent liabilities:			
Other noncurrent liabilities:			
Other post employment benefits	246,106	390,497	636,603
Net pension liability	98,179	148,777	246,956
Installment Purchases	14,444	25,849	40,293
Emergency Water Loan	-	193,389	193,389
Total noncurrent liabilities	<u>358,729</u>	<u>758,512</u>	<u>1,117,241</u>
Total liabilities	<u>1,114,611</u>	<u>1,077,421</u>	<u>2,192,032</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Pension and OPEB deferrals	16,463	25,710	42,173
Prepaid rent income	-	401,784	401,784
Total deferred inflows of resources	<u>16,463</u>	<u>427,494</u>	<u>443,957</u>
<b>NET POSITION</b>			
Net investment in capital assets	1,486,270	11,620,669	13,106,939
Restricted - rate stabilization	36,214	-	36,214
Unrestricted	1,691,447	609,119	2,300,566
Total net position	<u>\$ 3,213,931</u>	<u>12,229,788</u>	<u>15,443,719</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, 2018**

	<b>Major Enterprise Funds</b>		
	<b>Electric Fund</b>	<b>Water and Sewer Fund</b>	<b>Total</b>
<b>OPERATING REVENUES</b>			
Charges for services	\$ 6,474,488	2,109,677	8,584,165
Water and sewer taps	-	21,264	21,264
Other operating revenues	132,430	53,220	185,650
<b>Total operating revenues</b>	<b>6,606,918</b>	<b>2,184,161</b>	<b>8,791,079</b>
<b>OPERATING EXPENSES</b>			
Salaries and benefits	681,593	574,108	1,255,701
Other operating expenses	753,967	327,612	1,081,579
Electric power purchases	4,594,008	-	4,594,008
Water treatment and distribution	-	669,954	669,954
Waste collection and treatment	-	444,512	444,512
Depreciation	133,785	496,022	629,807
<b>Total operating expenses</b>	<b>6,163,353</b>	<b>2,512,208</b>	<b>8,675,561</b>
<b>Operating income (loss)</b>	<b>443,565</b>	<b>(328,047)</b>	<b>115,518</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Investment earnings	3,085	871	3,956
Grant and donation revenue	11,710	4,189	15,899
Other	-	-	-
Façade grants	(107,605)	-	(107,605)
Interest and other charges	(1,097)	(12,288)	(13,385)
<b>Total nonoperating revenue (expenses)</b>	<b>(93,907)</b>	<b>(7,228)</b>	<b>(101,135)</b>
<b>Income before contributions and transfers</b>	<b>349,658</b>	<b>(335,275)</b>	<b>14,383</b>
Transfers to other funds	-	-	-
<b>Change in net position</b>	<b>349,658</b>	<b>(335,275)</b>	<b>14,383</b>
<b>Net position, beginning as previously reported</b>	<b>3,036,554</b>	<b>12,839,550</b>	<b>15,876,104</b>
<b>Prior period adjustment</b>	<b>(172,281)</b>	<b>(274,487)</b>	<b>(446,768)</b>
<b>Net position, beginning as restated</b>	<b>2,864,273</b>	<b>12,565,063</b>	<b>15,429,336</b>
<b>Total net position, ending</b>	<b>\$ 3,213,931</b>	<b>12,229,788</b>	<b>15,443,719</b>

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 Fiscal Year Ended June 30, 2018

	Major Enterprise Funds		
	Electric Fund	Water and Sewer Fund	Totals
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash received from customers	\$ 6,457,023	2,125,679	8,582,702
Cash paid for goods and services	(5,300,405)	(828,231)	(6,128,636)
Cash paid to or on behalf of employees for services	(670,816)	(1,065,028)	(1,735,844)
Customer deposits received	-	16,470	16,470
Customer deposits returned	(11,060)	-	(11,060)
Other operating revenues	-	44,106	44,106
Net cash provided by operating activities	<u>474,742</u>	<u>292,996</u>	<u>767,738</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Change in due to (from)	-	-	-
Facade and other grant revenue	11,709	4,189	15,898
Facade grants expended	(107,605)	-	(107,605)
Insurance and other recoveries	-	-	-
Total cash flows from noncapital financing activities	<u>(95,896)</u>	<u>4,189</u>	<u>(91,707)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Acquisition and construction of capital assets	(253,609)	(350,564)	(604,173)
Installment principal payments	(7,222)	(107,496)	(114,718)
Interest payments on debt	(1,116)	(12,811)	(13,927)
Capital contributions-federal grant	-	-	-
Net cash (used) by capital and related financing activities	<u>(261,947)</u>	<u>(470,871)</u>	<u>(732,818)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Increase in Electric Rate Stabilization	425	-	425
Interest and dividends	2,660	871	3,531
Net increase (decrease) in cash and cash equivalents	119,984	(172,815)	(52,831)
Balances, beginning	1,088,088	1,394,941	2,483,029
Balances, ending	<u>\$ 1,208,072</u>	<u>1,222,126</u>	<u>2,430,198</u>

(continued)

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

**City of Cherryville, North Carolina**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Fiscal Year Ended June 30, 2018**

(continued)

	<b>Major Enterprise Funds</b>		
	<b>Electric Fund</b>	<b>Water and Sewer Fund</b>	<b>Totals</b>
Reconciliation of operating income to net cash provided by operating activities			
Operating Income	\$ 443,565	(328,047)	115,518
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	133,785	496,022	629,807
Deferred inflows of resources	(10,995)	(17,518)	(28,513)
Pension expense	(49,020)	(78,102)	(127,122)
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable	(132,975)	9,977	(122,998)
(Increase) decrease in prepaid expenses	207	-	207
(Increase) decrease in due from other governments	-	41,805	41,805
(Increase) decrease in inventory	5,437	21,614	27,051
Increase (decrease) in accounts payable and accrued liabilities	25,122	46,580	71,702
Increase (decrease) in customer deposits	11,060	16,470	27,530
Increase (decrease) in other post employment benefits	(373)	(594)	(967)
(Increase) decrease in deferred outflows of resources for pensions	49,759	78,407	128,166
Increase (decrease) in accrued compensated absences	(830)	6,382	5,552
Total adjustments	<u>31,177</u>	<u>621,043</u>	<u>652,220</u>
Net cash provided by operating activities	<u>\$ 474,742</u>	<u>\$ 292,996</u>	<u>\$ 767,738</u>

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

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I. 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 board may be obtained from the entity's administrative office at City of Cherryville ABC Board, 112-A N Cherry St., 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 particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular



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program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

*Fund Financial Statements:* The fund financial statements provide information about the City's funds. Separate statements for each fund category – *governmental and proprietary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as non-major funds.

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

The City reports the following major governmental 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:

**Capital 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 fund operations.

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

**C. Measurement Focus and Basis of Accounting**

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

*Government-wide and Proprietary Fund Financial Statements.* The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and

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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 nonoperating 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 nonoperating revenues and expenses.

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

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 a revenue because the amount is not susceptible to accrual. At June 30, taxes receivable for property other than motor vehicles are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of September 1, 2013, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, the State of North Carolina is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts. Property taxes are due when vehicles are registered. The billed taxes are applicable to the fiscal year in which they are received. Uncollected taxes that were billed in periods prior to

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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. Grant revenues which are unearned at year-end are recorded as unearned revenues. Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

**D. Budgetary Data**

The City's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund and the Enterprise Funds. All annual appropriations lapse at the fiscal-year end. Project ordinances are adopted for the Capital Projects Funds, and the Enterprise Fund Capital Projects Funds, which are consolidated with their respective operating funds for reporting purposes. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and 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. During the year, several immaterial amendments to the original budget were necessary. 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.

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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 as determined by quoted market prices. The securities of the NCCMT Government Portfolio, a SEC-registered (2a-7) external investment pool, is measured at amortized cost, which is the NCCMT's share price.

**2. Cash and Cash Equivalents**

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

**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 classified as restricted cash because they can only be expended for the purposes of maintaining, repairing, constructing, reconstructing or widening of local streets per G.S. 136-41.1 through 136-41.4. Electric rate stabilization funds are classified as restricted because they have been restricted for that purpose by the City Council.

<u>City of Cherryville Restricted Cash</u>	
Governmental Activities	
General Fund-Streets	\$ 286,162
Business-type Activities	
Electric Fund	
Customer deposits	172,945
Rate stabilization fund	36,214
Water and Sewer Fund	
Customer deposits	53,480
Total Business-type Activities	<u>262,639</u>
Total Restricted Cash	<u>\$ 548,801</u>

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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 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, interest does not accrue until the following January 6. These taxes are based on the assessed values as of January 1, 2017.

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 sold or used 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; furniture and equipment, \$5,000; and vehicles, \$10,000. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. General infrastructure assets acquired prior to July 1, 2003 consist of the road network and water and sewer system assets that were acquired or that received substantial improvements subsequent to July 1, 1980 and are reported at estimated cost using deflated replacement cost. The cost of normal

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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:

Asset Class	Estimated Useful Lives
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:

Asset Class	Estimated Useful Lives
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, contributions made to the pension plan in the 2018 fiscal year. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflow 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 – property taxes receivable in the General Fund, un-earned rents in the Water and Sewer Fund and deferrals of pension expense that result from the implementation of GASB Statement 68.

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9. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts, as well as issuance costs, if material, 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, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

10. Compensated Absences

The vacation policy of 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 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

Net Position

Net position in government-wide and proprietary fund financial statements are classified as net invested 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.

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

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

**Committed Fund Balance** –portion of fund balance that can only be used for specific purposes imposed by majority vote by quorum of 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.



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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 Director 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 Director has the authority to deviate from this policy if it is in the best interest of the City.

12. Pensions

For purposes of measuring the net pension asset, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Local Governmental Employees' Retirement System (LGERS) and additions to/deductions from LGERS' fiduciary net position have been determined on the same basis as they are reported by LGERS. For this purpose, plan member contributions are recognized in the period in which the contributions are due. The City of 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.

II. 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 the 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 their names. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the City, the ABC Board, or the escrow agent. Because of the inability to measure the

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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.

At June 30, 2018, the City's deposits had a carrying amount of \$2,057,557 and a bank balance of \$2,263,307. 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, 2018, the City's cash change funds totaled \$500. The carrying amount of deposits for the ABC Board was \$228,444 and the bank balance was \$214,255. 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, 2018, the City of Cherryville had \$1,315,725 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 of its investments.

*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, 2018 are net of the following allowances for doubtful accounts:

Fund	6/30/2018
General Fund:	
Taxes receivable	\$ 49,110
Accounts receivable	4,285
Total	53,395
Enterprise Funds	66,824
Total	\$ 120,219

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**4. Capital Assets**

Capital asset activity for the Primary Government for the year ended June 30, 2018, was as follows:

Total capital assets not being depreciated	919,630	-	-	-	919,630
Capital assets being depreciated:					
Other improvements	2,099,645	19,665	-	-	2,119,310
Buildings	6,394,968	-	-	-	6,394,968
Equipment	1,027,719	31,188	-	-	1,058,907
Vehicles and motorized equipment	2,943,277	71,250	-	-	3,014,527
Infrastructure	949,418	-	-	-	949,418
Total capital assets being depreciated	13,415,027	122,103	-	-	13,537,130
Less accumulated depreciation for:					
Other improvements	693,349	55,766	-	-	749,115
Buildings	3,899,266	74,974	-	-	3,974,240
Equipment	739,184	43,645	-	-	782,829
Vehicles and motorized equipment	2,556,701	66,973	-	-	2,623,674
Infrastructure	650,998	43,620	-	-	694,618
Total accumulated depreciation	8,539,498	284,978	-	-	8,824,476
Total capital assets being depreciated, net	4,875,529				4,712,654
Governmental activity capital assets, net	<u>\$ 5,795,159</u>				<u>5,632,284</u>

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

General government	\$ 10,725
Public safety	101,560
Transportation	62,434
Environmental protection	41,502
Cultural and recreational	68,079
Cemetery	678
Total depreciation expense	<u>\$ 284,978</u>

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	Beginning Balances	Increases	Decreases	Adjustments	Ending Balances
<b>Business-type activities:</b>					
<i>Electric Fund</i>					
<b>Capital assets not being depreciated:</b>					
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>-</u>	<u>-</u>	<u>66,800</u>
<b>Capital assets being depreciated:</b>					
Substations, lines and related equipment	3,230,647	235,506	-	-	3,466,153
Furniture and equipment	272,868	-	-	-	272,868
Vehicles and motorized equipment	725,161	-	-	-	725,161
Computer equipment	91,099	18,102	-	-	109,201
Total capital assets being depreciated	<u>4,319,775</u>	<u>253,608</u>	<u>-</u>	<u>-</u>	<u>4,573,383</u>
<b>Less accumulated depreciation for:</b>					
Substations, lines and related equipment	2,186,553	83,332	-	-	2,269,885
Furniture and equipment	171,452	16,337	-	-	187,789
Vehicles and motorized equipment	573,598	23,436	-	-	597,034
Computer equipment	66,860	10,681	-	-	77,541
Total accumulated depreciation	<u>2,998,463</u>	<u>133,786</u>	<u>-</u>	<u>-</u>	<u>3,132,249</u>
Total capital assets being depreciated, net	<u>1,321,312</u>				<u>1,441,134</u>
<b>Electric Fund capital assets, net</b>	<u>1,388,112</u>				<u>1,507,934</u>
<i>Water and Sewer Fund</i>					
<b>Capital assets not being depreciated:</b>					
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>-</u>	<u>152,929</u>
<b>Capital assets being depreciated:</b>					
Plant and distribution systems	21,987,843	299,370	-	-	22,287,213
Furniture and equipment	462,686	-	-	-	462,686
Vehicles and motorized equipment	475,199	24,900	-	-	500,099
Computer equipment	80,412	26,294	-	-	106,706
Total capital assets being depreciated	<u>23,006,140</u>	<u>350,564</u>	<u>-</u>	<u>-</u>	<u>23,356,704</u>
<b>Less accumulated depreciation for:</b>					
Plant and distribution systems	10,147,347	441,922	-	-	10,589,269
Furniture and equipment	399,355	24,921	-	-	424,276
Vehicles and motorized equipment	447,891	10,961	-	-	458,852
Computer equipment	43,096	18,217	-	-	61,313
Total accumulated depreciation	<u>11,037,689</u>	<u>496,021</u>	<u>-</u>	<u>-</u>	<u>11,533,710</u>
Total capital assets being depreciated, net	<u>11,968,451</u>				<u>11,822,994</u>
<b>Water and Sewer Fund capital assets, net</b>	<u>12,121,380</u>				<u>11,975,923</u>
<b>Business-type activities capital assets, net</b>	<u>\$ 13,509,492</u>				<u>13,483,857</u>

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Discretely presented component unit

Activity for the ABC Board for the year ended June/30, 2018, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
<b>Capital assets, non-depreciable:</b>				
Land	\$ 77,084	-	-	77,084
Total capital assets, non-depreciable	77,084	-	-	77,084
<b>Capital assets being depreciated:</b>				
Buildings	222,794	-	-	222,794
Furniture and equipment	99,136	2,968	-	102,104
Total capital assets being depreciated	321,930	2,968	-	324,898
<b>Less accumulated depreciation for:</b>				
Buildings	165,371	5,570	-	170,941
Furniture and equipment	68,162	8,885	-	77,047
Total accumulated depreciation	233,533	14,455	-	247,988
<b>ABC capital assets, net of depreciation</b>	<u>88,397</u>			<u>76,910</u>
<b>Total capital assets, net of depreciation</b>	<u>\$ 165,481</u>			<u>153,994</u>

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

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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](http://www.osc.nc.gov).

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

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

*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

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Cherryville's contractually required contribution rate for the year ended June 30, 2017, was 8.00% of compensation for law enforcement officers and 7.38% 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 \$201,755 for the year ended June 30, 2017.

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

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

At June 30, 2018, the City reported a liability of \$617,964 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016. The total pension liability was then rolled forward to the measurement date of June 30, 2017 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, 2017, the City's proportion was 0.04045%, which was a decrease of 0.00310% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the City recognized pension expense of \$216,929. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 35,600	\$ 17,493
Changes of assumptions	88,254	-
Net difference between projected and actual earnings on pension plan investments	150,042	-
Changes in proportion and differences between City contributions and proportionate share of contributions	2,971	-
City contributions subsequent to the measurement date	211,397	-
Total	<u>\$ 488,264</u>	<u>\$ 17,493</u>

\$211,397 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as an increase of the net pension asset in the year ended June 30, 2018. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

**Year ended June 30:**

2019	\$ 37,633
2020	181,798
2021	88,761
2022	(48,818)
2023	-
Thereafter	-
	<u>\$ 259,374</u>

*Actuarial Assumptions.* The total pension liability in the December 31, 2015 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 8.15 percent, including inflation and productivity factor
Investment rate of return	7.20 percent, net of pension plan investment expense, including inflation



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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, 2016 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

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

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2016 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 2016 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

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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 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the City's proportionate share of the net pension asset to changes in the discount rate.* The following presents the City's proportionate share of the net pension asset calculated using the discount rate of 7.20 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 (6.20 percent) or one percentage point higher (8.20 percent) than the current rate:

	<u>1% Decrease (6.20%)</u>	<u>Discount Rate (7.20%)</u>	<u>1% Increase (8.20%)</u>
City's proportionate share of the net pension liability (asset)	\$ 1,855,142	\$ 617,964	\$ (414,689)

*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

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

All full-time County law enforcement officers are covered by the Separation Allowance. At December 31, 2017, the Separation Allowance's membership consisted of:

Retirees receiving benefits	1
Terminated plan members entitled to but not yet receiving benefits	-
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, 2016 valuation. The total pension liability in the December 31, 2016 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	3.16 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, 2017.

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

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**4. Contributions.**

The City is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the amounts necessary to cover the benefits earned on a pay as you go basis through appropriations made in the General Fund operating budget. 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, 2018, the City reported a total pension liability of \$362,221. The total pension liability was measured as of December 31, 2017 based on a December 31, 2016 actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2017 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2018, the City recognized pension expense of \$31,074.

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Difference between expected and actual experience	\$ -	\$ 10,110
Changes of assumptions	15,493	
Town benefit payments and plan administrative expense made subsequent to the measurement date	2,655	-
	<u>\$ 18,148</u>	<u>\$ 10,110</u>

\$2,655 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, 2018. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

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**Year ended June 30:**

2019	\$ 771
2020	771
2021	771
2022	771
2023	1,095
Thereafter	1,204

\$2,655 paid as benefits came due and \$353 of administrative expenses subsequent to the measurement date are reported as deferred outflows of resources.

*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 3.16 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 (2.16 percent) or 1-percentage-point higher (4.16 percent) than the current rate:

	<u>1% Decrease (2.16%)</u>	<u>Discount Rate (3.16%)</u>	<u>1% Increase (4.16%)</u>
City's proportionate share of the net pension liability (asset)	\$ 401,040	\$ 362,221	\$ 327,045

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

	<u>2018</u>
Beginning balance	\$ 323,129
Service Cost	17,578
Interest on the total pension liability	12,372
Changes of benefit terms	-
Difference between expected and actual experience in the measurement to the total pension liability	(11,932)
Changes of assumption or other inputs	26,282
Benefit payments	(5,208)
Other changes	-
Ending balance of the total pension liability	<u>\$ 362,221</u>

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

The actuarial assumptions used in the December 31, 2016 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

c. Supplemental Retirement Income Plan for Law Enforcement Officers

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

*Funding Policy.* Article 12E of G.S. Chapter 143 requires the City to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2018 were \$54,588, which consisted of \$33,730 from the City and \$20,258 from the law enforcement officers.

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

*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. Also, the employees may make voluntary contributions to the plan. Contributions for the

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year ended June 30, 2017 were \$163,200, which consisted of \$93,545 from the City and \$69,655 from the employees.

e. Other Postemployment Benefits

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 have at least 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 December 31, 2016, the date of the latest actuarial valuation:

	General Employees	Law Enforcement Officers
Retirees receiving benefits	3	-
Terminated plan members entitle to but not yet receiving benefits	-	-
Active plan members	54	14
Total	57	14

**Total OPEB Liability**

The City's total OPEB liability of \$1,580,256 was measured as of June 30, 2017 and was determined by an actuarial valuation as of that date.

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*Actuarial assumptions and other inputs.* The total OPEB liability in the June 30, 2017 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	3.56 percent
Healthcare cost trend rate	
Pre-Medicare	7.50 percent for 2017 decreasing to an ultimate Rate of 5.0 percent by 2023

The discount rate is based on the yield of the S&P Municipal Bond 20 Year High Grade Rate Index as of the measurement date.

**Total OPEB Changes in the Liability**

	<b>Total OPEB Liability</b>
<b>Balance at July 1, 2017</b>	\$ 1,582,589
<b>Changes for the year</b>	
Service cost	67,975
Interest	47,165
Changes in benefit terms	-
Differences between expected and actual experience	(320)
Changes in assumptions or other inputs	(85,629)
Benefit payments	(31,524)
<b>Net changes</b>	<b>(2,333)</b>
<b>Balance at June 30, 2018</b>	<b>1,580,256</b>

Changes in assumptions and other inputs reflect a change in the discount rate from 3.01% to 3.56%.

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

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period January, 2010 through December, 2014.

*Sensitivity of the total OPEB liability to changes in the discount rate.* The following presents the total OPEB liability of the Town, as well as what the Town's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.56 percent) or 1-percentage-point higher (4.56 percent) than the current discount rate:



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	1% Decrease (2.56%)	Discount Rate (3.56%)	1% Increase (4.56%)
Total OPEB liability	\$ 1,739,460	\$ 1,580,256	\$ 1,436,194

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

	1% Decrease	Current	1% Increase
Total OPEB liability	\$ 407,224	\$ 464,588	\$ 533,176

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

For the year ended June 30, 2018, the City recognized OPEB expense of \$ 101,731. At June 30, 2018, the town reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ (320)
Changes in assumptions	-	(85,629)
Benefit payments and administrative costs made subsequent to the measurement date	-	-
Total	\$ -	\$ (85,949)

\$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, 2019. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

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**Year ended June 30:**

2019	\$ (13,409)
2020	\$ (13,409)
2021	\$ (13,409)
2022	\$ (13,409)
2023	\$ (13,409)
Thereafter	\$ (18,904)

**2. Other Employment Benefit**

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 employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and who 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 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.

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3. Deferred Outflows and Inflows of Resources

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

Sources	Amount
Contributions to pension plan in current fiscal year	\$ 201,755
Benefit payments made and administrative expenses for LEOSSA	2,743
Differences between expected and actual experience	17,366
Changes in assumptions	63,305
Net difference between projected and actual	511,009
Changes in proportion and differences between employer contributions and proportionate share of contributions	21,570
	<u>\$ 817,748</u>

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

	Statement of Net Position	General Fund Balance Sheet
Tag fees (General Fund)	\$ -	\$ 882
Taxes receivable (General Fund)	-	69,083
Prepaid taxes (General Fund)	-	-
Prepaid rent income (Water and Sewer Fund)	410,899	-
Changes in assumptions	8,196	-
Differences between expected and actual experience	32,388	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	-
Total	<u>\$ 451,483</u>	<u>\$ 69,965</u>

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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 \$2,000,000 per occurrence and 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 companies for claims in excess of retentions as selected by the Board of Trustees each year. Stop loss insurance is purchased by the Board of Trustees to protect against large medical claims that exceed certain dollar cost levels. 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 of the City's funds and the City's Finance Officer are required to be performance bonded through a commercial surety bond. The City Finance Director is bonded for \$50,000. The remaining employees that have access to funds are bonded under a blanket bond.

5. 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% through the year 2021. 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% through the year 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% through June of 2021. In March of 2007 the City entered into an installment agreement to construct a new fire station for

**CITY OF CHERRYVILLE, NORTH CAROLINA**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2018**

\$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.

The future required payments on the installment purchases as of June 30, 2018 are as follows:

Year Ending June 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2019	\$ 130,883	70,739	51,654	4,162
2020	131,852	65,546	53,077	2,143
2021	96,863	60,653	14,444	446
2022	90,696	56,602		
2023	26,281	53,789		
2024-2028	149,690	250,660		
2029-2033	185,428	214,922		
2034-2038	229,698	170,652		
2039-2043	284,537	115,813		
2044-2058	353,836	47,880		
Total	<u>\$ 1,679,764</u>	<u>1,107,256</u>	<u>\$ 119,175</u>	<u>6,751</u>

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, 2018**

The future required payments as of June 30, 2018 are as follows:

Year Ending June 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2019	\$ -	-	\$ 64,436	6,237
2020			64,436	4,678
2021			64,436	3,119
2022			64,436	1,559
<b>Total</b>	<b>\$ -</b>	<b>-</b>	<b>\$ 257,744</b>	<b>15,593</b>

At June 30, 2018, the City of Cherryville had a legal debt margin of \$28,472,151. There were no authorized but un-issued bonds at that date.

**c. Changes in Long-Term Liabilities**

	Balance July 1, 2017	Increases	Decreases	Balance June 30, 2018	Current Portion of Balance
Governmental activities:					
Installment purchase	\$ 1,809,720	-	129,955	1,679,765	130,883
Compensated absences	164,532	-	8,805	155,727	155,727
Other postemployment benefits	315,247	628,410	-	943,657	
Net pension liability (LGERS)	550,202	-	179,193	371,009	
Net pension obligation (LEO)	323,129	39,092	-	362,221	
Governmental activity long-term liabilities	\$ 3,162,830	667,502	317,953	3,512,379	286,610
Business-type activities:					
Installment purchase	\$ 169,457	-	50,282	119,175	51,654
Emergency Water Loan	322,181		64,436	257,745	64,356
Other postemployment benefits	190,804	445,795	-	636,599	
Net pension liability (LGERS)	374,077	-	127,122	246,955	
Compensated absences	82,184	7,161	-	89,345	89,345
Business-type activity long-term liabilities	\$ 1,138,703	452,956	241,840	1,349,819	205,355

**CITY OF CHERRYVILLE, NORTH CAROLINA**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2018**

**C. Net Investment in Capital Assets**

	<u>Governmental</u>	<u>Business-type</u>
Capital assets	\$ 5,632,284	13,483,858
less: long-term debt	1,679,765	376,920
add: unexpended debt proceeds	-	-
<b>Net investment in capital asset</b>	<b>\$ 3,952,519</b>	<b>13,106,938</b>

**D. Fund Balance**

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

<b>Total fund balance-General Fund</b>	<b>\$ 1,235,781</b>
<b>Less:</b>	
<b>Prepaid Expenses</b>	2,184
<b>Stabilization by State Statute</b>	433,892
<b>Streets-Powell Bill</b>	286,162
<b>Committed for USDA reserves</b>	24,021
<b>Appropriated Fund Balance in 2018 budget</b>	165,000
<b>Remaining Fund Balance</b>	<b>324,522</b>

**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, \$401,784 at June 30, 2018, is presented in the Business-type Activities and the Proprietary Funds Statements of Net Position as a deferred inflow of resources

**III. Jointly Governed Organization**

The City, in conjunction with eight counties and fifty other municipalities, established the Centralina Council of Governments (Council). The participating governments established

**CITY OF CHERRYVILLE, NORTH CAROLINA**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2018**

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 \$1,393 to the Council during the fiscal year ended June 30, 2018.

The City, in conjunction with nineteen 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, which receive power from the Electric Agency, have signed power sales agreements 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, 2018 were \$4,594,008.

IV. 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.

V. Change in Accounting Principles/Restatement

The Town implemented Governmental Accounting Standards Board (GASB) No. Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in the fiscal year ending June 30, 2018. The implementation of the statement required the Town to record beginning total OPEB liability and the effects on net position of benefit payments and administrative expenses paid by the Town related to OPEB during the measurement period (fiscal year ending June 30, 2017). As a result, net position for the governmental activities decreased \$1,076,539.



Required  
Supplementary Financial Data

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

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

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

**Local Government Employees' Retirement System**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Cherryville's proportion of the net pension liability (asset) (%)	0.04045%	0.04355%	0.04310%	0.04162%	0.04190%
Cherryville's proportion of the net pension liability (asset) (\$)	\$ 617,964	\$ 924,279	\$ 193,433	\$ (245,454)	\$ 505,056
Cherryville's covered-employee payroll	\$ 2,733,573	\$ 2,683,416	\$ 2,717,483	\$ 2,605,003	\$ 2,455,109
Cherryville's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	22.61%	34.44%	7.12%	( 9.42%)	20.57%
Plan fiduciary net position as a percentage of the total pension liability**	94.18%	91.47%	98.09%	102.64%	94.35%

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

\*\* 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 Five Fiscal Years**

**Local Government Employees' Retirement System**

	2018	2017	2016	2015	2014
Contractually required contribution	\$ 211,397	\$ 201,755	\$ 186,693	\$ 184,508	\$ 174,655
Contributions in relation to the contractually required contribution	211,397	201,755	186,693	184,508	174,655
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Cherryville's covered-employee payroll	\$ 2,733,573	\$ 2,683,416	\$ 2,717,483	\$ 2,605,003	\$ 2,455,109
Contributions as a percentage of covered-employee payroll	7.73%	7.52%	6.87%	7.08%	7.11%

**City of Cherryville, North Carolina**  
**Schedule of Changes in Total Pension Liability**  
**Law Enforcement Officers' Special Separation Allowance**  
**June 30, 2018**

	<u>2018</u>	<u>2017</u>
Beginning balance	\$ 323,129	\$ 309,942
Service Cost	17,578	17,143
Interest on the total pension liability	12,372	10,970
Changes in benefit terms	-	-
Difference between expected and actual experience in the measurement of the total pension liability	(11,932)	-
Changes of assumption or other inputs	26,282	(9,616)
Benefit payments	(5,208)	(5,310)
Other changes	-	-
	<u>          </u>	<u>          </u>
Ending balance of the total pension liability	<u>\$ 362,221</u>	<u>\$ 323,129</u>

The amounts presented for each fiscal year were determined as of the prior fiscal 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, 2018**

	<u>2018</u>	<u>2017</u>
Total pension liability	\$ 362,221	\$ 323,129
Covered payroll	560,400	599,059
Total pension liability as a percentage of covered payroll	64.64%	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 Total OPEB Liability and Related Ratios**

**June 30, 2018**

<b>Total OPEB Liability</b>	<b>2018</b>
Service Cost	\$ 67,975
Interest	47,165
Changes in benefit terms	-
Difference between expected and actual experience	(320)
Changes of assumptions	(85,629)
Benefit payments	(31,524)
<b>Net change in total OPEB liability</b>	<b>(2,333)</b>
<b>Total OPEB liability - beginning</b>	<b>1,582,589</b>
 <b>Total OPEB liability - ending</b>	 <b>\$ 1,580,256</b>
 <b>Covered payroll</b>	 2,564,819
<b>Total OPEB liability as a percentage of covered payroll</b>	<b>61.61%</b>

**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:

<b>Fiscal year</b>	<b>Rate</b>
2018	3.56%

## Supplementary Statements

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**City of Cherryville, North Carolina**  
**General Fund**  
**Schedule of Revenues, Expenditures, and**  
**Changes in Fund Balances - Budget and Actual**  
**For the Fiscal Year Ended June 30, 2018**

	Budget	Actual	Variance Positive (Negative)
<b>Revenues:</b>			
Ad valorem taxes:			
Taxes	\$	1,538,848	
Vehicle taxes		199,258	
Penalties and interest		9,866	
Total	<u>1,702,700</u>	<u>1,747,972</u>	<u>45,272</u>
Other taxes and licenses:			
Payments-in-lieu of taxes		82,200	
Motor vehicle licenses		14,153	
Total	<u>92,200</u>	<u>96,353</u>	<u>4,153</u>
Unrestricted intergovernmental:			
Local option sales taxes		632,029	
North Carolina hold harmless tax		-	
Gaston County hold harmless tax		159,663	
Telecommunications sales tax		73,375	
Utility franchise tax		222,949	
Piped natural gas tax		43,271	
Video franchise fee		40,848	
ABC profit distribution		23,500	
Beer and wine tax		25,637	
Total	<u>1,230,625</u>	<u>1,221,272</u>	<u>(9,353)</u>
Restricted intergovernmental:			
Powell-Bill-Allocation		186,426	
General grants		297,524	
Police & Fire Dept grants		18,594	
Safety grant		-	
Solid waste disposal tax		4,868	
Total	<u>525,324</u>	<u>507,412</u>	<u>(17,912)</u>
Permits and fees:			
Zoning permits		6,325	
Parking tickets		-	
Court fees		1,029	
Total	<u>4,300</u>	<u>7,354</u>	<u>3,054</u>
Sales and services			
Cemetery sales		82,395	
Yard waste fees		97,320	
Garbage late fees		7,371	
Fire protection charges		5,665	
Sanitary landfill fees		516,969	
Total	<u>701,000</u>	<u>709,720</u>	<u>8,720</u>
Investment earnings			
General Fund		8,897	
Interest earned-Powell Bill		4,406	
Total	<u>2,000</u>	<u>13,303</u>	<u>11,303</u>

cont.



**City of Cherryville, North Carolina**  
**General Fund**  
**Schedule of Revenues, Expenditures, and**  
**Changes in Fund Balances - Budget and Actual**  
**For the Fiscal Year Ended June 30, 2018**

	Budget	Actual	Variance Positive (Negative)
Miscellaneous			
Rents and leases		11,100	
Sale of surplus properties		11,749	
Other revenues		107,890	
Total	99,850	130,739	30,889
Total revenues	4,357,999	4,434,125	76,126
<b>Expenditures:</b>			
Administration:			
Governing board:			
Salaries and employee benefits		32,694	
Election expense		-	
Total	34,465	32,694	1,771
Administration:			
Salaries and employee benefits		130,247	
Professional services		14,549	
Other operating expenditures		224,232	
Debt Service		8,338	
Capital outlay		4,023	
Total	442,399	381,389	61,010
Total administration	476,864	414,083	62,781
Economic development:			
Grants		-	
Other operating expenditures		305,793	
Total economic development	353,535	305,793	47,742
Police:			
Salaries and employee benefits		1,059,782	
Vehicle maintenance		10,122	
Other operating expenditures		140,065	
Capital outlay		71,250	
Total Police	1,385,360	1,281,219	104,141
Fire:			
Salaries and employee benefits		678,336	
Vehicle maintenance		38,553	
Other operating expenditures		125,120	
Debt Service		157,755	
Capital outlay		8,848	
Total Fire	1,041,192	1,008,612	32,580
Public Works:			
Salaries and employee benefits		75,432	
Other operating expenditures		39,141	
Capital outlay		-	
Total Public Works	122,736	114,573	8,163

cont.

**City of Cherryville, North Carolina  
General Fund  
Schedule of Revenues, Expenditures, and  
Changes in Fund Balances - Budget and Actual  
For the Fiscal Year Ended June 30, 2018**

	Budget	Actual	Variance Positive (Negative)
<b>Streets:</b>			
Salaries and employee benefits		95,405	
Vehicle maintenance		11,918	
Other operating expenditures		31,204	
Capital outlay		-	
Total Streets	<u>157,068</u>	<u>138,527</u>	<u>18,541</u>
<b>Powell Bill:</b>			
Salaries and employee benefits		23,819	
Maintenance		3,967	
Other operating expenditures		48,118	
Capital outlay		11,822	
Total Public Works	<u>210,900</u>	<u>87,726</u>	<u>123,174</u>
<b>Sanitation:</b>			
Salaries and employee benefits		305,972	
Vehicle maintenance		71,747	
Other operating expenditures		16,254	
Tipping fees		93,259	
Capital outlay		-	
Total Sanitation	<u>499,366</u>	<u>487,232</u>	<u>12,134</u>
<b>Recreation:</b>			
Salaries and employee benefits		70,870	
Maintenance and repairs		71,284	
Other operating expenditures		84,559	
Debt service		39,752	
Capital outlay		6,494	
Total Recreation	<u>293,811</u>	<u>272,959</u>	<u>20,852</u>
<b>Cemetery:</b>			
Salaries and employee benefits		4,137	
Contract services		49,482	
Other operating expenditures		606	
Capital outlay		19,665	
Total Cemetery	<u>80,130</u>	<u>73,890</u>	<u>6,240</u>
Total expenditures	<u>4,620,962</u>	<u>4,184,614</u>	<u>436,348</u>
Revenues over (under) expenditures	<u>(262,963)</u>	<u>249,511</u>	<u>512,474</u>

cont.

**City of Cherryville, North Carolina  
General Fund  
Schedule of Revenues, Expenditures, and  
Changes in Fund Balances - Budget and Actual  
For the Fiscal Year Ended June 30, 2018**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Other financing sources (uses):			
Transfers from other funds:			-
Enterprise Funds		-	-
Transfers to other funds:			
Sidewalk Grant Fund	-	-	-
Total	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance appropriated	<u>262,963</u>	<u>-</u>	<u>(262,963)</u>
Net change in fund balance	<u>\$ -</u>	<u>249,511</u>	<u>249,511</u>
Fund balances, beginning		986,270	
Fund balances, ending		<u>\$ 1,235,781</u>	

**City of Cherryville, North Carolina**  
**General Fund Capital Project Fund**  
**Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)**  
**From Inception and For the Fiscal Year Ended June 30, 2018**

	Project Author - ization	Prior Year	Actual Current Year	Total to Date	Variance Positive (Negative)
Revenues - Gaston County Township Grant Project: Restricted intergovernmental: Township grant	\$ 366,500	332,418	-	332,418	(34,082)
Expenditures - Gaston County Township Grant Project: Capital Outlay Improvements	366,500	332,418	-	332,418	34,082
Total expenditures	<u>366,500</u>	<u>332,418</u>	<u>-</u>	<u>332,418</u>	<u>34,082</u>
Revenues under expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other financing sources (uses):	-	-	-	-	-
Total other financing sources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Revenues and other sources over (under) expenditures	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

**City of Cherryville, North Carolina**  
**Electric Fund**  
**Schedule of Revenues and Expenditures**  
**Budget and Actual (Non - GAAP)**  
**For the Fiscal Year Ended June 30, 2018**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>Revenues:</b>			
Operating revenues:			
Electric sales	\$	6,405,018	
Other operating revenues		71,819	
Total operating revenues	<u>6,621,000</u>	<u>6,476,837</u>	<u>(144,163)</u>
Nonoperating revenues:			
EDC-small town main st. donations	61,459	11,709	(49,750)
Insurance reimbursement	-	-	0
Interest	1,000	3,085	2,085
Total revenues	<u>6,683,459</u>	<u>6,491,631</u>	<u>(191,828)</u>
<b>Expenditures:</b>			
Electrical operations:			
Salaries and employee benefits		670,932	
Travel and training		180	
Total	<u>665,545</u>	<u>671,112</u>	<u>(5,567)</u>
Operating expenditures			
Insurance		48,428	
System maintenance		38,627	
Vehicle maintenance		3,194	
Other operating expenditures		245,055	
Sales tax on electric sales		382,922	
Total	<u>754,755</u>	<u>718,226</u>	<u>36,529</u>
Electrical power purchases	<u>4,665,767</u>	<u>4,594,008</u>	<u>71,759</u>
Capital outlay:			
Equipment		18,102	
Improvements		235,506	
Building and Land		107,605	
Total	<u>856,231</u>	<u>361,213</u>	<u>495,018</u>
Debt Service:			
Interest Expense		-	
Principal retirement		8,338	
Total	<u>8,933</u>	<u>8,338</u>	<u>595</u>
Total expenditures	<u>6,951,231</u>	<u>6,352,897</u>	<u>598,334</u>
Revenues over expenditures	(267,772)	138,734	406,506

cont'd.

**City of Cherryville, North Carolina**  
**Electric Fund**  
**Schedule of Revenues and Expenditures**  
**Budget and Actual (Non - GAAP)**  
**For the Fiscal Year Ended June 30, 2018**

Other financing sources (uses):			
Fund balance appropriated	267,772	-	(267,772)
Total other financing sources	267,772	-	(267,772)
Revenues and other financing sources over expenditures	\$ -	\$ 138,734	\$ 138,734

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

Increase (decrease) in accrued revenues	94,518
Principal retirement	7,222
Increase (decrease) in deferred outflows	35,359
Increase in accrued other post employment benefits	(11,235)
Capital outlays	253,608
Pension expense	(35,614)
Decrease in compensated absences	832
Decrease in accrued interest payable	19
Depreciation	(133,785)
Total	210,924
Change in net position	\$ 349,658

**City of Cherryville, North Carolina**  
**Water and Sewer Fund**  
**Schedule of Revenues and Expenditures**  
**Budget and Actual (Non - GAAP)**  
**For the Fiscal Year Ended June 30, 2018**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>Revenues:</b>			
<b>Operating revenues:</b>			
Water sales	\$	1,166,740	
Sewer charges		932,947	
Water and sewer taps		21,264	
Other operating revenues		34,423	
	<u>2,113,200</u>	<u>2,155,374</u>	<u>42,174</u>
<b>Nonoperating revenues:</b>			
Interest earnings	700	871	171
Grant revenue	4,189	4,189	-
Rents and leases		-	
Other	-	9,683	9,683
	<u>2,118,089</u>	<u>2,170,117</u>	<u>52,028</u>
<b>Expenditures:</b>			
<b>Water and sewer administration:</b>			
Salaries and employee benefits		526,647	
Travel		366	
Supplies		31,970	
Vehicle maintenance		1,778	
Insurance		37,186	
Other operating expenditures		253,485	
Debt service		120,305	
Grants		-	
Capital outlay - equipment		26,294	
Capital outlay - other improvements		299,370	
	<u>1,377,096</u>	<u>1,297,401</u>	<u>79,695</u>
<b>Water treatment and distribution:</b>			
Salaries and employee benefits		315,701	
Chemicals		62,875	
Other operating expenditures		301,165	
Capital outlay - equipment		-	
Capital outlay - other improvements		-	
	<u>767,143</u>	<u>679,741</u>	<u>87,402</u>
<b>Waste collection and treatment:</b>			
Salaries and employee benefits		221,879	
Chemicals		7,668	
Supplies		3,494	
Other operating expenditures		222,417	
Debt service		-	
Capital outlay - equipment		24,900	
Capital outlay - other improvements		-	
	<u>523,850</u>	<u>480,358</u>	<u>43,492</u>

cont.

**City of Cherryville, North Carolina**  
**Water and Sewer Fund**  
**Schedule of Revenues and Expenditures**  
**Budget and Actual (Non - GAAP)**  
**For the Fiscal Year Ended June 30, 2018**

	Budget	Actual	Variance Positive (Negative)
	<u>2,668,089</u>	<u>2,457,500</u>	<u>210,589</u>
Revenues over expenditures	(550,000)	(287,383)	262,617
Other financing (uses):	-	-	-
Transfer to General Fund	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance appropriated	550,000	-	(550,000)
Net change in fund balance	<u>\$ -</u>	<u>(287,383)</u>	<u>(287,383)</u>
<b>Reconciliation from budgetary basis (modified accrual) to full accrual:</b>			
Revenues over (under) expenditures		\$ (287,383)	
Reconciling items:			
Increase (decrease) in accrued revenues		7,162	
Principal retirement		107,496	
Increase (decrease) in deferred outflows		56,492	
Deferred inflows-prepaid rents		9,114	
(Increase) decrease in accrued compensated absences accrued		(9,085)	
(Increase) decrease in accrued other post employment benefits		(17,901)	
Decrease in accrued interest		521	
Pension expense		(56,233)	
Capital outlay		350,564	
Depreciation		<u>(496,022)</u>	
		<u>(47,892)</u>	
Change in net position		<u>\$ (335,275)</u>	



## Other Schedules

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This section contains additional information required on property taxes.

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

**City of Cherryville, North Carolina**  
**Schedule of Ad Valorem Taxes Receivable**  
**June 30, 2018**

<u>Fiscal Year</u>	<u>Uncollected Balance June 30, 2017</u>	<u>Additions</u>	<u>Collections And Credits</u>	<u>Uncollected Balance June 30, 2018</u>
2017-2018	\$ -	1,742,443	1,717,198	25,245
2016-2017	28,843	-	14,729	14,114
2015-2016	13,473	-	3,768	9,705
2014-2015	14,513	-	2,163	12,350
2013-2014	12,798	-	1,236	11,562
2012-2013	13,759	-	1,178	12,581
2011-2012	9,002	-	722	8,280
2010-2011	7,440	-	439	7,001
2009-2010	7,614	-	356	7,258
2008-2009	4,983	-	515	4,468
2007-2008	4,203	-	4,203	0
	<u>\$ 116,628</u>	<u>1,742,443</u>	<u>1,746,507</u>	<u>112,564</u>
	Less: Allowance for uncollectible accounts:			
				General Fund <u>49,110</u>
				Ad valorem taxes receivable - net <u>\$ 63,454</u>
<u>Reconciliation with revenues:</u>				
				Ad valorem taxes - General Fund \$ 1,747,972
				Reconciling items:
				Interest collected (9,866)
				Prior year releases and adjustments 6,202
				Taxes written off 2,199
				<u>Subtotal (1,465)</u>
				Total collections and credits <u>\$ 1,746,507</u>

**City of Cherryville, North Carolina**  
**Analysis of Current Tax Levy**  
**City - Wide Levy**  
**For the Fiscal Year Ended June 30, 2018**

	City - Wide			Total Levy	
	Property Valuation	Rate	Total Levy	Property excluding Registered Motor Vehicles	Registered Motor Vehicles
	Original levy:				
Property taxed at current year's rate	\$ 378,599,783	46	\$ 1,741,559	1,542,581	198,978
Penalties	-		1,604	1,604	-
Total	<u>378,599,783</u>		<u>1,743,163</u>	<u>1,544,185</u>	<u>198,978</u>
Discoveries:					
Current year taxes	351,522		1,617	1,617	-
Penalties	-		415	415	-
Total	<u>351,522</u>		<u>2,032</u>	<u>2,032</u>	<u>-</u>
Abatements:					
Current year taxes	562,826		2,589	2,049	540
Penalties	-		163	163	-
Total	<u>562,826</u>		<u>2,752</u>	<u>2,212</u>	<u>540</u>
Total property valuation	<u>\$ 378,388,479</u>				
Net levy			1,742,443	1,544,005	198,438
Uncollected taxes at June 30, 2017			<u>25,245</u>	<u>25,040</u>	<u>205</u>
Current year's taxes collected			<u>\$ 1,717,198</u>	<u>1,518,965</u>	<u>198,233</u>
Current levy collection percentage			<u>98.55%</u>	<u>98.38%</u>	<u>99.90%</u>

Supplementary Information:

Compliance Section

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**COLLIS AND ASSOCIATES, CPAs, P.C.**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**103 EAST THIRD AVENUE  
GASTONIA, NORTH CAROLINA 28052  
704 / 867-0201**

**Report On Internal Control Over Financial Reporting And On Compliance and Other  
Matters Based On An Audit Of Financial Statements Performed In Accordance With  
*Government Auditing Standards***

Independent Auditor's Report

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, the business-type activities, the 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, 2018, 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 April 29, 2019. Our report includes 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a

deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for 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.

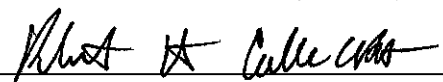
#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 do not 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 the Report

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

COLLIS AND ASSOCIATES, CPAs, P.C.

By   
Robert H. Collis

Gastonia, North Carolina  
April 29, 2019

**CITY OF Cherryville, NORTH CAROLINA  
Schedule of Findings and Responses  
For the Fiscal Year Ended June 30, 2018**

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**Section I. Summary of Auditor's Results**

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Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified?     yes     no
  
- Significant deficiency(s) identified  
that are not considered to be  
material weaknesses                     yes     none reported

Noncompliance material to financial  
statements noted                         yes     no

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**Section II. Financial Statement Findings**

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None

**CITY OF Cherryville, NORTH CAROLINA  
Corrective Action Plan  
For the Fiscal Year Ended June 30, 2018**

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**Section II. Financial Statement Findings**

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None



**CITY OF CHERRYVILLE, NORTH CAROLINA**  
**Status of Prior Year Findings**  
**For the Fiscal Year Ended June 30, 2018**

There were no prior year findings.