

CITY OF LOWELL, NORTH CAROLINA

FINANCIAL STATEMENTS

Year Ended June 30, 2020

City Council Members

Sandy Railey, Mayor

Phil Bonham

Candy Funderburk

Ken Ervin

Thomas Gillespie, Mayor Pro Tem

Shane Robinson

Administrative and Financial Staff

Scott Attaway, City Manager

Jared Pyles, Finance Officer

**City of Lowell, North Carolina
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FINANCIAL SECTION

January 22, 2021

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lowell, North Carolina, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the City of Lowell's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 2 – 11 and the Other Postemployment Benefits Schedule of Changes in the Total OPEB Liability and Related Ratios on page 60, the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Liability (Asset) and Contributions on pages 56 – 57, respectively, and the Law Enforcement Officers' Special Separation Allowance Schedules of the Changes in Total Pension Liability and Total Pension Liability as a Percentage of Covered Payroll on pages 58 and 59 be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Lowell's basic financial statements. The introductory information, combining and 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 financial statements, budgetary schedules, and other schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements, budgetary schedules, and other schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 22, 2021 on our consideration of the City of Lowell's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Lowell's internal control over financial reporting and compliance.

Butler + Stowe

Management's Discussion and Analysis

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

Financial Highlights

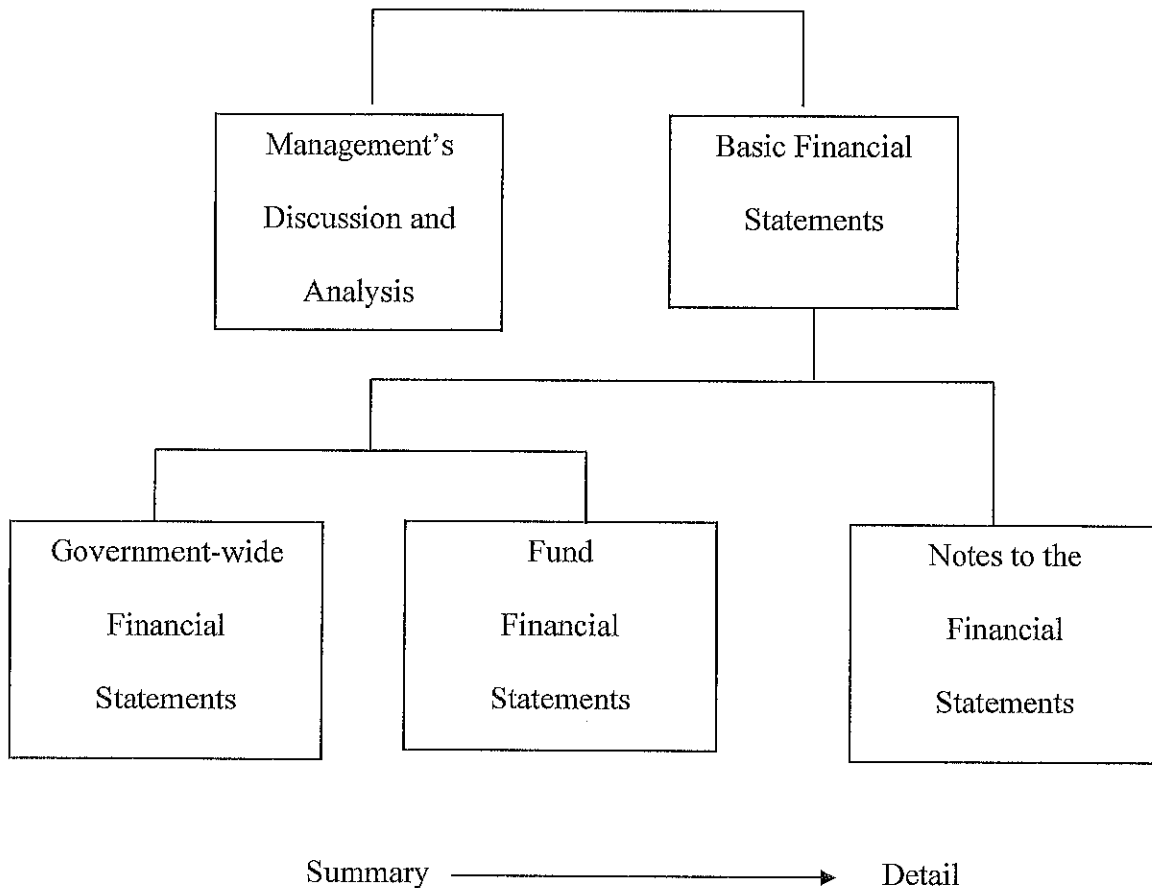
- The assets and deferred outflows of resources (net position) of the City of Lowell exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$5,514,061 (*net position*).
- The government's total net position *increased* by \$43,818, due to increases in governmental activities net position and business-type activities net position of \$40,420 and \$3,398, respectively.
- As of the close of the current fiscal year, the City of Lowell's governmental funds reported combined ending fund balances of \$1,938,042, an increase of \$97,212 in comparison with the prior year. Approximately 37.2 percent of this total amount, or \$721,763, is non-spendable or restricted.
- At the end of the current fiscal year, the unassigned fund balance for the General Fund was \$1,275,706 or 51.1 percent of total general fund expenditures for the fiscal year.
- The City of Lowell's total debt increased by \$553,604 during the current fiscal year, primarily due to improvements made to the waste water treatment plant.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Lowell's basic financial statements. The City of Lowell's basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (see Figure 1). The basic financial statements present two different views of the City of Lowell 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 Lowell.

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

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

The next statements (Exhibits 3 through 8) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the City of Lowell government. These statements provide more detail than the government-wide statements. There are three parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the budgetary comparison statements; and 3) the proprietary fund statements.

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

Government-wide Financial Statements

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

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

The government-wide statements are divided into two categories: 1) governmental activities and 2) business-type activities. The governmental activities include most of the City's basic services such as public safety, sanitation, streets, recreation, and general administration. Property taxes and unrestricted intergovernmental revenues finance most of these activities. The business-type activities are those that the City charges customers to provide. These include the water and sewer service offered by the City of Lowell.

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

Fund Financial Statements

The fund financial statements (see Figure 2) 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 Lowell, 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 Lowell can be divided into two categories: governmental funds and proprietary funds.

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

Management's Discussion and Analysis
City of Lowell

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

Proprietary Funds – The City of Lowell 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 Lowell uses an enterprise fund to account for its water and sewer activity. This fund is the same as those functions shown in the business-type activities in the Statement of Net Position and the Statement of Activities.

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

Other Information – In addition to the basic financial statements and accompanying notes, this report includes required supplementary information concerning the City of Lowell's progress in funding its obligations to provide pension benefits to its employees. Required supplementary information can be found beginning on page 56 of this report.

Management's Discussion and Analysis
City of Lowell

Government-Wide Financial Analysis

The City of Lowell's Net Position

Figure 2

| | Governmental Activities | | Business-Type Activities | | Total | |
|----------------------------------|----------------------------|--------------|-----------------------------|--------------|--------------|--------------|
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| Current and other assets | \$ 1,997,470 | \$ 1,904,859 | \$ 827,367 | \$ 834,491 | \$ 2,824,837 | \$ 2,739,350 |
| Capital assets | 1,519,295 | 1,390,406 | 2,800,429 | 2,393,227 | 4,319,724 | 3,783,633 |
| Deferred outflows of resources | 256,389 | 274,430 | 53,230 | 57,638 | 309,619 | 332,068 |
| Total assets | 3,773,154 | 3,569,695 | 3,681,026 | 3,285,356 | 7,454,180 | 6,855,051 |
| Long-term liabilities | 1,031,686 | 909,916 | 588,208 | 195,409 | 1,619,894 | 1,105,325 |
| Other liabilities | 90,321 | 47,469 | 183,333 | 184,147 | 273,654 | 231,616 |
| Deferred inflows of resources | 41,163 | 42,746 | 5,408 | 5,121 | 46,571 | 47,867 |
| Total liabilities | 1,163,170 | 1,000,131 | 776,949 | 384,677 | 1,940,119 | 1,384,808 |
| Net position: | | | | | | |
| Net investment in capital assets | 1,274,516 | 1,284,204 | 2,332,041 | 2,339,867 | 3,606,557 | 3,624,071 |
| Restricted | 662,337 | 885,538 | 89,518 | - | 751,855 | 885,538 |
| Unrestricted | 673,131 | 399,822 | 482,518 | 560,812 | 1,155,649 | 960,634 |
| Total net position | \$ 2,609,984 | \$ 2,569,564 | \$ 2,904,077 | \$ 2,900,679 | \$ 5,514,061 | \$ 5,470,243 |

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets and deferred outflows of the City of Lowell exceeded liabilities and deferred inflows by \$5,514,061 as of June 30, 2020. The City's net position *increased* by \$43,818 for the fiscal year ended June 30, 2020. The primary reason for this increase is the growth of revenues of the governmental activities. The largest portion (65.4%) reflects the City's net investment in capital assets (e.g. land, buildings, machinery, and equipment). The City of Lowell uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Lowell's net investment in capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the City's net position, \$751,855 represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$1,155,649 is unrestricted.

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

Management's Discussion and Analysis
 City of Lowell

- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 98.93%.
- Conservative spending

**City of Lowell Changes in Net Position
 Figure 3**

| | Governmental Activities | | Business-Type Activities | | Total | |
|---|----------------------------|---------------------|-----------------------------|---------------------|---------------------|---------------------|
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 184,863 | \$ 196,650 | \$ 1,259,219 | \$ 1,311,904 | \$ 1,444,082 | \$ 1,508,554 |
| Operating grants and contributions | 180,688 | 93,753 | 9,800 | 20,762 | 190,488 | 114,515 |
| Capital grants and contributions | | | 46,795 | | 46,795 | |
| General revenues: | | | | | | |
| Property taxes | 1,450,474 | 1,221,719 | | | 1,450,474 | 1,221,719 |
| Other taxes | | 114,547 | | | - | 114,547 |
| Grants and contributions not restricted to specific programs | 689,270 | 684,365 | | | 689,270 | 684,365 |
| Other | 128,885 | 71,170 | 1,359 | 5 | 130,244 | 71,175 |
| Total revenues | <u>2,634,180</u> | <u>2,382,204</u> | <u>1,317,173</u> | <u>1,332,671</u> | <u>3,951,353</u> | <u>3,714,875</u> |
| Expenses: | | | | | | |
| General Government | 711,380 | 757,238 | | | 711,380 | 757,238 |
| Public safety | 921,394 | 670,739 | | | 921,394 | 670,739 |
| Highway/streets | 558,700 | 299,914 | | | 558,700 | 299,914 |
| Sanitation | 280,125 | 260,715 | | | 280,125 | 260,715 |
| Recreation | 119,318 | 130,949 | | | 119,318 | 130,949 |
| Interest on long-term debt | 2,843 | 3,588 | | | 2,843 | 3,588 |
| Water and sewer | | | 1,313,775 | 1,278,556 | 1,313,775 | 1,278,556 |
| Total expenses | <u>2,593,760</u> | <u>2,123,143</u> | <u>1,313,775</u> | <u>1,278,556</u> | <u>3,907,535</u> | <u>3,401,699</u> |
| Increase in net position | 40,420 | 259,061 | 3,398 | 54,115 | 43,818 | 313,176 |
| Net position, beginning | 2,569,564 | 2,310,503 | 2,900,679 | 2,846,564 | 5,470,243 | 5,157,067 |
| Net position, ending | <u>\$ 2,609,984</u> | <u>\$ 2,569,564</u> | <u>\$ 2,904,077</u> | <u>\$ 2,900,679</u> | <u>\$ 5,514,061</u> | <u>\$ 5,470,243</u> |

Management's Discussion and Analysis
City of Lowell

Governmental activities: Governmental activities increased the City's net position by \$40,420. General revenues increased approximately \$177,000 from the prior year. Powell Bill expenditures increased by approximately \$200,000 due to expenses incurred for paving roads.

Business-type activities: Business-type activities increased the City of Lowell's net position by \$3,398. The water meter replacement project was completed in 2020.

Financial Analysis of the City's Funds

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

Governmental Funds: The focus of the City of Lowell'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 Lowell's financing requirements.

The General Fund is the chief operating fund of the City of Lowell. At the end of the current fiscal year, the City of Lowell's fund balance available in the General Fund was \$1,216,279, while the total fund balance was \$1,888,089. The City currently has an available fund balance of 48.8 percent of General Fund expenditures, while total fund balance represents 75.7 percent of the same amount.

At June 30, 2020, the governmental funds of City of Lowell reported a combined fund balance of \$1,938,042 with a net increase in fund balance of \$97,212.

General Fund Budgetary Highlights: Revenues were higher than the budgeted amounts, caused mainly by an increase in property tax resulting from a County-wide reappraisal. The Public Works Department saw an increase in salaries as grass cutting was brought back in house and the vacant ninth position was filled. Administration salaries slightly increased due to the hiring of a Planning Director in February of 2020. The Parks and Recreation Department did not fundraise any of the expected \$23,000 for the Freedom Festival due to the COVID-19 pandemic.

Proprietary Funds: The City of Lowell'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 \$482,518. The total increase in net position for the fund was \$3,398. Other factors concerning the finances of this fund have already been addressed in the discussion of the City's business-type activities.

Management's Discussion and Analysis
 City of Lowell

Capital Asset and Debt Administration

Capital assets: The City of Lowell's investment in capital assets for its governmental and business-type activities as of June 30, 2020, totals \$4,319,724 (net of accumulated depreciation). These assets include buildings, roads and bridges, land, machinery and equipment, park facilities and vehicles.

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

Figure 4

| | Governmental Activities | | Business-Type Activities | | Total | |
|-----------------------------------|----------------------------|---------------------|-----------------------------|---------------------|---------------------|---------------------|
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| Land and construction in progress | \$ 112,430 | \$ 112,430 | \$ 50,014 | \$ 15,000 | \$ 162,444 | \$ 127,430 |
| Buildings and systems | 105,896 | 113,942 | 313,261 | 309,580 | 419,157 | 423,522 |
| Improvements other than buildings | 31,677 | 33,550 | 20,028 | 20,028 | 51,705 | 53,578 |
| Machinery and equipment | 174,614 | 93,357 | 39,740 | 31,280 | 214,354 | 124,637 |
| Infrastructure | 881,909 | 924,112 | 2,377,386 | 2,017,339 | 3,259,295 | 2,941,451 |
| Vehicles and motorized equipment | 212,769 | 113,015 | | | 212,769 | 113,015 |
| | <u>\$ 1,519,295</u> | <u>\$ 1,390,406</u> | <u>\$ 2,800,429</u> | <u>\$ 2,393,227</u> | <u>\$ 4,319,724</u> | <u>\$ 3,783,633</u> |

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

Management's Discussion and Analysis
City of Lowell

Long-term Debt: The City of Lowell's total debt increased from \$159,563 to \$713,167, an increase of \$533,604 during the past fiscal year.

Additional information regarding the City of Lowell's long-term debt can be found in Note 2 beginning on page 53 of this report.

Economic Factors and Next Year's Budgets and Rates

The following key economic indicators and circumstances reflect the City's current situation:

- The City's General Fund unobligated fund balance has trended upward since 2016. The City Council has agreed upon 50% or six months of the annual general fund budget to maintain as reserve. This goal is expected to be achieved at the end of Fiscal Year 2021.
- The City's MS4 Permit requires the enactment of a Stormwater Management Plan (SWMP) and a stormwater fee is planned to provide needed revenue to fund this requirement.
- Commercial and high density residential growth opportunities remain at Exit 22 that will provide needed revenue. The unknowns that exist regarding the widening of I-85 have slowed development opportunities. The City has taken this opportunity to adopt a master plan for this site to take full advantage of the opportunities. Efforts have been coordinated with NCDOT regarding the approved Master Plan to resolve the uncertainty of the I-85 widening project as it relates to planned interchanges and bridges in this project area.
- The City is also continuing to partner with the City of Gastonia on a Build Grant application that would provide access to the former Lineberger property adjacent to I-85 that is shared between both municipalities. The property has been purchased by NorthPoint Development and they have begun construction of 3.6 million square feet of warehouse and distribution space referred to as the Gateway 85 Industrial Park. This project will provide much needed revenue.

Budget Highlights for the Fiscal Year Ending June 30, 2021

Governmental Activities: This year will see the City Council expected to evaluate the current tax rate of \$0.43/\$100. The addition of a stormwater utility fee will offset \$109,047 that currently comes from the General Fund to fund the Stormwater Department. Each additional MS4 permit year involves additional requirements and expenses of the City. It is expected the proposed fee will provide sufficient funding to carry out our foreseen responsibilities of the permit. As a result, the savings to the General Fund will allow for the hiring of needed additional police officer(s). The Council will be presented with the results of a Salary and Classification Study that is expected to result in the need for implementing salary increases to maintain industry-standard pay levels for our employees.

Management's Discussion and Analysis
City of Lowell

Business – type Activities: The City is concluding the new remote read AMI water meter installation project this budget year. This project will improve efficiency, billing accuracy, and lost revenue from slow meters. The City will also be administering three grants; (1) a \$1.9 million dollar, CDBG sewer line replacement project, (2) a \$150,000 Asset Inventory and Assessment Grant from NCDEQ and, (3) CDBG-NR (Neighborhood Revitalization) Grant of \$750,000 for rehab of low/moderate income, privately-owned dwellings and for the City of Lowell Community Center repairs. Continuing the recommended 3% water and sewer rate increase, we expect an increase to the City of Lowell's net position.

Requests for Information

This report is designed to provide an overview of the City's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the City Manager, Scott Attaway, 101 West First Street, Lowell, NC 28098, (704) 824-3518 (TEL), or email sattaway@lowellnc.com.

BASIC FINANCIAL STATEMENTS

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

Exhibit 1

| | Primary Government | | |
|--|----------------------------|-----------------------------|---------------------|
| | Governmental Activities | Business-type Activities | Total |
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 1,298,800 | \$ 592,119 | \$ 1,890,919 |
| Restricted cash and cash equivalents | 526,464 | 89,518 | 615,982 |
| Taxes receivable (net) | 36,333 | | 36,333 |
| Accounts receivable (net) | - | 116,859 | 116,859 |
| Due from other governments | 135,873 | | 135,873 |
| Inventories | - | 28,871 | 28,871 |
| Total current assets | <u>1,997,470</u> | <u>827,367</u> | <u>2,824,837</u> |
| Non-current assets: | | | |
| Capital assets: | | | |
| Land, non-depreciable improvements and construction in progress | 112,430 | 50,014 | 162,444 |
| Other capital assets, net of depreciation | 1,406,865 | 2,750,415 | 4,157,280 |
| Total capital assets | <u>1,519,295</u> | <u>2,800,429</u> | <u>4,319,724</u> |
| Total assets | <u>3,516,765</u> | <u>3,627,796</u> | <u>7,144,561</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Pension deferrals | 229,319 | 45,804 | 275,123 |
| OPEB deferrals | 27,070 | 7,426 | 34,496 |
| Total deferred outflows of resources | <u>256,389</u> | <u>53,230</u> | <u>309,619</u> |
| LIABILITIES | | | |
| Current liabilities: | | | |
| Accounts payable | 23,040 | 80,838 | 103,878 |
| Payable from restricted assets-customer deposits | - | 77,737 | 77,737 |
| Current portion of long-term liabilities | 67,281 | 24,758 | 92,039 |
| Total current liabilities | <u>90,321</u> | <u>183,333</u> | <u>273,654</u> |
| Long-term liabilities: | | | |
| Net pension liability | 279,569 | 71,354 | 350,923 |
| LEO pension liability | 215,186 | | 215,186 |
| OPEB liability | 305,214 | 64,475 | 369,689 |
| Compensated absences | 54,219 | 8,749 | 62,968 |
| Installment obligations due in more than one year | 177,498 | 443,630 | 621,128 |
| Total long-term liabilities | <u>1,031,686</u> | <u>588,208</u> | <u>1,619,894</u> |
| Total liabilities | <u>1,122,007</u> | <u>771,541</u> | <u>1,893,548</u> |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Pension deferrals | 24,011 | 983 | 24,994 |
| OPEB deferrals | 17,152 | 4,425 | 21,577 |
| Total deferred inflows of resources | <u>41,163</u> | <u>5,408</u> | <u>46,571</u> |
| NET POSITION | | | |
| Net investment in capital assets | 1,274,516 | 2,332,041 | 3,606,557 |
| Restricted for: | | | |
| Cemetery Perpetual Care | 49,946 | - | 49,946 |
| Stabilization by State Statute | 135,873 | - | 135,873 |
| Other functions | 476,518 | 89,518 | 566,036 |
| Unrestricted | 673,131 | 482,518 | 1,155,649 |
| Total net position | <u>\$ 2,609,984</u> | <u>\$ 2,904,077</u> | <u>\$ 5,514,061</u> |

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

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

| Functions/Programs | Program Revenues | | | | Net (Expense) Revenue and Changes in Net Position | | |
|--|------------------|----------------------|------------------------------------|----------------------------------|---|--------------------------|--------------|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Primary Government | | |
| | | | | | Governmental Activities | Business-type Activities | Total |
| Primary government: | | | | | | | |
| Governmental Activities: | | | | | | | |
| General government | \$ 711,380 | \$ 17,123 | \$ 87,382 | \$ - | \$ (606,875) | \$ - | \$ (606,875) |
| Public safety | 921,394 | 905 | - | - | (920,489) | - | (920,489) |
| Streets | 343,188 | | | | (343,188) | | (343,188) |
| Powell Bill | 215,512 | | 93,306 | - | (122,206) | | (122,206) |
| Sanitation | 280,125 | 150,948 | - | - | (129,177) | | (129,177) |
| Recreation | 119,318 | 15,887 | - | - | (103,431) | | (103,431) |
| Interest on long-term debt | 2,843 | | - | - | (2,843) | | (2,843) |
| Total governmental activities | 2,593,760 | 184,863 | 180,688 | - | (2,228,209) | - | (2,228,209) |
| Business-type activities: | | | | | | | |
| Water and sewer | 1,313,775 | 1,259,219 | 9,800 | 46,795 | - | 2,039 | 2,039 |
| Total business-type activities | 1,313,775 | 1,259,219 | 9,800 | 46,795 | - | 2,039 | 2,039 |
| Total primary government | \$ 3,907,535 | \$ 1,444,082 | \$ 190,488 | \$ 46,795 | (2,228,209) | 2,039 | (2,226,170) |
| General revenues: | | | | | | | |
| Taxes: | | | | | | | |
| Property taxes, levied for general purpose | | | | | 1,450,474 | - | 1,450,474 |
| Grants and contributions not restricted to specific programs | | | | | 689,270 | | 689,270 |
| Unrestricted investment earnings | | | | | 15,933 | 5 | 15,938 |
| Miscellaneous | | | | | 112,952 | 1,354 | 114,306 |
| Transfers | | | | | - | - | - |
| Total general revenues and transfers | | | | | 2,268,629 | 1,359 | 1,580,718 |
| Change in net position | | | | | 40,420 | 3,398 | 43,818 |
| Net position, beginning | | | | | 2,569,564 | 2,900,679 | 5,470,243 |
| Net position, ending | | | | | \$ 2,609,984 | \$ 2,904,077 | \$ 5,514,061 |

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

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

| | General | Total Non-Major Funds | Total Governmental Funds |
|--|---------------------|----------------------------------|---|
| ASSETS | | | |
| Cash and cash equivalents | \$ 1,298,800 | \$ - | \$ 1,298,800 |
| Restricted cash and cash equivalents | 476,510 | 49,953 | 526,463 |
| Receivables, net: | | | |
| Taxes | 36,333 | - | 36,333 |
| Accounts | - | - | - |
| Due from other governments | 135,873 | - | 135,873 |
| Total assets | <u>1,947,516</u> | <u>49,953</u> | <u>1,997,469</u> |
| LIABILITIES | | | |
| Accounts payable and accrued liabilities | 23,094 | - | 23,094 |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Property taxes receivable | 36,333 | - | 36,333 |
| Deferred revenue - other | - | - | - |
| Total deferred inflows of resources | <u>36,333</u> | <u>-</u> | <u>36,333</u> |
| FUND BALANCES | | | |
| Non Spendable | | | |
| Perpetual maintenance | | 37,791 | 37,791 |
| Restricted | | | |
| Stabilization by State Statute | 135,873 | - | 135,873 |
| Streets | 476,510 | - | 476,510 |
| Public safety | | | - |
| Other | | 12,162 | 12,162 |
| Assigned | | | |
| Subsequent year's expenditures | - | - | - |
| Unassigned | 1,275,706 | - | 1,275,706 |
| Total fund balances | <u>1,888,089</u> | <u>49,953</u> | <u>1,938,042</u> |
| Total liabilities, deferred inflows of resources and fund balances | <u>\$ 1,947,516</u> | <u>\$ 49,953</u> | |

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

Exhibit 3
(cont)

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

| | |
|--|--------------|
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds | \$ 1,519,295 |
| Deferred outflows of resources related to pensions are not reported in the funds | 229,319 |
| Deferred outflows of resources related to OPEB are not reported in the funds | 27,070 |
| Other long-term assets (accrued interest receivable from taxes) are not available to pay for current period expenditures and, therefore, are inflows of resources in the funds | 55 |
| Earned revenues considered deferred inflows of resources in fund statements. | 36,333 |
| Long-term liabilities used in governmental activities are not financial uses and therefore are not reported in funds: | |
| Gross long-term debt | (298,998) |
| Net pension liability | (279,569) |
| Total pension liability | (215,186) |
| OPEB liability | (305,214) |
| | (1,098,967) |
| Deferred inflows of resources related to pensions are not reported in the funds | (24,011) |
| Deferred inflows of resources related to OPEB are not reported in the funds | (17,152) |
| | (41,163) |
| Net position of governmental activities | \$ 2,609,984 |

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

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

| | Major Fund | | Total |
|---|---------------------|---------------------------------|-------------------------------|
| | General Fund | Total Non-Major Fund | Governmental Funds |
| REVENUES | | | |
| Ad valorem taxes | \$ 1,414,141 | \$ - | \$ 1,414,141 |
| Unrestricted intergovernmental | 690,175 | - | 690,175 |
| Restricted intergovernmental | 166,926 | 16,649 | 183,575 |
| Permits and fees | 15,712 | - | 15,712 |
| Sales and services | 165,359 | - | 165,359 |
| Investment earnings | 15,928 | 5 | 15,933 |
| Miscellaneous | 162,853 | - | 162,853 |
| Total revenues | <u>2,631,094</u> | <u>16,654</u> | <u>2,647,748</u> |
| EXPENDITURES | | | |
| Current: | | | |
| General government | 575,112 | 71,543 | 646,655 |
| Public safety | 954,070 | - | 954,070 |
| Streets | 317,105 | - | 317,105 |
| Powell Bill | 222,277 | - | 222,277 |
| Sanitation | 245,353 | - | 245,353 |
| Recreation | 120,255 | - | 120,255 |
| Debt service | 60,429 | - | 60,429 |
| Total expenditures | <u>2,494,601</u> | <u>71,543</u> | <u>2,566,144</u> |
| Excess of revenues over (under) expenditures | <u>136,493</u> | <u>(54,889)</u> | <u>81,604</u> |
| OTHER FINANCING SOURCES | | | |
| Insurance recovery | 15,608 | - | 15,608 |
| Loan proceeds | - | - | - |
| Total other financing sources | <u>15,608</u> | <u>-</u> | <u>15,608</u> |
| Net change in fund balance | <u>152,101</u> | <u>(54,889)</u> | <u>97,212</u> |
| Fund balances, beginning | 1,735,988 | 104,842 | 1,840,830 |
| Fund balances, ending | <u>\$ 1,888,089</u> | <u>\$ 49,953</u> | <u>\$ 1,938,042</u> |

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

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

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

| | | |
|---|------------------|------------------|
| Net changes in fund balances - total governmental funds | | \$ 97,212 |
| <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 depreciation exceeded capital outlays in the current period</p> | | |
| Capital outlay expenditures which were capitalized | \$ 279,678 | |
| Depreciation expense for governmental assets | <u>(150,789)</u> | 128,889 |
| Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities | | 74,900 |
| <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 | | 21,066 |
| <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> | | |
| New long-term debt issued | (196,162) | |
| Principal payments on long-term debt | 57,586 | |
| Decrease in accrued interest payable | <u>-</u> | (138,576) |
| <p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p> | | |
| Compensated absences | (3,820) | |
| Pension expense | (130,462) | |
| OPEB plan expense | <u>(8,789)</u> | (143,071) |
| Total changes in net position of governmental activities | | <u>\$ 40,420</u> |

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

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

| | General Fund | | | Variance with Final Budget - Positive (Negative) |
|--|------------------|------------------|---------------------|---|
| | Original | Final | Actual Amounts | |
| Revenues: | | | | |
| Ad valorem taxes | \$ 1,393,215 | \$ 1,427,764 | \$ 1,414,141 | \$ (13,623) |
| Unrestricted intergovernmental | 646,870 | 646,870 | 690,175 | 43,305 |
| Restricted intergovernmental | 96,771 | 167,504 | 166,926 | (578) |
| Permits and fees | 3,000 | 3,500 | 15,712 | 12,212 |
| Sales and services | 173,210 | 189,210 | 165,359 | (23,851) |
| Investment earnings | 7,500 | 7,500 | 15,928 | 8,428 |
| Miscellaneous | 2,000 | 7,613 | 162,853 | 155,240 |
| Total revenues | <u>2,322,566</u> | <u>2,449,961</u> | <u>2,631,094</u> | <u>181,133</u> |
| Expenditures: | | | | |
| Current: | | | | |
| General government | 556,324 | 596,118 | 575,112 | 21,006 |
| Public safety | 951,916 | 991,588 | 954,070 | 37,518 |
| Streets | 295,195 | 356,879 | 317,105 | 39,774 |
| Powell Bill | 93,752 | 213,750 | 222,277 | (8,527) |
| Sanitation | 253,806 | 255,307 | 245,353 | 9,954 |
| Recreation | 131,262 | 152,048 | 120,255 | 31,793 |
| Debt service | 40,311 | 41,841 | 60,429 | (18,588) |
| Total expenditures | <u>2,322,566</u> | <u>2,607,531</u> | <u>2,494,601</u> | <u>112,930</u> |
| Revenues over (under) expenditures | - | (157,570) | 136,493 | 294,063 |
| Other financing sources (uses): | | | | |
| Insurance recovery | - | 13,844 | 15,608 | 1,764 |
| Loan proceeds | - | - | - | - |
| Total other financing sources (uses) | <u>-</u> | <u>13,844</u> | <u>15,608</u> | <u>1,764</u> |
| Fund balance appropriated | | 143,726 | | (143,726) |
| Net change in fund balance | <u>\$ -</u> | <u>\$ -</u> | 152,101 | <u>\$ 152,101</u> |
| Fund balance, beginning | | | <u>1,735,988</u> | |
| Fund balance, ending | | | <u>\$ 1,888,089</u> | |

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

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

| | Enterprise Fund |
|--|------------------------|
| | Water and |
| | Sewer Fund |
| ASSETS | |
| Current assets: | |
| Cash and cash equivalents | \$ 592,119 |
| Restricted cash and cash equivalents | 89,518 |
| Accounts receivable (net) - billed | 52,812 |
| Accounts receivable (net) -unbilled | 64,047 |
| Inventories | 28,871 |
| Total current assets | 827,367 |
| Noncurrent assets: | |
| Capital assets: | |
| Land and other non-depreciable assets | 50,014 |
| Other capital assets, net of depreciation | 2,750,415 |
| Capital assets (net) | 2,800,429 |
| Total noncurrent assets | 2,800,429 |
| Total assets | \$ 3,627,796 |
| DEFERRED OUTFLOWS OF RESOURCES | |
| Pension deferrals | \$ 45,804 |
| OPEB deferrals | 7,426 |
| Total deferred outflows of resources | 53,230 |
| LIABILITIES | |
| Current liabilities: | |
| Accounts payable and accrued liabilities | 80,838 |
| Payable from restricted assets - customer deposits | 77,737 |
| Installment obligations - current | 24,758 |
| Total current liabilities | 183,333 |
| Noncurrent liabilities: | |
| Compensated absences | 8,749 |
| Net pension liability | 71,354 |
| Total OPEB liability | 64,475 |
| Installment obligations - noncurrent | 443,630 |
| Total noncurrent liabilities | 588,208 |
| Total liabilities | 771,541 |
| DEFERRED INFLOWS OF RESOURCES | |
| Pension deferrals | 983 |
| OPEB deferrals | 4,425 |
| Total deferred inflows of resources | 5,408 |
| NET POSITION | |
| Net investment in capital assets | 2,332,041 |
| Restricted | 89,518 |
| Unrestricted | 482,518 |
| Total net position | \$ 2,904,077 |

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

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

| | <u>Enterprise Fund</u> <u>Water and</u> <u>Sewer Fund</u> |
|---|---|
| OPERATING REVENUES | |
| Water sales and sewer charges | \$ 1,213,931 |
| Water and sewer system development and tap fees | 45,288 |
| Other operating revenues | 11,154 |
| Total operating revenues | <u>1,270,373</u> |
| OPERATING EXPENSES | |
| Cost of water purchased | 384,130 |
| Other operating expenses | 786,284 |
| Depreciation | 142,574 |
| Total operating expenses | <u>1,312,988</u> |
| Operating (loss) | <u>(42,615)</u> |
| NONOPERATING REVENUES (EXPENSES) | |
| Investment earnings | 5 |
| Interest and other charges | (787) |
| Total nonoperating revenue (expenses) | <u>(782)</u> |
| Income (loss) before contributions and transfers | (43,397) |
| Capital contributions | 46,795 |
| Change in net position | 3,398 |
| Total net position, beginning | 2,900,679 |
| Total net position, ending | <u>\$ 2,904,077</u> |

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

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

| | Water and Sewer Fund |
|---|----------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Cash received from customers | \$ 1,310,271 |
| Cash paid for goods and services | (847,079) |
| Cash paid to or on behalf of employees for services | (332,377) |
| Customer deposits received (net) | 2,538 |
| Other operating revenues | 11,152 |
| Net cash provided by operating activities | 144,505 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | |
| Principal paid on equipment loans | (72,514) |
| Interest paid on equipment loans | (787) |
| Acquisition of capital assets | (549,776) |
| Proceeds from installment obligations | 487,542 |
| Grant funds | 46,795 |
| Net cash used by capital and related financing activities | (88,740) |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Interest and dividends | 5 |
| Net increase in cash and cash equivalents | 55,770 |
| Balances, beginning | 625,867 |
| Balances, ending | \$ 681,637 |
| Reconciliation of operating income to net cash provided by operating activities | |
| Operating loss | \$ (42,615) |
| Adjustments to reconcile operating income to net cash provided by operating activities: | |
| Depreciation | 142,574 |
| Changes in assets, deferred outflows of resources, and liabilities: | |
| (Increase) decrease in accounts receivable | 101,719 |
| Increase (decrease) in allowance for doubtful accounts | (37,697) |
| (Increase) decrease in inventory | (1,128) |
| (Increase) decrease in deferred outflows of resources - pensions | 10,739 |
| Increase (decrease) in deferred outflows of resources - OPEB | (6,331) |
| Increase (decrease) in net pension liability | 1,749 |
| Increase (decrease) in accounts payable | 18,890 |
| Increase (decrease) in fee refunds payable | (47,000) |
| Increase (decrease) in accrued OPEB liability | 9,439 |
| Increase (decrease) in compensated absences payable | (8,659) |
| Increase (decrease) in customer deposits | 2,538 |
| Increase (decrease) in deferred inflows of resources for pensions | 983 |
| Increase (decrease) in deferred inflows of resources for OPEB | (696) |
| Total adjustments | 187,120 |
| Net cash provided by operating activities | \$ 144,505 |

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

City of Lowell, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Lowell 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 Lowell is a municipal corporation that is governed by an elected mayor and a five-member council.

B. Basis of Presentation

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

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

Fund Financial Statements: The fund financial statements provide information about the City's funds. 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.

City of Lowell, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 and 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:

Sidewalk Construction Capital Projects Fund. This fund is used to account for the construction of sidewalks in the City.

Cemetery Permanent Fund. This fund is used to account for perpetual care of the municipal cemetery.

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

The City reports the following major enterprise funds:

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

Water and Sewer Capital Projects Funds. This fund is used to account for improvements to the City's wastewater treatment plant and to study inflows to the wastewater treatment plant.

Lowell Sewer Capital Project Fund. This fund is used to account for improvements to the City's sewer system.

City of Lowell, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

City of Lowell, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

D. Budgetary Data

The City's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund and the Enterprise Funds. All annual appropriations lapse at the fiscal year-end. Project ordinances were adopted for the Sidewalk Construction Capital Projects Fund, the Neighborhood Revitalization Project Fund, the Water and Sewer Capital Projects Fund, and the Lowell Capital Projects Fund. The enterprise fund projects are consolidated with their respective operating fund

City of Lowell, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

for reporting purposes. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the departmental level for all annually budgeted funds and at the project level for the multi-year funds. The Budget Officer is authorized to transfer appropriations within a department; however, any revisions that alter total expenditures of any department or fund must be approved by the governing council. 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. The Cemetery Permanent Fund is not required to be budgeted.

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

1. Deposits and Investments

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

State law [G.S. 159-30(c)] authorizes the City to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States, obligations of the State of North Carolina, bonds and notes of any North Carolina local government or public authority, obligations of certain non-guaranteed federal agencies, certain high quality issues of commercial paper and bankers' acceptances, and the North Carolina Capital Management Trust (NCCMT). Investments are reported at fair value. The NCCMT Government Portfolio, a SEC-registered (2a-7) money market fund, is measured at fair value. The NCCMT-Term Portfolio is bond fund, has no rating and is measured at fair value. As of June 30, 2020, the Term portfolio has a duration of .15 years. Because the NCCMT Government and Term Portfolios have a weighted average maturity of less than 90 days, they are presented as an investment with a maturity of less than 6 months.

2. Cash and Cash Equivalents

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

City of Lowell, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3. Restricted Assets

The unexpended proceeds of Grant monies are classified as a restricted asset because its use is completely restricted to the purpose of which the grant was intended. Customer deposits held by the City before any services are supplied are restricted to the service for which the deposit was collected. Powell Bill funds are also classified as restricted cash because they can be expended only for the purposes outlined in G.S. 136-41.1 through 136-41.4

City of Lowell Restricted Cash

Governmental Activities:

General Fund

Streets \$ 476,510

Community Development Block Grant

Neighborhood Revitalization 7

Cemetery Fund

Cemetery care 49,947

Total governmental activities \$ 526,464

Business-type Activities

Water and Sewer Fund

Customer deposits \$ 77,737

Capital project 11,781

Total business-type activities \$ 89,518

Total Restricted Cash \$ 615,982

4. Ad Valorem Taxes Receivable

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

City of Lowell, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The inventories of the City are valued at cost (first-in, first-out), which approximates market. The inventories of the City's enterprise funds consist of materials and supplies held for subsequent use. The cost of these inventories is expensed when consumed rather than when purchased.

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, \$5,000; buildings, improvements, substations, lines, and other plant and distribution systems, \$10,000; infrastructure, \$5,000; equipment and furniture, \$5,000; vehicles \$5,000; computer equipment, \$5,000. Donated capital assets received prior to June 30, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received prior to June 30, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 30, 2015 are recorded at acquisition cost. All other purchased or constructed capital assets are reported at cost or estimated historical cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

| Asset Class | Estimated Useful Lives |
|-------------------------|------------------------|
| Infrastructure | 25 - 50 |
| Buildings and systems | 40 |
| Improvements | 10 - 50 |
| Vehicles | 5 |
| Furniture and equipment | 10 |
| Computer equipment | 3 |

City of Lowell, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

8. Deferred Outflows/Inflows of Resources

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

9. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position.

10. Compensated Absences

The vacation policy of the City provides for the accumulation of up to two hundred forty hours 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.

Sick leave is accumulated at the rate of one day for each calendar month of service. 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.

City of Lowell, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

11. Net Position/Fund Balances

Net Position

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

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.

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

Perpetual maintenance – Cemetery resources that are required to be retained in perpetuity for maintenance of the City of Lowell Cemetery.

City of Lowell, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

Restricted for Public Safety – portion of fund balance that is restricted by revenue source for the purchase of police vehicles.

Committed Fund Balance – portion of fund balance that can only be used for specific purposes imposed by majority vote by quorum of City of Lowell'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 Lowell intends to use for specific purposes.

City of Lowell, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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

12. Defined Benefit Cost-Sharing Plans

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about 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 Lowell's employer contributions are recognized when due and the City of Lowell has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of LGERS. Investments are reported at fair value.

NOTE 2: DETAIL NOTES ON ALL FUNDS

A. Assets

1. Deposits

All the deposits of the City are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the City's agents in these units' names. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name

City of Lowell, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2020

NOTE 2: DETAIL NOTES ON ALL FUNDS (CONTINUED)

of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the City, these deposits are considered to be held by the City's agents in the entities names. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the City or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the City under the Pooling Method, the potential exists for under-collateralization. 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.

At June 30, 2020, the City's deposits had a carrying amount of \$2,176,414 and a bank balance of \$2,778,978. Of the bank balance, \$250,000 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method. At June 30, 2020 the City's petty cash fund totaled \$500.

2. Investments

At June 30, 2020, the City of Lowell had \$329,987 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.

3. Receivables - Allowances for Doubtful Accounts

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

| | |
|---------------------|-----------------|
| General Fund: | |
| Taxes receivable | <u>\$ 1,124</u> |
| Enterprise Fund: | |
| Accounts receivable | <u>1,633</u> |
| Total | <u>\$ 2,757</u> |

City of Lowell, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2020

NOTE 2: DETAIL NOTES ON ALL FUNDS (CONTINUED)

4. Capital Assets

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

| | Beginning Balances | Increases | Decreases | Ending Balances |
|--|----------------------------|-------------------|-------------|----------------------------|
| Governmental activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 112,430 | \$ - | \$ - | \$ 112,430 |
| Total capital assets not being depreciated | <u>112,430</u> | <u>-</u> | <u>-</u> | <u>112,430</u> |
| Capital assets being depreciated: | | | | |
| City Hall building | 125,196 | | - | 125,196 |
| Other buildings | 355,134 | | | 355,134 |
| Other land improvements | 163,324 | | - | 163,324 |
| Equipment | 867,392 | 106,269 | | 973,661 |
| Vehicles and motorized equipment | 919,383 | 163,090 | | 1,082,473 |
| Streets and sidewalks | 2,469,827 | 10,319 | - | 2,480,146 |
| Total capital assets being depreciated | <u>4,900,256</u> | <u>279,678</u> | <u>-</u> | <u>5,179,934</u> |
| Less accumulated depreciation for: | | | | |
| City Hall building | 111,792 | 548 | - | 112,340 |
| Other buildings | 254,596 | 7,498 | - | 262,094 |
| Other land improvements | 129,774 | 1,873 | | 131,647 |
| Equipment | 774,035 | 25,012 | | 799,047 |
| Vehicles and motorized equipment | 806,368 | 63,336 | | 869,704 |
| Streets and sidewalks | 1,545,715 | 52,522 | - | 1,598,237 |
| Total accumulated depreciation | <u>3,622,280</u> | <u>\$ 150,789</u> | <u>\$ -</u> | <u>3,773,069</u> |
| Total capital assets being depreciated, net | <u>1,277,976</u> | | | <u>1,406,865</u> |
| Governmental activity capital assets, net | <u><u>\$ 1,390,406</u></u> | | | <u><u>\$ 1,519,295</u></u> |

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

| | |
|--------------------|-------------------|
| General government | \$ 3,865 |
| Public safety | 49,701 |
| Sanitation | 42,828 |
| Streets | 52,522 |
| Recreation | 1,873 |
| | <u>\$ 150,789</u> |

City of Lowell, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2020

NOTE 2: DETAIL NOTES ON ALL FUNDS (CONTINUED)

| | Beginning Balances | Increases | Decreases | Ending Balances |
|--|-----------------------|-------------------|-------------|---------------------|
| Business-type activities: | | | | |
| <i>Water and Sewer Fund</i> | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 15,000 | \$ - | \$ - | \$ 15,000 |
| Construction in progress | - | 35,014 | - | 35,014 |
| Total capital assets not being depreciated | <u>15,000</u> | <u>35,014</u> | <u>-</u> | <u>50,014</u> |
| Capital assets being depreciated: | | | | |
| Buildings | 16,683 | | - | 16,683 |
| Sewage treatment plant | 745,816 | 44,850 | - | 790,666 |
| Rights of way and easements | 22,105 | | - | 22,105 |
| Equipment, including vehicles | 522,897 | 16,110 | | 539,007 |
| Water and sewer system | 5,936,217 | 453,802 | - | 6,390,019 |
| Total capital assets being depreciated | <u>7,243,718</u> | <u>514,762</u> | <u>-</u> | <u>7,758,480</u> |
| Less accumulated depreciation for: | | | | |
| Buildings | 16,683 | | - | 16,683 |
| Sewage treatment plant | 436,236 | 41,169 | | 477,405 |
| Rights of way and easements | 2,077 | | - | 2,077 |
| Equipment, including vehicles | 491,617 | 7,650 | | 499,267 |
| Water and sewer system | 3,918,878 | 93,755 | - | 4,012,633 |
| Total accumulated depreciation | <u>4,865,491</u> | <u>\$ 142,574</u> | <u>\$ -</u> | <u>5,008,065</u> |
| Total capital assets being depreciated, net | <u>2,378,227</u> | | | <u>2,750,415</u> |
| Water and Sewer fund capital assets, net | <u>\$ 2,393,227</u> | | | <u>\$ 2,800,429</u> |

City of Lowell, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2020

NOTE 2: DETAIL NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities

1. Pension Plan Obligations

a. Local Governmental Employees' Retirement System

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

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

City of Lowell, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2020

NOTE 2: DETAIL NOTES ON ALL FUNDS (CONTINUED)

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 Lowell 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 Lowell's contractually required contribution rate for the year ended June 30, 2020, was 9.70% of compensation for law enforcement officers and 8.95% for general employees and firefighters, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the City of Lowell were \$95,855 for the year ended June 30, 2020.

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

City of Lowell, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2020

NOTE 2: DETAIL NOTES ON ALL FUNDS (CONTINUED)

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

At June 30, 2020, the City reported a liability of \$350,923 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2018. The total pension liability was then rolled forward to the measurement date of June 30, 2019 utilizing update procedures incorporating the actuarial assumptions. The City's proportion of the net pension liability was based on a projection of the City's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2019 (measurement date), the City's proportion was 0.01285%, which was a decrease of 0.0016% from its proportion measured as of June 30, 2018.

For the year ended June 30, 2020, the City recognized pension expense of \$158,514. At June 30, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------------|-------------------------------------|
| Differences between expected and actual experience | \$ 60,087 | \$ |
| Changes in assumptions | 57,195 | |
| Net difference between projected and actual earnings on pension plan investments | 8,560 | |
| Changes in proportion and differences between City contributions and proportionate share of contributions | 6,804 | 9,472 |
| City contributions subsequent to the measurement date | 95,855 | |
| Total | \$ 228,501 | \$ 9,472 |

\$95,855 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a decrease

City of Lowell, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2020

NOTE 2: DETAIL NOTES ON ALL FUNDS (CONTINUED)

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

| Year ended June 30: | |
|----------------------------|-------------------------|
| 2021 | \$ 64,044 |
| 2022 | 19,017 |
| 2023 | 32,758 |
| 2024 | 7,355 |
| 2025 | - |
| Thereafter | - |
| | <hr/> \$ 123,174 |

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

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

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

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

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

City of Lowell, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2020

NOTE 2: DETAIL NOTES ON ALL FUNDS (CONTINUED)

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

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

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

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

City of Lowell, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2020

NOTE 2: DETAIL NOTES ON ALL FUNDS (CONTINUED)

projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

| | 1% Decrease (6.00%) | Discount Rate (7.00%) | 1% Increase (8.00%) |
|---|---------------------------|-----------------------------|---------------------------|
| City's proportionate share of the net pension liability (asset) | \$ 802,626 | \$ 350,923 | \$ (24,533) |

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

City of Lowell, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2020

NOTE 2: DETAIL NOTES ON ALL FUNDS (CONTINUED)

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

| | |
|--|----------|
| Retirees receiving benefits | 2 |
| Terminated plan members entitled to but not yet receiving benefits | 0 |
| Active plan members | 7 |
| Total | <u>9</u> |

2. Summary of Significant Accounting Policies

Basis of Accounting. The City has chosen to fund the Separation Allowance on a pay as you go basis. Pension expenditures are made from the General Fund, which is maintained on the modified accrual basis of accounting. Benefits are recognized when due and payable in accordance with the terms of the plan.

The Separation Allowance has no assets accumulated in a trust that meets the criteria which are outlined in GASB Statement 73.

3. Actuarial Assumptions

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

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

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

Mortality rates are based on the RP-2015 Mortality tables with adjustments for mortality improvements based on Scale AA.

City of Lowell, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2020

NOTE 2: DETAIL NOTES ON ALL FUNDS (CONTINUED)

3. Contributions.

The City is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the amounts necessary to cover the benefits earned on a pay as you go basis through appropriations made in the General Fund operating budget. There were no contributions made by employees. The City's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. Administration costs of the Separation Allowance are financed through investment earnings. The City paid \$19,671 as benefits came due for the reporting period.

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

At June 30, 2020, the City reported a total pension liability of \$215,186. The total pension liability was measured as of December 31, 2019 based on a December 31, 2018 actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2019 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2020, the City recognized pension expense of \$27,808.

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|---|--|
| Differences between expected and actual experience | \$ 28,286 | \$ 9,713 |
| Changes of assumptions | 9,028 | 5,809 |
| County benefit payments and plan administrative expense made subsequent to the measurement date | 9,308 | - |
| Total | \$ 46,622 | \$ 15,522 |

\$9,308 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, 2021. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

City of Lowell, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2020

NOTE 2: DETAIL NOTES ON ALL FUNDS (CONTINUED)

Year ended June 30:

| | | |
|------|----|---------|
| 2021 | \$ | 12,971 |
| 2022 | | 9,679 |
| 2023 | | (1,516) |
| 2024 | | 658 |
| 2025 | | |

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

| | <u>1% Decrease (2.26%)</u> | <u>Discount Rate (3.26%)</u> | <u>1% Increase (4.26%)</u> |
|-------------------------|--------------------------------|----------------------------------|--------------------------------|
| Total pension liability | \$ 230,700 | \$ 215,186 | \$ 200,792 |

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

| | <u>2020</u> |
|--|-------------------|
| Beginning balance | \$ 209,305 |
| Service Cost | 7,630 |
| Interest on the total pension liability | 7,207 |
| Changes of benefit terms | - |
| Differences between expected and actual experience in the measurement of the total pension liability | 8,089 |
| Changes of assumptions or other inputs | 5,599 |
| Benefit payments | (22,644) |
| Other changes | - |
| Ending balance of the total pension liability | <u>\$ 215,186</u> |

The plan currently uses mortality tables that vary by age, and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on

City of Lowell, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2020

NOTE 2: DETAIL NOTES ON ALL FUNDS (CONTINUED)

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

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

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

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

| | LGERS | LEOSSA | Total |
|--|------------|-----------|------------|
| Pension Expense | \$ 158,514 | \$ 27,808 | \$ 186,322 |
| Pension Liability | 350,923 | 215,186 | 566,109 |
| Proportionate share of the net pension liability | 0.01285% | n/a | |
| Deferred Outflows of Resources | | | |
| Differences between expected and actual experience | 60,087 | 28,286 | 88,373 |
| Changes of assumptions | 57,195 | 9,028 | 66,223 |
| Net difference between projected and actual earnings on plan investments | 8,560 | - | 8,560 |
| Changes in proportion and differences between contributions and proportionate share of contributions | 6,804 | - | 6,804 |
| Benefit payments and administrative costs paid subsequent to the measurement date | 95,855 | 9,308 | 105,163 |
| Deferred Inflows of Resources | | | |
| Differences between expected and actual experience | - | 9,713 | 9,713 |
| Changes of assumptions | - | 5,809 | 5,809 |
| Net difference between projected and actual earnings on plan investments | - | - | - |
| Changes in proportion and differences between contributions and proportionate share of contributions | 9,472 | - | 9,472 |

c. Supplemental Retirement Income Plan for Law Enforcement Officers

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

City of Lowell, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2020

NOTE 2: DETAIL NOTES ON ALL FUNDS (CONTINUED)

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

Funding Policy. Article 12E of G.S. Chapter 143 requires the City to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. The City made contributions of \$19,671 for the reporting year. No amounts were forfeited.

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

Plan Description. All full-time employees of the City other than law enforcement officers participate in the Supplemental Retirement Income Plan, which is a Section 401(k) plan. Participation begins after 90 days of employment.

Funding Policy. The City 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. The City made contributions of \$30,603 for the reporting year. No amounts were forfeited.

City of Lowell, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2020

NOTE 2: DETAIL NOTES ON ALL FUNDS (CONTINUED)

e. Other Postemployment Benefit

Healthcare Benefits

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

Benefits Provided. At retirement, all employees have the option to purchase basic medical insurance at the City’s group rate. The entire cost of this insurance is borne by the employee, except for employees with 20 years of service with the City who qualify under the Local Government Employees’ Retirement System’s criteria for full retirement. If there is no other medical insurance coverage available at no cost to the employee, insurance coverage will be furnished on the City’s group medical insurance plan at no cost until the employee is eligible for Social Security Medicare benefits. Currently, one employee is eligible for postretirement benefits. A separate report was not issued for the plan.

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

| | <u>General Employees</u> | <u>Law Enforcement Officers</u> |
|--|------------------------------|---|
| Retirees receiving benefits | 0 | 2 |
| Terminated plan members entitled to but not yet receiving benefits | 0 | 0 |
| Active plan members | <u>12</u> | <u>7</u> |
| Total | <u>12</u> | <u>9</u> |

City of Lowell, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2020

NOTE 2: DETAIL NOTES ON ALL FUNDS (CONTINUED)

Total OPEB Liability

The City's total OPEB liability of \$369,689 was measured as of June 30, 2019 and was determined by an actuarial valuation as of that date.

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

| | |
|-----------------------------|---|
| Inflation | 2.5 percent |
| Salary increases | 3.5 – 7.75 percent, average, including inflation |
| Discount rate | 3.50 percent |
| Healthcare cost trend rates | Medical – 7.0% for 2019 decreasing to an ultimate rate of 4.5% by 2026 Dental – 4.0% |

The discount rate is based on the June average of the Bond Buyer General Obligation 20 Year Municipal Bond Index.

Changes in the Total OPEB Liability

| | Total OPEB Liability |
|--|-----------------------------|
| Balance at July 1, 2018 | \$ 325,849 |
| Changes for the year | |
| Service cost | 17,029 |
| Interest | 12,359 |
| Changes of benefit terms | - |
| Differences between expected and actual experience | 22,633 |
| Changes in assumptions or other inputs | 8,262 |
| Benefit payments | (16,443) |
| Net changes | <u>43,840</u> |
| Balance at June 30, 2019 | <u>\$ 369,689</u> |

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

Medical trend rates decreased from 7.5% to 7.0% for 2019 and decreasing to an ultimate rate of 4.5% by 2026.

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

City of Lowell, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2020

NOTE 2: DETAIL NOTES ON ALL FUNDS (CONTINUED)

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

| | <u>1% Decrease</u> | <u>Discount Rate (3.50%)</u> | <u>1% Increase</u> |
|----------------------|--------------------|----------------------------------|--------------------|
| Total OPEB liability | \$ 403,491 | \$ 369,689 | \$ 339,100 |

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

| | <u>Medical - 6.0%, Prescription - 6.0%</u> | <u>Discount Rate (Medical - 7.0%, Prescription - 7.0%)</u> | <u>Medical - 8.0%, Prescription - 8.0%</u> |
|----------------------|--|--|--|
| Total OPEB liability | \$ 332,062 | \$ 369,689 | \$ 412,217 |

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

For the year ended June 30, 2020, the City recognized OPEB expense of \$29,969. At June 30, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|--|---|--|
| Differences between expected and actual experience | \$ 20,305 | \$ 647 |
| Changes of assumptions | 7,257 | 20,930 |
| Benefit payments and administrative costs made subsequent of the measurement date | 6,934 | - |
| Total | <u>\$ 34,496</u> | <u>\$ 21,577</u> |

City of Lowell, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2020

NOTE 2: DETAIL NOTES ON ALL FUNDS (CONTINUED)

\$6,934 reported as deferred outflows of resources related to pensions resulting from benefit payments made and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total pension liability in the year ended June 30, 2020. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

| | | |
|------------|----|-------|
| 2021 | \$ | 582 |
| 2022 | | 582 |
| 2023 | | 582 |
| 2024 | | 582 |
| 2025 | | 582 |
| Thereafter | | 3,075 |

2. Other Employment Benefits

The City has elected to provide death benefits to law enforcement officers through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, State-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those officers who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the officer's 12 highest months' salary in a row during the 24 months prior to the employee's death, but the benefit may not exceed \$50,000 or be less than \$25,000. Because all death benefit payments are made from the Death Benefit Plan and not by the City, the City does not determine the number of eligible participants. The City has no liability beyond the payment of monthly contributions. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount. Contributions are determined as a percentage of monthly payroll based upon rates established annually by the State. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. The City considers these contributions to be immaterial.

City of Lowell, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2020

NOTE 2: DETAIL NOTES ON ALL FUNDS (CONTINUED)

Deferred Outflows and Inflows of Resources

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

| | | |
|---|----|---------|
| Contributions to pension plan in current fiscal year | \$ | 95,855 |
| Benefit payments and administrative expenses for LEOSSA made subsequent to measurement date | | 9,308 |
| Benefit payments and administrative expenses for OPEB made subsequent to measurement date | | 6,934 |
| Differences between expected and actual experience | | 108,678 |
| Changes in assumptions | | 73,480 |
| Net difference between projected and actual earnings on pension plan investments | | 8,560 |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | | 6,804 |
| Total | \$ | 309,619 |

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

| | Statement of Net Position | General Fund Balance Sheet |
|---|------------------------------|-------------------------------|
| Prepaid taxes (General Fund) | \$ - | \$ - |
| Taxes receivable (General Fund) | - | 36,333 |
| Changes in assumptions | 26,739 | - |
| Differences between expected and actual experience | 10,360 | |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | | 9,472 |
| Total | \$ 46,571 | \$ 36,333 |

City of Lowell, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2020

NOTE 2: DETAIL NOTES ON ALL FUNDS (CONTINUED)

4. Risk Management

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

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 coverage insurance because none of its buildings are located in areas designated by the Federal Emergency Management Agency as flood zones B, C, or X (which are the critical zones).

In accordance with G.S. 159-29, the City's employees that have access to \$100 or more at any given time of the City's funds are performance bonded through a commercial surety bond. The finance officer is bonded for \$50,000. The remaining employees that have access to funds are bonded under a blanket bond for \$15,000.

City of Lowell, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2020

NOTE 2: DETAIL NOTES ON ALL FUNDS (CONTINUED)

6. Long-Term Obligations

a. Installment Purchases

The City has entered into various installment purchase contracts with a bank to finance asset purchases. The purchase contracts range in length from 5 to 20 years and interest rates from 2.88% to 5.24%. The purchase contract for water meters contains an adjustable rate based on a 10 year Treasury Bill rate. The following table summarizes the financing obligations at June 30, 2020:

| | <u>June 30, 2019</u> | <u>Purchases</u> | <u>Payments</u> | <u>June 30, 2020</u> |
|-----------------------------|----------------------|------------------|------------------|----------------------|
| General Fund: | | | | |
| Police vehicles | \$ 106,203 | \$ 60,613 | \$ 37,602 | \$ 129,214 |
| Police radios | | 63,531 | 12,783 | 50,748 |
| Vehicles | | 77,817 | 13,000 | 64,817 |
| | <u>\$ 106,203</u> | <u>\$201,961</u> | <u>\$ 63,385</u> | <u>\$ 244,779</u> |
| Water and Sewer Fund | | | | |
| Improvements | \$ 53,360 | \$ | \$ 53,360 | \$ |
| Water meters | | 44,850 | | 44,850 |
| WWTP | | 442,692 | 19,154 | 423,538 |
| | <u>\$ 53,360</u> | <u>\$487,542</u> | <u>\$ 72,514</u> | <u>\$ 468,388</u> |

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

| Year Ending June 30 | Governmental Activities | | Business-type Activities | |
|------------------------|-------------------------|------------------|--------------------------|------------------|
| | Principal | Interest | Principal | Interest |
| 2021 | \$ 67,281 | \$ 5,643 | \$24,758 | \$ 15,065 |
| 2022 | 57,981 | 4,233 | 24,669 | 14,957 |
| 2023 | 59,845 | 3,425 | 25,434 | 14,323 |
| 2024 | 53,683 | 1,721 | 26,223 | 13,891 |
| 2025 and later | 5,989 | 417 | 367,304 | 112,376 |
| Total | <u>\$ 244,779</u> | <u>\$ 15,439</u> | <u>\$468,388</u> | <u>\$170,612</u> |

City of Lowell, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2020

NOTE 2: DETAIL NOTES ON ALL FUNDS (CONTINUED)

b. Changes in Long-Term Liabilities

| | Beginning | | | Ending | Current |
|--|-------------------|-------------------|------------------|---------------------|-----------------------|
| | Balance | Increases | Decreases | Balance | Portion of Balance |
| Governmental activities: | | | | | |
| Installment purchases | \$ 106,203 | \$ 201,961 | \$ 63,385 | \$ 244,779 | \$ 67,281 |
| Compensated absences | 50,399 | 3,820 | | 54,219 | |
| Total OPEB liability | 270,813 | 34,401 | | 305,214 | |
| Net pension liability (LGERS) | 273,196 | 6,373 | | 279,569 | |
| Total pension obligation (LEO) | 209,305 | 5,881 | | 215,186 | |
| Governmental activity long-term liabilities | <u>\$ 909,916</u> | <u>\$ 252,436</u> | <u>\$ 63,385</u> | <u>\$ 1,098,967</u> | <u>\$ 67,281</u> |
| Business-type activities: | | | | | |
| Water and Sewer Fund | | | | | |
| Notes payable/installment purchases | \$ 53,360 | \$ 487,542 | \$ 72,514 | \$ 468,388 | \$ 24,758 |
| Net pension liability (LGERS) | 69,605 | 1,749 | | 71,354 | |
| Total OPEB liability | 55,036 | 9,439 | | 64,475 | |
| Compensated absences | 17,408 | | 8,659 | 8,749 | |
| Business-type activity long-term liabilities | <u>\$ 195,409</u> | <u>\$ 498,730</u> | <u>\$ 81,173</u> | <u>\$ 612,966</u> | <u>\$ 24,758</u> |

Compensated absences for governmental activities have typically been liquidated in the General Fund.

C. Fund Balance

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

| | |
|---|--------------------|
| <i>Total Fund Balance-General Fund</i> | <i>\$1,888,089</i> |
| Less: | |
| Stabilization by State Statute | 135,873 |
| Streets-Powell Bill | 476,510 |
| Public safety | 0 |
| Appropriated Fund Balance in 2019-2020 Budget | 0 |
| Working Capital/Fund Balance Policy | 0 |
| Remaining Fund Balance | \$1,275,706 |

City of Lowell, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2020

NOTE 3: JOINTLY GOVERNED ORGANIZATIONS

The City, in conjunction with eight counties and fifty other municipalities, established the Centralina Council of Governments (Council). The participating governments established the Council to coordinate various funding received from federal and State agencies. Each participating government appoints one member to the Council's governing board. The City paid membership fees of \$906 to the Council during the fiscal year ended June 30, 2020.

NOTE 4: COMMITMENTS

The City has a written agreement with the Lowell Volunteer Fire Department, Inc. to provide fire service for the citizens of the City of Lowell. The contract calls for payment of \$100,000 each year for ten years, starting with the year beginning July 1, 2000. At the end of the ten years, the contract provides that the contract will continue in force until terminated by either party with proper notice.

NOTE 5: SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES

Federal and State Assisted Programs

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

REQUIRED SUPPLEMENTARY FINANCIAL DATA

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

Local Government Employees' Retirement System

| | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|--------------|------------|------------|------------|------------|-------------|
| Lowell's proportion of the net pension liability (asset) (%) | 0.001285% | 0.01445% | 0.01341% | 0.01342% | 0.01275% | 0.01352% |
| Lowell's proportion of the net pension liability (asset) (\$) | \$ 350,923 | \$ 342,801 | \$ 204,868 | \$ 284,817 | \$ 57,220 | \$ (79,734) |
| Lowell's covered payroll | \$ 1,037,948 | \$ 914,859 | \$ 896,986 | \$ 892,648 | \$ 892,648 | \$ 867,256 |
| Lowell's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll | 33.81% | 37.47% | 22.84% | 31.91% | 6.41% | (9.19%) |
| Plan fiduciary net position as a percentage of the total pension liability** | 91.63% | 94.18% | 91.47% | 98.09% | 99.07% | 102.64% |

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

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

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

Local Government Employees' Retirement System

| | <u>2020</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|--|--------------|-------------|-------------|-------------|-------------|-------------|
| Contractually required contribution | \$ 95,855 | \$ 73,646 | \$ 68,116 | \$ 65,997 | \$ 61,626 | \$ 62,688 |
| Contributions in relation to the contractually required contribution | 95,855 | 73,646 | 68,116 | 65,997 | 61,626 | 62,688 |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Lowell's covered payroll | \$ 1,037,948 | \$ 914,859 | \$ 896,986 | \$ 892,648 | \$ 892,648 | \$ 867,256 |
| Contributions as a percentage of covered payroll | 9.24% | 8.05% | 7.59% | 7.39% | 6.90% | 7.23% |

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

| | 2020 | 2019 | 2018 | 2017 |
|--|-------------------|-------------------|-------------------|-------------------|
| Beginning balance | \$ 209,305 | \$ 234,281 | \$ 164,777 | \$ 155,464 |
| Service Cost | 7,630 | 10,137 | 7,172 | 7,951 |
| Interest on the total pension liability | 7,207 | 7,104 | 6,066 | 5,534 |
| Changes of benefit terms | - | - | - | - |
| Differences between expected and actual experience in the measurement of the total pension liability | 8,089 | (15,727) | 59,000 | - |
| Changes in assumptions or other inputs | 5,599 | (7,560) | 12,508 | (3,293) |
| Benefit payments | (22,644) | (18,930) | (15,242) | (879) |
| Other changes | - | - | - | - |
| Ending balance of the total pension liability | <u>\$ 215,186</u> | <u>\$ 209,305</u> | <u>\$ 234,281</u> | <u>\$ 164,777</u> |

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

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

| | 2020 | | 2019 | | 2018 | | 2017 |
|--|-------------|----|-------------|----|-------------|----|-------------|
| Total pension liability | \$ 215,186 | \$ | 209,305 | \$ | 234,281 | \$ | 164,777 |
| Covered payroll | 328,429 | | 386,375 | | 352,674 | | 371,247 |
| Total pension liability as a percentage of covered payroll | 65.52% | | 54.17% | | 66.43% | | 44.38% |

Notes to the schedule:

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

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

| | <u>2020</u> | <u>2019</u> | <u>2018</u> |
|---|-------------------|-------------------|-------------------|
| Total OPEB Liability | | | |
| Service cost | \$ 17,029 | \$ 17,595 | \$ 18,999 |
| Interest | 12,359 | 11,114 | 9,316 |
| Changes of benefit terms | - | - | - |
| Differences between expected and actual experience | 22,633 | 541 | (956) |
| Changes of assumptions | 8,262 | (10,949) | (18,198) |
| Benefit payments | <u>(16,443)</u> | <u>(9,219)</u> | <u>(3,771)</u> |
| Net change in total OPEB liability | 43,840 | 9,082 | 5,390 |
| Total OPEB liability - beginning | <u>325,849</u> | <u>316,767</u> | <u>311,377</u> |
| Total OPEB liability - ending | <u>\$ 369,689</u> | <u>\$ 325,849</u> | <u>\$ 316,767</u> |
| | | | |
| Covered payroll | \$ 769,564 | \$ 840,093 | \$ 840,093 |
| | | | |
| Total OPEB liability as a percentage of covered payroll | 48.04% | 38.79% | 37.71% |

Notes to Schedule

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

| <u>Fiscal year</u> | <u>Rate</u> |
|--------------------|-------------|
| 2020 | 3.50% |
| 2019 | 3.89% |
| 2018 | 3.18% |

INDIVIDUAL FUND FINANCIAL STATEMENTS

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

| | Budget | Actual | Variance Positive (Negative) |
|---------------------------------|------------------|------------------|------------------------------------|
| Revenues: | | | |
| Ad valorem taxes: | | | |
| Taxes | \$ | \$ 1,412,696 | \$ |
| Interest | | 1,445 | |
| Total | <u>1,427,764</u> | <u>1,414,141</u> | <u>(13,623)</u> |
| Unrestricted intergovernmental: | | | |
| Local option sales taxes | | 483,110 | |
| Utility franchise tax | | 189,820 | |
| Beer and wine tax | | 16,340 | |
| Court costs and fees | | 905 | |
| Total | <u>646,870</u> | <u>690,175</u> | <u>43,305</u> |
| Restricted intergovernmental: | | | |
| Powell Bill allocation | | 93,306 | |
| Township grant | | 70,733 | |
| Solid waste disposal tax | | 2,887 | |
| Total | <u>167,504</u> | <u>166,926</u> | <u>(578)</u> |
| Permits and fees: | | | |
| Zoning permits | | 15,712 | |
| Code enforcement | | - | |
| Total | <u>3,500</u> | <u>15,712</u> | <u>12,212</u> |
| Sales and services: | | | |
| Sanitation fees | | 149,472 | |
| Recreation revenue | | 10,377 | |
| Community Center revenue | | 5,510 | |
| Sale of fixed assets | | | |
| Total | <u>189,210</u> | <u>165,359</u> | <u>(23,851)</u> |
| Investment earnings | <u>7,500</u> | <u>15,928</u> | <u>8,428</u> |
| Miscellaneous: | | | |
| Miscellaneous | <u>7,613</u> | <u>162,853</u> | <u>155,240</u> |
| Total revenues | <u>2,449,961</u> | <u>2,631,094</u> | <u>181,133</u> |

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

| | Budget | Actual | Variance Positive (Negative) |
|--------------------------------|---------|---------|------------------------------------|
| Expenditures: | | | |
| General Government: | | | |
| Salaries and employee benefits | | 326,349 | |
| Professional services | | 62,530 | |
| Membership dues | | 10,997 | |
| Recreation | | | |
| Other operating expenditures | | 175,236 | |
| Capital outlay - equipment | | - | |
| Total | 596,118 | 575,112 | 21,006 |
| Public safety: | | | |
| Salaries and employee benefits | | 596,277 | |
| Fire protection | | 209,700 | |
| Vehicle maintenance | | 15,238 | |
| Other operating expenditures | | 81,623 | |
| Capital outlay - equipment | | 51,232 | |
| Total | 991,588 | 954,070 | 37,518 |
| Streets: | | | |
| Salaries and employee benefits | | 103,476 | |
| Vehicle maintenance | | 5,951 | |
| Contracted services | | 74,851 | |
| Other operating expenditures | | 112,146 | |
| Capital outlay - equipment | | 20,681 | |
| Total | 356,879 | 317,105 | 39,774 |
| Powell Bill: | | | |
| Other operating expenditures | | 215,512 | |
| Capital outlay - equipment | | 6,765 | |
| Other operating expenditures | 213,750 | 222,277 | (8,527) |
| Sanitation: | | | |
| Salaries and employee benefits | | 152,317 | |
| Vehicle maintenance | | 13,192 | |
| Other operating expenditures | | 38,998 | |
| Garbage disposal | | 40,846 | |
| Capital outlay - equipment | | - | |
| Total | 255,307 | 245,353 | 9,954 |
| Recreation: | | | |
| Salaries and employee benefits | | 54,362 | |
| Other operating expenditures | | 65,893 | |
| Total | 152,048 | 120,255 | 31,793 |

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

| | Budget | Actual | Variance Positive (Negative) |
|------------------------------------|------------------|---------------------|------------------------------------|
| Debt service: | | | |
| Principal retirement | 40,332 | 57,586 | (17,254) |
| Interest and other charges | 1,509 | 2,843 | (1,334) |
| Total | <u>41,841</u> | <u>60,429</u> | <u>(18,588)</u> |
| | | | |
| Total expenditures | <u>2,607,531</u> | <u>2,494,601</u> | <u>112,930</u> |
| Revenues over (under) expenditures | <u>(157,570)</u> | <u>136,493</u> | <u>294,063</u> |
| Other financing sources: | | | |
| Insurance recovery | <u>13,844</u> | <u>15,608</u> | |
| Total other financing sources | <u>13,844</u> | <u>15,608</u> | <u>1,764</u> |
| Fund balance appropriated | 143,726 | - | (143,726) |
| Net change in fund balance | <u>\$ -</u> | 152,101 | <u>\$ 152,101</u> |
| Fund balances, beginning | | <u>1,735,988</u> | |
| Fund balances, ending | | <u>\$ 1,888,089</u> | |

**City of Lowell
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2020**

| Assets | Cemetery Fund | Capital Project Fund (Sidewalk Construction) | Capital Project Fund (Neighborhood Revitalization) | Total |
|--------------------------------------|------------------|---|---|-----------|
| Cash and cash equivalents | \$ 49,946 | \$ - | \$ 7 | \$ 49,953 |
| Liabilities and Fund Balances | | | | |
| Liabilities: | | | | |
| Due to other funds | \$ | \$ | \$ | \$ |
| Fund balances: | | | | |
| Restricted for streets | | - | | - |
| Restricted for CDBG | | | 7 | 7 |
| Reserved for perpetual maintenance | 49,946 | | | 49,946 |
| Total liabilities and fund balances | \$ 49,946 | \$ - | \$ 7 | \$ 49,953 |

City of Lowell
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2020

| | Cemetery Fund | Capital Project Fund <i>(Sidewalk Construction)</i> | Capital Project Fund <i>(Neighborhood Revitalization)</i> | Total Nonmajor Governmental Funds |
|------------------------------------|------------------|---|---|---|
| Revenues: | | | | |
| Investment earnings | \$ 5 | \$ | \$ | \$ 5 |
| State grants | | | 16,649 | 16,649 |
| | 5 | - | 16,649 | 16,654 |
| Expenditures: | | | | |
| Sidewalk construction | | 54,901 | | 54,901 |
| Neighborhood revitalization | | | 16,642 | 16,642 |
| | - | 54,901 | 16,642 | 71,543 |
| Revenues over (under) expenditures | 5 | (54,901) | 7 | (54,889) |
| Fund balance, beginning | 49,941 | 54,901 | | 104,842 |
| Fund balance, ending | \$ 49,946 | \$ - | \$ 7 | \$ 49,953 |

City of Lowell, North Carolina
Capital Projects Fund - Sidewalk Construction
Schedule of Revenues, Expenditures,
and Changes in Fund Balance - Budget and Actual
From Inception and For the Fiscal Year Ended June 30, 2020

| | Project Author - ization | Actual | | Total to Date | Variance Positive (Negative) |
|-----------------------------|--------------------------------|------------------|--------------------|------------------|------------------------------------|
| | | Prior Year | Current Year | | |
| Expenditures | | | | | |
| Capital Outlay: | | | | | |
| Engineering | \$ 70,110 | \$ 33,671 | \$ 36,437 | \$ 70,108 | \$ 2 |
| Construction | 179,234 | 160,770 | 18,464 | 179,234 | - |
| | <u>249,344</u> | <u>194,441</u> | <u>54,901</u> | <u>249,342</u> | <u>2</u> |
| Other financing sources: | | | | | |
| Transfers from other funds: | | | | | |
| General Fund | 249,344 | 249,342 | - | 249,342 | (2) |
| Net change in fund balance | <u>\$ -</u> | <u>\$ 54,901</u> | <u>\$ (54,901)</u> | <u>\$ -</u> | <u>\$ -</u> |
| Fund balance, beginning | | | <u>54,901</u> | | |
| Fund balance, ending | | | <u>\$ -</u> | | |

City of Lowell, North Carolina
Grant Project Special Revenue Fund - Neighborhood Revitalization Project
Schedule of Revenues, Expenditures,
and Changes in Fund Balance - Budget and Actual
From Inception and For the Fiscal Year Ended June 30, 2020

| | Project Author - ization | Actual | | | Variance Positive (Negative) |
|---|--------------------------------|---------------|-----------------|------------------|------------------------------------|
| | | Prior Year | Current Year | Total to Date | |
| Revenues - CDBG | | | | | |
| Grant: | | | | | |
| State grant | \$ 750,000 | \$ - | \$ 16,649 | \$ 16,649 | \$(733,351) |
| Total revenues | <u>750,000</u> | <u>-</u> | <u>16,649</u> | <u>16,649</u> | <u>(733,351)</u> |
| Expenditures | | | | | |
| Capital Outlay: | | | | | |
| Administration | 75,000 | - | 16,642 | 16,642 | 58,358 |
| Housing Rehabilitation | 551,000 | | | | |
| Neighborhood Facility | 204,000 | | | | |
| | <u>830,000</u> | <u>-</u> | <u>16,642</u> | <u>16,642</u> | <u>813,358</u> |
| Other financing sources: | | | | | |
| Transfers from other funds: | | | | | |
| General Fund | 80,000 | - | - | - | (80,000) |
| Revenues and other financing sources over (under) expenditures | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 7</u> | <u>\$ 7</u> | <u>\$ 7</u> |
| Fund balance, beginning | | | <u>-</u> | | |
| Fund balance, ending | | | <u>\$ 7</u> | | |

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

| | <u>Budget</u> | <u>Actual</u> | <u>Variance Positive (Negative)</u> |
|------------------------------------|---------------------|------------------|---|
| Revenues: | | | |
| Operating revenues: | | | |
| Charges for services: | | | |
| Water and sewer fees | \$ | \$ 1,258,295 | \$ |
| Water and sewer taps | | 9,300 | |
| Development fees | | 35,988 | |
| Activation fees | | 9,800 | |
| Reconnection fees and late charges | | 234 | |
| | <u>\$ 1,258,172</u> | <u>1,313,617</u> | <u>\$ 55,445</u> |
| Nonoperating revenues: | | | |
| Miscellaneous | | 1,120 | |
| Interest earnings | | 5 | |
| | <u>5,015</u> | <u>1,125</u> | <u>(3,890)</u> |
| Total revenues | <u>1,263,187</u> | <u>1,314,742</u> | <u>51,555</u> |
| Expenditures: | | | |
| Water and sewer operations: | | | |
| Salaries and employee benefits | | 332,377 | |
| Professional services | | 6,282 | |
| Telephone and postage | | 11,092 | |
| Utilities | | 16,365 | |
| Maintenance and repairs | | 28,796 | |
| Vehicle maintenance | | 3,814 | |
| Departmental supplies | | 24,288 | |
| Contracted services | | 30,411 | |
| Water purchases | | 384,130 | |
| Other operating expenditures | | 16,056 | |
| Insurance | | 13,066 | |
| Capital outlay | | 18,370 | |
| | <u>977,583</u> | <u>885,047</u> | <u>92,536</u> |
| Wastewater treatment: | | | |
| Professional services | | 3,415 | |
| Telephone and postage | | 764 | |
| Utilities | | 28,825 | |
| Maintenance and repairs | | 8,371 | |
| Departmental supplies | | 38,481 | |
| Contracted services | | 110,885 | |
| Sewer treatment | | 66,869 | |
| Other operating expenditures | | 43,449 | |
| Capital outlay - equipment | | 8,850 | |
| Debt service | | 54,163 | |
| | <u>364,956</u> | <u>364,072</u> | <u>884</u> |
| Total expenditures | <u>1,342,539</u> | <u>1,249,119</u> | <u>93,420</u> |

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

| | <u>Budget</u> | <u>Actual</u> | Variance Positive (Negative) |
|--|---------------|------------------|------------------------------------|
| Revenues over (under) expenditures | (79,352) | 65,623 | 144,975 |
| Other financing sources: | | | |
| Loan proceeds | 22,000 | 22,000 | - |
| Fund balance appropriated | 57,352 | | (57,352) |
| | <u>79,352</u> | <u>22,000</u> | <u>(57,352)</u> |
| Revenues and other sources over expenditures and other uses | <u>\$ -</u> | <u>\$ 87,623</u> | <u>\$ 87,623</u> |
| Reconciliation from budgetary basis (modified accrual) to full accrual: | | | |
| Revenues and other sources over expenditures and other uses | | \$ 87,623 | |
| Reconciling items: | | | |
| Principal retirement | | 53,222 | |
| Loan proceeds | | (22,000) | |
| Increase (decrease) in accrued revenues | | (44,364) | |
| (Increase) decrease in interest accrued | | 16 | |
| (Increase) decrease in accrued vacation pay | | 8,659 | |
| Increase in net pension liability | | (1,749) | |
| Decrease in deferred outflows of resources-pensions | | (10,739) | |
| Increase in deferred outflows of resources-OPEB | | 6,331 | |
| Decrease in deferred inflows of resources-OPEB | | 696 | |
| Increase in deferred inflows of resources-pensions | | (983) | |
| Increase in OPEB liability | | (9,439) | |
| Depreciation | | (142,574) | |
| Increase in inventories | | 1,129 | |
| Capital contributions | | 46,795 | |
| Capital outlay | | 30,775 | |
| Total reconciling items | | <u>(84,225)</u> | |
| Change in net position | | <u>\$ 3,398</u> | |

City of Lowell, North Carolina
Water and Sewer Capital Projects Fund
Schedule of Revenues and Expenditures - Budget and Actual (Non - GAAP)
From Inception and For the Fiscal Year Ended June 30, 2020

| | Project Author - ization | Actual | | Total to Date | Variance Positive (Negative) |
|---|--------------------------------|------------------|-----------------|------------------|------------------------------------|
| | | Prior Years | Current Year | | |
| Revenues- Wastewater Plant Improvements: | | | | | |
| Investment earnings | \$ - | \$ 57 | \$ - | \$ 57 | \$ 57 |
| Revenues - Technical Assistance Grant: | | | | | |
| State grant | 50,000 | 50,000 | - | 50,000 | - |
| Total revenues | <u>50,000</u> | <u>50,057</u> | <u>-</u> | <u>50,057</u> | <u>57</u> |
| Expenditures- Wastewater Plant Improvements: | | | | | |
| Capital outlay: | | | | | |
| Improvements | 400,000 | 384,320 | 15,737 | 400,057 | (57) |
| Expenditures- Technical Assistance Grant: | | | | | |
| Professional services | 50,000 | 50,000 | - | 50,000 | - |
| Total expenditures | <u>450,000</u> | <u>434,320</u> | <u>15,737</u> | <u>450,057</u> | <u>(57)</u> |
| Other financing sources : | | | | | |
| Transfers from other funds: | | | | | |
| Water and Sewer Fund | 130,000 | 130,000 | - | 130,000 | - |
| Loan proceeds | 270,000 | 270,000 | - | 270,000 | - |
| Total other financing sources | <u>400,000</u> | <u>400,000</u> | <u>-</u> | <u>400,000</u> | <u>-</u> |
| Revenues and other sources over expenditures | <u>\$ -</u> | <u>\$ 15,737</u> | <u>(15,737)</u> | <u>\$ -</u> | <u>\$ -</u> |
| Fund balance, beginning | | | <u>15,737</u> | | |
| Fund balance, ending | | | <u>\$ -</u> | | |

City of Lowell, North Carolina
Sewer Improvements Capital Projects Fund
Schedule of Revenues and Expenditures - Budget and Actual (Non - GAAP)
From Inception and For the Fiscal Year Ended June 30, 2020

| | Project Author - ization | Actual | | Total to Date | Variance Positive (Negative) |
|---|--------------------------------|----------------|-----------------|------------------|------------------------------------|
| | | Prior Years | Current Year | | |
| Revenues | | | | | |
| Community Development Block Grant | | | | | |
| State grant | \$ 1,981,691 | | \$ 46,795 | \$ 46,795 | \$ (1,934,896) |
| Expenditures | | | | | |
| Administration | 184,307 | | 35,014 | 35,014 | |
| Construction | 1,797,384 | | | | |
| Total expenditures | 1,981,691 | - | 35,014 | 35,014 | 1,946,677 |
| Revenues and other sources over expenditures | \$ - | \$ - | \$ 11,781 | \$ 11,781 | \$ 11,781 |
| Fund balance, beginning | | | - | | |
| Fund balance, ending | | | \$ 11,781 | | |

OTHER SCHEDULES

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

| <u>Fiscal Year</u> | <u>Uncollected Balance June 30, 2019</u> | <u>Additions</u> | <u>Collections And Credits</u> | <u>Uncollected Balance June 30, 2020</u> |
|--------------------|--|---------------------|------------------------------------|--|
| 2019-2020 | \$ | \$ 1,451,223 | \$ 1,435,729 | \$ 15,494 |
| 2018-2019 | 15,525 | | 11,077 | 4,448 |
| 2017-2018 | 5,631 | | 2,095 | 3,536 |
| 2016-2017 | 2,590 | | 99 | 2,491 |
| 2015-2016 | 3,478 | | 840 | 2,638 |
| 2014-2015 | 2,796 | | 336 | 2,460 |
| 2013-2014 | 2,667 | | 610 | 2,057 |
| 2012-2013 | 3,665 | | 1,973 | 1,692 |
| 2011-2012 | 2,861 | | 1,338 | 1,523 |
| 2010-2011 | 2,012 | | 895 | 1,117 |
| 2009-2010 | 2,190 | | 2,190 | - |
| 2008-2009 | 212 | | 212 | |
| | <u>\$ 43,627</u> | <u>\$ 1,451,223</u> | <u>\$ 1,457,394</u> | <u>37,456</u> |
| | Less: allowance for uncollectible accounts: | | | |
| | | | | <u>1,124</u> |
| | | | | <u>\$ 36,332</u> |
| | <u>Reconciliation to revenues:</u> | | | |
| | | | | \$ 1,414,141 |
| | Ad valorem taxes - General Fund | | | |
| | Reconciling items: | | | |
| | | | | (1,445) |
| | | | | 38,790 |
| | | | | 5,908 |
| | | | | <u>43,253</u> |
| | | | | <u>\$ 1,457,394</u> |

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

| | City - Wide | | Total Levy | | |
|------------------------------------|--|-----------------------|---------------------------|--|---------------------------------|
| | Property Valuation | Rate | Total Levy | Property excluding Registered Motor Vehicles | Registered Motor Vehicles |
| | Original levy: Property taxed at current rate | <u>\$ 337,493,721</u> | 0.43 | <u>\$ 1,451,223</u> | <u>\$ 1,322,320</u> |
| Total property valuation | <u><u>\$ 337,493,721</u></u> | | | | |
| Net levy | | | 1,451,223 | 1,322,320 | 128,903 |
| Uncollected taxes at June 30, 2020 | | | <u>(15,494)</u> | <u>(15,494)</u> | <u>-</u> |
| Current year's taxes collected | | | <u><u>\$1,435,729</u></u> | <u><u>\$1,306,826</u></u> | <u><u>\$128,903</u></u> |
| Current levy collection percentage | | | <u><u>98.93%</u></u> | <u><u>98.83%</u></u> | <u><u>100.00%</u></u> |

COMPLIANCE SECTION

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

Independent Auditor's Report

January 22, 2021

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lowell, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprises the City of Lowell's basic financial statements, and have issued our report thereon dated January 22, 2021.

Internal Control Over Financial Reporting

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

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

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as 2020-1 that we considered to be a material weakness.

Compliance and Other Matters

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

City of Lowell's Response to Findings

City of Lowell's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Butler + Stowe

CITY OF LOWELL
SCHEDULE OF FINDINGS AND RESPONSES
For the Fiscal Year Ended June 30, 2020

Finding: 2020-1

MATERIAL WEAKNESS

Segregation of duties

Criteria: Duties should be segregated to provide reasonable assurance that transactions are handled appropriately.

Condition: There is a lack of segregation of duties among Town personnel.

Effect: Transactions could be mishandled.

Cause: There are a limited number of personnel for certain functions.

Recommendation: The duties should be separated as much as possible and alternative controls should be used to compensate for lack of separation. The governing board should provide some of these controls.

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

Response: The duties will be separated as much as possible and alternate controls will be used to compensate for lack of separation. The governing board will become more involved in providing some of these controls.