

**Town of Mars Hill, North Carolina**

**Financial Statements**

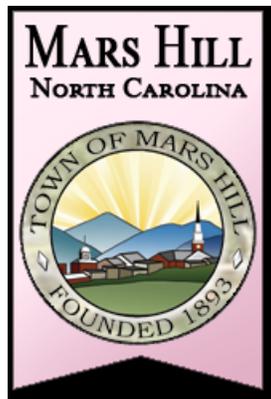
**Fiscal Year Ended June 30, 2022**

**Board of Aldermen  
(As of June 30, 2022)**

John L. Chandler, Mayor  
Larry Davis  
Stuart Jolley  
Nicholas Honeycutt  
Robert W. Zink

Town Manager  
Nathan Bennett

Finance Officer  
Robert W. Zink



**Town of Mars Hill, North Carolina**  
**Fiscal Year Ended June 30, 2022**

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**GOULD KILLIAN  
CPA GROUP, P.A.**  
CERTIFIED PUBLIC ACCOUNTANTS

## **Independent Auditors' Report**

To the Honorable Mayor  
and Board of Aldermen  
Mars Hill, North Carolina *Opinions*

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Mars Hill as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

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, and each major fund of the Town of Mars Hill as of June 30, 2022, and the respective changes in financial position, and, where applicable, cash flows thereof and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Basis for Opinions***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Town of Mars Hill and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Town's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is

not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Town's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Town's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4-11, the Law Enforcement Officers' Special Separation Allowance Schedules of Changes in Total Pension Liability and Total Pension Liability as a Percentage of Covered Payroll on page 48, and the Local Governmental Employees' Retirement System's schedules of the Town's Proportionate Share of the Net Pension Liability (Asset) and Contributions on pages 46 and 47, respectively, be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We 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 Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The individual fund financial statements, budgetary schedules, and other schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit and the report of the other auditors, the 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.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 23, 2022 on our consideration of the Town of Mars Hill'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 the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Mars Hill's internal control over financial reporting and compliance.

*Donald Killian CPA Group, P.A.*

Asheville, North Carolina  
November 23, 2022

# Management's Discussion and Analysis

As management of the Town of Mars Hill, we offer readers of the Town of Mars Hill's financial statements this narrative overview and analysis of the financial activities of the Town of Mars Hill for the fiscal year ended June 30, 2022. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

## Financial Highlights

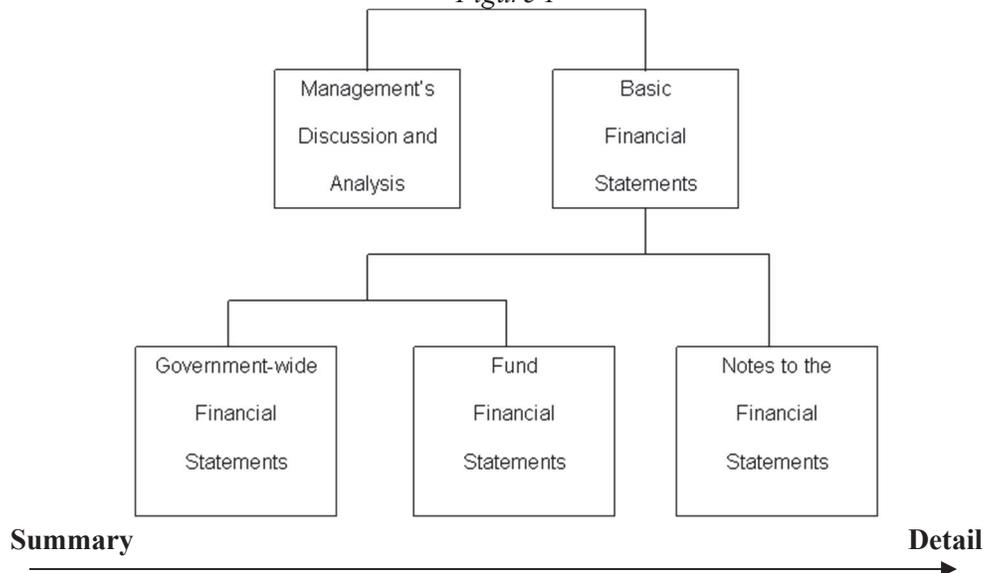
- The assets and deferred outflows of the Town of Mars Hill exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$20,679,804 (*net position*).
- The government's total net position increased by \$802,303 due to increases in net position in both governmental activities as well as business-type activities
- As of the close of the current fiscal year, the Town of Mars Hill's General Fund reported an ending fund balance of \$5,251,727, with a net increase of \$727,788 in fund balance. Approximately 12% of this total amount, or \$628,840, is restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$4,126,890, or 199% of total general fund expenditures for the fiscal year.

## Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Town of Mars Hill's basic financial statements. The Town'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 Town with the government-wide statements and the fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the Town of Mars Hill.

### Required Components of Annual Financial Report

Figure 1



## Basic Financial Statements

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

The next statements (Exhibits 3 through 9) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the Town's government. These statements provide more detail than the government-wide statements. There are three parts to the Fund Financial Statements: 1) the Governmental Funds Statements; 2) the Budgetary Comparison Statement; and 3) the Proprietary Fund Statements.

The next section of the basic financial statements is the **notes**. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, **supplemental information** is provided to show details about the Town's individual funds. Budgetary information required by the 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 Town'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 Town's financial status as a whole.

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

The government-wide statements are divided into three categories: 1) Governmental activities; 2) Business-type activities; and 3) Component units. The governmental activities include most of the Town's basic services such as public safety, parks and recreation, and general administration. Property taxes and state and federal grant funds finance most of these activities. The business-type activities are those that the Town charges customers to provide. These include the water and sewer services offered by the Town of Mars Hill.

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

## Fund Financial Statements

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

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

The Town of Mars Hill adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the Town, the management of the Town, and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the Town to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the Town complied with the budget ordinance and whether or not the Town succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the 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 Town of Mars Hill has one proprietary fund. The *Enterprise Fund* is used to report the same functions presented as business-type activities in the government-wide financial statements. The Town of Mars Hill uses the 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.

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

**Interdependence with Other Entities** – The Town depends on financial resources flowing from, or associated with, both the Federal Government and the State of North Carolina. Because of this dependency, the Town is subject to changes in specific flows of intergovernmental revenues based on modifications to Federal and State laws and Federal and State appropriations.

## Government-Wide Financial Analysis

**The Town of Mars Hill's Net Position**  
*Figure 2*

	Governmental Activities		Business-Type Activities		Total		Total Percentage Change
	2022	2021	2022	2021	2022	2021	
Current and other assets	\$ 5,695,489	\$ 4,619,236	\$ 4,212,253	\$ 3,945,919	\$ 9,907,742	\$ 8,565,155	16%
Capital assets	3,801,903	3,880,318	8,416,892	8,619,623	12,218,795	12,499,941	-2%
Total assets	9,497,392	8,499,554	12,629,145	12,565,542	22,126,537	21,065,096	5%
Deferred outflows of resources	340,101	271,567	86,872	69,503	426,973	341,070	
Long-term liabilities	361,507	550,441	562,065	642,163	923,572	1,192,604	-23%
Other liabilities	419,698	74,705	152,601	233,931	572,299	308,636	85%
Total liabilities	781,205	625,146	714,666	876,094	1,495,871	1,501,240	0%
Deferred inflows of resources	292,558	25,063	85,277	2,362	377,835	27,425	1278%
Net position:							
Net investment in capital assets	3,801,903	3,880,318	7,903,436	8,012,812	11,705,339	11,893,130	-2%
Restricted	628,840	420,563	-	-	628,840	420,563	50%
Unrestricted	4,332,987	3,820,031	4,012,638	3,743,777	8,345,625	7,563,808	10%
Total net position	\$ 8,763,730	\$ 8,120,912	\$ 11,916,074	\$ 11,756,589	\$ 20,679,804	\$ 19,877,501	4%

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets of the Town of Mars Hill exceeded liabilities and deferred inflows by \$20,679,804 as of June 30, 2022. The Town's net position increased by \$802,303 for the fiscal year ended June 30, 2022. The largest component of net position (56.6%) reflects the Town's net investment in capital assets (e.g. land, buildings, machinery, and equipment less the debt related to those assets). The Town of Mars Hill uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Mars Hill'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 Town of Mars Hill's net position (3%), \$628,840, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$8,345,625 (40.4%) is unrestricted.

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

- The Town continued to benefit from the Madison County real property revaluation in 2019 which increased the property tax base by approximately 28%.
- Continued diligence in the collection of property taxes, which resulted in a collections rate of 93.77% and additional efforts for collection of delinquent taxes of all prior years following close of the fiscal year.
- Sales tax distributions, increases in charges for services and capital grants to the Town exceeded anticipated amounts.

**Town of Mars Hill's Changes in Net Position**

*Figure 3*

	Governmental Activities		Business-Type Activities		Total	
	2022	2021	2022	2021	2022	2021
<b>Revenues:</b>						
<i>Program revenues:</i>						
Charges for services	\$ 46,928	\$ 35,368	\$ 1,195,664	\$ 1,011,103	\$ 1,242,592	\$ 1,046,471
Operating grants and contributions	10,000	88,985	-	-	10,000	88,985
Capital grants and contributions	220,988	53,122	50,000	87,619	270,988	140,741
<i>General revenues:</i>						
Property taxes	782,979	722,820	-	-	782,979	722,820
Local option sales tax	809,923	720,409	-	-	809,923	720,409
Grants and contributions not restricted to specific programs	899,216	882,781	-	-	899,216	882,781
Unrestricted investment earnings	7,596	696	5,830	629	13,426	1,325
Miscellaneous	28,623	28,357	-	-	28,623	28,357
<i>Total revenues</i>	<u>2,803,739</u>	<u>2,532,538</u>	<u>1,261,494</u>	<u>1,099,351</u>	<u>4,065,233</u>	<u>3,631,889</u>
<b>Expenses:</b>						
General government	373,960	395,721	-	-	373,960	395,721
Public safety	1,136,902	1,104,914	-	-	1,136,902	1,104,914
Transportation	342,312	280,408	-	-	342,312	280,408
Environmental protection	162,832	123,789	-	-	162,832	123,789
Culture and recreation	144,915	109,086	-	-	144,915	109,086
Water and sewer	-	-	1,084,267	1,012,534	1,084,267	1,012,534
Interest on long-term debt	-	-	17,742	21,225	17,742	21,225
<i>Total expenses</i>	<u>2,160,921</u>	<u>2,013,918</u>	<u>1,102,009</u>	<u>1,033,759</u>	<u>3,262,930</u>	<u>3,047,677</u>
Increase in net position	642,818	518,620	159,485	65,592	802,303	584,212
Net position, beginning, as restated	8,120,912	7,602,292	11,756,589	11,690,997	19,877,501	19,293,289
Net position, end of year	<u>\$ 8,763,730</u>	<u>\$ 8,120,912</u>	<u>\$ 11,916,074</u>	<u>\$ 11,756,589</u>	<u>\$ 20,679,804</u>	<u>\$ 19,877,501</u>

**Governmental activities.** Governmental activities increased the Town's net position by \$642,818, thereby accounting for approximately 81% of the growth in the net position of the Town of Mars Hill.

- Ad valorem and special fire district taxes increased due to increased property tax base resulting from continued new residential construction and commercial/industrial property investments.
- Sales tax exceeded projected amounts.
- Receipt of grant for purchase of garbage truck.
- Receipt of grant for the development of Main Street public Wi-Fi network.

**Business-type activities:** Business-type activities increased the Town of Mars Hill's net position by \$159,485. Key elements of this increase are as follows:

- Water rates increased slightly and combined with an increase in water usage resulting from the return to traditional commercial operations post-Coronavirus pandemic restrictions.
- Receipt of a grant from NC Department of Environmental Quality for a water system study.

## **Financial Analysis of the Town's Funds**

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

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

The General Fund is the chief operating fund of the Town of Mars Hill. At the end of the current fiscal year, the Town of Mars Hill's fund balance available for appropriation in the General Fund was \$4,622,887, while total fund balance reached \$5,251,727. The Town currently has an available fund balance of 223% of General Fund expenditures, while total fund balance represents 254% of the same amount.

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

Actual revenues were more than the budgeted amounts for Ad Valorem Taxes, Special Fire District Tax and Local Option Sales Tax. Expenditures were also held in check to comply with budgetary requirements.

**Proprietary Funds.** The Town of Mars Hill's proprietary fund provides 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 \$4,012,638. The total change in net position for the Water and Sewer Fund was an increase of \$159,485. The change in net position in the Water and Sewer Fund is primarily a result of the receipt of grant funding for the completion of the Town's Wastewater Treatment Plant project and continued efforts in collection of water receipts.

### **Capital Asset and Debt Administration**

**Capital assets.** The Town of Mars Hill's investment in capital assets for its governmental and business-type activities as of June 30, 2022, totals \$12,218,795 (net of accumulated depreciation). These assets include buildings, land, machinery and equipment, vehicles, furniture, plant and distribution systems, and town infrastructure.

Major capital asset transactions during the year include the following:

- Purchase of equipment for the Fire department at a cost of \$34,269.
- Purchase of a garbage truck for the Sanitation department at a cost of \$174,452.
- Purchase of excavator for the Public Works department at a cost of \$64,370 for water/sewer/street operations.

**Town of Mars Hill's Capital Assets  
(Net of depreciation)**

*Figure 4*

	Governmental Activities		Business-Type Activities		Total	
	2022	2021	2022	2021	2022	2021
Land and construction in progress	\$ 811,052	\$ 811,052	\$ 82,273	\$ 82,273	\$ 893,325	\$ 893,325
Buildings	1,716,280	1,784,555	446,557	463,045	2,162,837	2,247,600
Vehicles	801,819	786,607	-	-	801,819	786,607
Furniture and equipment	203,990	203,050	111,992	64,936	315,982	267,986
Infrastructure	268,762	295,054	7,776,070	8,009,369	8,044,832	8,304,423
<b>Total capital assets</b>	<b>\$ 3,801,903</b>	<b>\$ 3,880,318</b>	<b>\$ 8,416,892</b>	<b>\$ 8,619,623</b>	<b>\$ 12,218,795</b>	<b>\$ 12,499,941</b>

Additional information on the Town's capital assets can be found in Note 3 of the Basic Financial Statements.

**Long-term Debt.** As of June 30, 2022, the Town of Mars Hill had total debt in the form of installment purchase contracts of \$513,456.

**Town of Mars Hill's Outstanding Debt**

**General Obligation Bonds and Direct Placement Installment Purchases Payable and Bond Anticipation Note**

*Figure 5*

	Governmental Activities		Business-Type Activities		Total	
	2022	2021	2022	2021	2022	2021
Installment purchases payable	\$ -	\$ -	\$ 513,456	\$ 606,811	\$ 513,456	\$ 606,811

**Town of Mars Hill's Outstanding Debt**

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8% of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for the Town of Mars Hill is approximately \$12,532,000.

Additional information regarding the Town of Mars Hill's long-term debt can be found in Note 3 of this report.

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

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

- The Town has seen continued growth in the housing market during FY 2022, and we expect that this will continue during FY 2023. Homes are currently selling with minimal time spent on the open real estate market.
- There are over 100 residential units that have either been approved or are currently in the development review process. Developers report that the market is strong with high customer demand and are pleased with market conditions for continued positive activity.
- The Madison County unemployment rate as of June 30, 2022 was 3.8%. This is a substantial improvement from one year ago when the rate was 5.0% due to lingering economic impacts associated with the coronavirus/COVID-19 pandemic.
- The Town's fund balance continues to remain strong which helps the Town avoid any reduction in services and/or implement untenable rate increases.

- The Town has planned infrastructure and public safety improvements utilizing funds received from the federal American Rescue Plan Act.

## **Budget Highlights for the Fiscal Year Ending June 30, 2023**

**Governmental Activities:** The Town Mayor and Board of Aldermen has adopted a budget for fiscal year 2022-2023 that sets the tax rate at \$0.470 per \$100 of valuation, which is the same rate from fiscal year 2021-2022. Budget development for this fiscal year was difficult given the uncertainties of economic impacts to the Town's federal, state, and local revenue sources. The economy for the country and our local community appears to be in recovery, however, high inflation and continued supply chain issues have impacted costs for fuel and consumable goods.

The Town approved a cost of living pay increase for full-time employees across the board in the amount of \$2.00 per hour. In addition, the Board allocated funds for an increase of 5% in health and dental insurance for Town employees and a 1.0% increase for the contribution to the Local Government Retirement System. The budget reflects an increase for general liability insurance by approximately 5% over the current year budget.

The Town allocated funding to the fire department to provide three (3) additional full-time firefighters and other necessary capital equipment. The police department was allocated funding for a replacement patrol vehicle. In addition, the Town allocated funding to the street department for a new dump truck and targeted street rehabilitation projects. Most other items were maintained at or near current levels.

**Business-type Activities:** The Mars Hill Water System is operated as an Enterprise Fund. Enterprise Funds are used to account for the operations that are financed and operated in a manner similar to private businesses, where the intent of the governing body is that user charges fund the cost of providing goods and services to the general public on a continuing basis. The Board continued the policy of prior years for a recurring increase of 2.5% in water rates. This will account for an increase in water and sewer revenue combined with an increase in billed water connections. Water and sewer tap fees are anticipated to increase. Investment income has seen some increase due to improvement in interest rates, which had previously decreased due to coronavirus/COVID-19 economic issues. Water revenue has stabilized and expected to continue positive growth with the return of normal usage and the addition of new residential construction within the jurisdiction. The Board authorized capital improvements at the water treatment plant involving the restoration and repainting of tanks, piping, and other appurtenances inside the facility. Operating and maintenance expenses are expected to be maintained at or near current levels.

### **Requests for Information**

This report is designed to provide an overview of the Town's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to Nathan Bennett, Manager, Town of Mars Hill, PO Box 368, Mars Hill, NC 28754. You can also call (828) 689-2301.

TOWN OF MARS HILL, NORTH CAROLINA

Exhibit 1

STATEMENT OF NET POSITION

June 30, 2022

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 4,697,973	\$ 3,928,745	\$ 8,626,718
Taxes receivable, net	59,699	-	59,699
Accounts receivable, net	-	109,255	109,255
Due from other governments	444,915	12,431	457,346
Inventories	-	70,947	70,947
Restricted cash and equivalents	492,902	90,875	583,777
Total current assets	5,695,489	4,212,253	9,907,742
Non-current assets:			
Capital assets:			
Land and construction in progress	811,052	82,273	893,325
Other capital assets, net	2,990,851	8,334,619	11,325,470
Total capital assets	3,801,903	8,416,892	12,218,795
Total assets	9,497,392	12,629,145	22,126,537
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pension deferrals	340,101	86,872	426,973
Total deferred outflows of resources	340,101	86,872	426,973
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable and accrued liabilities	72,220	17,981	90,201
Payable from restricted cash:			
Customer deposits	-	90,875	90,875
Unearned revenues	308,977	-	308,977
Unearned charges	-	6,873	6,873
Accrued interest payable	-	14,441	14,441
Current portion of long-term liabilities	38,501	22,431	60,932
Total current liabilities	419,698	152,601	572,299
Long-term liabilities:			
Net pension liability (LGERS)	190,371	58,838	249,209
Total pension liability (LEOSSA)	145,332	-	145,332
Due in more than one year	25,804	503,227	529,031
Total long-term liabilities	361,507	562,065	923,572
Total liabilities	781,205	714,666	1,495,871
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Prepaid taxes	2,866	-	2,866
Pension deferrals	289,692	85,277	374,969
Total deferred inflows of resources	292,558	85,277	377,835
<b>NET POSITION</b>			
Net investment in capital assets	3,801,903	7,903,436	11,705,339
Restricted for:			
Stabilization by State statute	444,915	-	444,915
Streets	183,925	-	183,925
Unrestricted	4,332,987	4,012,638	8,345,625
Total net position	\$ 8,763,730	\$ 11,916,074	\$ 20,679,804

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

TOWN OF MARS HILL, NORTH CAROLINA

Exhibit 2

STATEMENT OF ACTIVITIES  
For the year ended June 30, 2022

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Primary government:</b>							
Governmental Activities:							
General government	\$ 373,960	\$ 2,600	\$ -	\$ -	\$ (371,360)	\$ -	\$ (371,360)
Public safety	1,136,902	12,692	10,000	-	(1,114,210)	-	(1,114,210)
Transportation	342,312	-	-	60,988	(281,324)	-	(281,324)
Environmental protection	162,832	-	-	160,000	(2,832)	-	(2,832)
Cultural and recreation	144,915	31,636	-	-	(113,279)	-	(113,279)
Total governmental activities	2,160,921	46,928	10,000	220,988	(1,883,005)	-	(1,883,005)
Business-type activities:							
Water and sewer	1,102,009	1,195,664	-	50,000	-	143,655	143,655
Total primary government	\$ 3,262,930	\$ 1,242,592	\$ 10,000	\$ 270,988	(1,883,005)	143,655	(1,739,350)
General revenues:							
Taxes:							
Property taxes, levied for general purpose					782,979	-	782,979
Local option sales tax					809,923	-	809,923
Grants and contributions not restricted to specific programs					899,216	-	899,216
Gain (loss) on sale of property					(2,514)	10,000	7,486
Unrestricted investment earnings					7,596	5,830	13,426
Miscellaneous					28,623	-	28,623
Total general revenues					2,525,823	15,830	2,541,653
Change in net position					642,818	159,485	802,303
Net position, beginning of year					8,120,912	11,756,589	19,877,501
Net position, end of year					\$ 8,763,730	\$ 11,916,074	\$ 20,679,804

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

TOWN OF MARS HILL, NORTH CAROLINA

Exhibit 3

BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2022

	General Fund	ARPA Fund	Total Governmental Funds
<b>ASSETS</b>			
Cash and cash equivalents	\$ 4,697,973	\$ -	\$ 4,697,973
Restricted cash and cash equivalents	183,925	308,977	492,902
Taxes receivable, net	55,162	-	55,162
Due from other governments	444,915	-	444,915
Total assets	<u>\$ 5,381,975</u>	<u>\$ 308,977</u>	<u>\$ 5,690,952</u>
<b>LIABILITIES</b>			
Accounts payable and accrued liabilities	\$ 72,220	\$ -	\$ 72,220
Payable from restricted cash:			
Unearned revenues	-	308,977	308,977
Total liabilities	<u>72,220</u>	<u>308,977</u>	<u>381,197</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Property taxes receivable	55,162	-	55,162
Prepaid taxes	2,866	-	2,866
Total deferred inflows of resources	<u>58,028</u>	<u>-</u>	<u>58,028</u>
<b>FUND BALANCES</b>			
Restricted			
Stabilization by State statute	444,915	-	444,915
Streets	183,925	-	183,925
Assigned			
Subsequent year's expenditures	495,997	-	495,997
Unassigned	4,126,890	-	4,126,890
Total fund balances	<u>5,251,727</u>	<u>-</u>	<u>5,251,727</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 5,381,975</u>	<u>\$ 308,977</u>	<u>\$ 5,690,952</u>

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

**TOWN OF MARS HILL, NORTH CAROLINA**

**Exhibit 3 (cont)**

BALANCE SHEET  
GOVERNMENTAL FUNDS

June 30, 2022

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

Total fund balances of governmental funds		\$ 5,251,727
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Gross capital assets at historical cost	\$ 10,105,796	
Accumulated depreciation	<u>(6,303,893)</u>	3,801,903
Deferred outflows of resources related to pensions are not reported in the funds		340,101
Other long-term assets (accrued interest receivable from taxes is not available to pay for current period expenditures and therefore is not reported in the funds.)		4,537
Earned revenues considered deferred inflows of resources in fund statements.		55,162
Long-term liabilities used in governmental activities are not financial uses and therefore are not reported in the funds.		
Compensated absences	(64,305)	
Total pension liability (LEOSSA)	(145,332)	
Net pension liability (LGERS)	<u>(190,371)</u>	(400,008)
Deferred inflows of resources related to pensions are not reported in the funds		<u>(289,692)</u>
Net position of governmental activities		<u><u>\$ 8,763,730</u></u>

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

TOWN OF MARS HILL, NORTH CAROLINA

Exhibit 4

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS

For the year ended June 30, 2022

	<u>Major Fund</u>	<u>Major Fund</u>	<u>Total</u>
	<u>General Fund</u>	<u>ARPA Fund</u>	<u>Governmental</u>
			<u>Funds</u>
<b>REVENUES</b>			
Ad valorem taxes	\$ 767,802	\$ -	\$ 767,802
Other taxes and licenses	809,923	-	809,923
Unrestricted intergovernmental	899,216	-	899,216
Restricted intergovernmental	230,988	-	230,988
Permits and fees	15,292	-	15,292
Sales and services	31,636	-	31,636
Investment earnings	7,596	-	7,596
Miscellaneous	28,623	-	28,623
Total revenues	<u>2,791,076</u>	<u>-</u>	<u>2,791,076</u>
<b>EXPENDITURES</b>			
Current:			
General government	360,297	-	360,297
Public safety	965,198	-	965,198
Transportation	320,983	-	320,983
Environmental protection	319,523	-	319,523
Cultural and recreation	102,893	-	102,893
Total expenditures	<u>2,068,894</u>	<u>-</u>	<u>2,068,894</u>
Revenues over expenditures	722,182	-	722,182
<b>OTHER FINANCING SOURCES</b>			
Sale of capital assets	5,606	-	5,606
Net change in fund balances	727,788	-	727,788
Fund balances, beginning	<u>4,523,939</u>	<u>-</u>	<u>4,523,939</u>
Fund balances, end of year	<u>\$ 5,251,727</u>	<u>\$ -</u>	<u>\$ 5,251,727</u>

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For the year ended June 30, 2022

Amounts reported for governmental activities in the Statement of  
Activities (Exhibit 2) are different because:

Net changes in fund balances - total governmental funds	\$	727,788
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.</p>		
Capital outlay expenditures which were capitalized.	\$ 208,721	
Depreciation expense for governmental assets.	<u>(279,016)</u>	(70,295)
Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities.		91,658
Benefit payments paid for the LEOSSA are not included in the Statement of Activities.		5,628
In the Statement of Activities, only the gain on the sale of capital assets is reported. However, in the governmental funds, the proceeds from the sale increases financial resources. Thus, the change in net position differs from the change in fund balance by the cost of the capital assets sold.		(8,120)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. In addition, some revenues reported in the fund statements are not reported as revenues in the statement of		
Change in accrued interest receivable on taxes	(392)	
Change in unavailable revenue for tax revenues	<u>15,569</u>	15,177
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:		
Compensated absences used (accrued)	(21,505)	
Pension expense - LGERS	(83,915)	
Pension expense - LEOSSA	<u>(13,598)</u>	(119,018)
Total changes in net position of governmental activities	\$	<u>642,818</u>

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

TOWN OF MARS HILL, NORTH CAROLINA

Exhibit 6

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE –  
 BUDGET AND ACTUAL – GENERAL FUND  
 For the year ended June 30, 2022

	General Fund			Variance With Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual	
<b>REVENUES</b>				
Ad valorem taxes	\$ 704,500	\$ 704,500	\$ 767,802	\$ 63,302
Other taxes and licenses	491,000	547,000	809,923	262,923
Unrestricted intergovernmental	736,500	759,100	899,216	140,116
Restricted intergovernmental	58,200	567,913	230,988	(336,925)
Permits and fees	7,000	8,200	15,292	7,092
Sales and services	21,000	21,000	31,636	10,636
Investment earnings	1,000	1,000	7,596	6,596
Miscellaneous	8,100	8,100	28,623	20,523
Total revenues	2,027,300	2,616,813	2,791,076	174,263
<b>EXPENDITURES</b>				
Current:				
General government	384,800	445,304	360,297	85,007
Public safety	1,056,700	1,419,773	965,198	454,575
Transportation	419,000	440,936	320,983	119,953
Environmental protection	156,100	327,100	319,523	7,577
Cultural and recreation	100,700	137,700	102,893	34,807
Debt service				
Principal and interest	50,000	-	-	-
Total expenditures	2,167,300	2,770,813	2,068,894	701,919
Revenues over (under) expenditures	(140,000)	(154,000)	722,182	876,182
Other financing sources:				
Appropriated fund balance	140,000	154,000	-	(154,000)
Sale of capital assets	-	-	5,606	5,606
Total other financing sources	140,000	154,000	5,606	(148,394)
Net change in fund balance	\$ -	\$ -	727,788	\$ 727,788
Fund balance, beginning			4,523,939	
Fund balance, end of year			\$ 5,251,727	

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

STATEMENT OF NET POSITION  
 PROPRIETARY FUND  
 June 30, 2022

	<b>Enterprise Fund</b>
	<b>Water and Sewer Fund</b>
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$ 3,928,745
Accounts receivable, net	109,255
Due from other governments	12,431
Inventory	70,947
Restricted cash and cash equivalents	90,875
Total current assets	4,212,253
Capital assets:	
Land and other non-depreciable assets	82,273
Other capital assets, net of depreciation	8,334,619
Capital assets, net	8,416,892
Total assets	12,629,145
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Pension deferrals	86,872
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	8,664
Salaries and payroll taxes payable	9,317
Payable from restricted assets:	
Customer deposits	90,875
Accrued interest payable	14,441
Unearned charges	6,873
Compensated absences, current	12,202
Installment loan payable - current	10,229
Total current liabilities	152,601
Noncurrent liabilities:	
Installment obligation payable - noncurrent	503,227
Net pension liability	58,838
Total noncurrent liabilities	562,065
Total liabilities	714,666
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Pension deferrals	85,277
<b>NET POSITION</b>	
Net investment in capital assets	7,903,436
Unrestricted	4,012,638
Total net position	\$ 11,916,074

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

**TOWN OF MARS HILL, NORTH CAROLINA**

**Exhibit 8**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
 PROPRIETARY FUND  
 For the year ended June 30, 2022

	<b>Enterprise Fund</b>
	<b>Water and</b>
	<b>Sewer Fund</b>
<b>OPERATING REVENUES</b>	
Charges for services	\$ 1,168,046
Other operating revenues	27,618
Total operating revenues	1,195,664
<b>OPERATING EXPENSES</b>	
Water administration	257,977
Water operations	495,737
Depreciation	330,553
Total operating expenses	1,084,267
Operating income	111,397
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Investment earnings	5,830
Gain on sale of capital assets	10,000
Interest expense	(17,742)
Total nonoperating expense, net	(1,912)
Income before capital contributions	109,485
Capital contributions	50,000
Change in net position	159,485
Net position, beginning of year	11,756,589
Net position, end of year	\$ 11,916,074

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

STATEMENT OF CASH FLOWS  
 PROPRIETARY FUND  
 For the year ended June 30, 2022

	<b>Enterprise Fund</b>
	<b>Water and</b>
	<b>Sewer Fund</b>
<b>Cash flows from operating activities:</b>	
Cash received from customers	\$ 1,179,174
Cash paid for goods and services	(382,092)
Cash paid to or on behalf of employees for services	(364,213)
Net cash provided by operating activities	432,869
<b>Cash flows from noncapital financing activities:</b>	
Decrease in due from other funds	127,203
<b>Cash flows from capital and related financing activities:</b>	
Acquisition of capital assets	(127,822)
Proceeds from the sale of land	10,000
Capital contributions	50,000
Interest paid on bond maturities	(19,625)
Principal payments on debt	(93,355)
Net cash used by capital and related financing activities	(180,802)
<b>Cash flows from investing activities:</b>	
Interest earned	5,830
Net increase in cash and cash equivalents	385,100
Cash and cash equivalents, beginning of year	3,634,520
Cash and cash equivalents, end of year	\$ 4,019,620
<b>Reconciliation of operating income to net cash provided by operating activities:</b>	
Operating income	\$ 111,397
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	330,553
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:	
Increase in accounts receivable	(18,403)
Increase in due from other governments	(4,936)
Increase in deferred outflows of resources - pensions	(17,369)
Decrease in inventory	14,902
Increase in deferred inflows of resources - pensions	82,915
Increase in accounts payable	616
Increase in customer deposits	1,872
Increase in salaries and payroll taxes payable	103
Increase in deferred charges	41
Increase in compensated absences	1,047
Decrease in net pension liability	(69,869)
Total adjustments	321,472
Net cash provided by operating activities	\$ 432,869

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

**TOWN OF MARS HILL, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended June 30, 2022

**Note 1 – Summary of Significant Accounting Policies**

The accounting policies of the Town of Mars Hill 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 Town of Mars Hill is a municipal corporation, which is governed by an elected mayor and a four member Board of Aldermen.

**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, however interfund services provided and used are not eliminated in the process of consolidation. These statements distinguish between the *governmental* and *business-type activities* of the Town. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

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

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

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 Town reports the following major governmental fund:

*General Fund* – The General Fund is the general operating fund of the Town. The General Fund accounts for all financial resources except those that are required to be accounted for in

another fund. The primary revenue sources are ad valorem taxes, state grants, and various other taxes and licenses. The primary expenditures are for public safety, street maintenance and construction, and sanitation services.

*American Rescue Plan Fund* – This fund accounts for the transactions related to the American Rescue Plan Funds.

The Town reports the following major enterprise fund:

*Water and Sewer Fund* – This fund is used to account for the Town’s water and sewer operations. This fund also covers acquisition and construction of major water and sewer capital facilities and infrastructure, which are accounted for in the Water and Sewer Capital Project Fund that is combined with the Water and Sewer Fund (the operating fund) for financial statement purposes. The non-GAAP budgetary comparison for the capital project fund has been included in the supplementary information.

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

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

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues of the Town’s enterprise funds are charges to customers for sales and services. The Town 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 the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under leases are reported as other financing sources.

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

Sales taxes and certain intergovernmental revenues, such as the beer and wine tax, collected and held by the State at year-end on behalf of the Town are recognized as revenue. Sales taxes are considered a shared revenue for the Town of Mars Hill because the tax is levied by Madison 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.

#### **D. Budgetary Data**

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund and the Enterprise Fund. All annual appropriations lapse at the fiscal-year end. A project ordinance is adopted for the Water and Sewer Capital Project Fund, the ARPA Fund, and the General Capital Project Fund. The Water and Sewer Capital Project fund is consolidated with the operating fund for reporting purposes. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the departmental level for all annually budgeted funds. All amendments must be approved by the governing board. During the year, several amendments to the original budget were necessary. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted. Appropriations are adopted at the department level.

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

##### **1. Deposits and Investments**

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

State law [G.S. 159-30(c)] authorizes the Town to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public

authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances and the North Carolina Capital Management Trust (NCCMT). The NCCMT Government Portfolio, a SEC-registered (2a-7) money market mutual fund, is measured at fair value. Because the NCCMT Portfolio has a weighted average maturity of less than 90 days, it is presented as an investment with a maturity of less than 6 months.

## **2. Cash and Cash Equivalents**

The Town pools money from several funds to facilitate disbursement and investment and to maximize investment income. Therefore, all cash and investments are essentially demand deposits and are considered cash and cash equivalents.

## **3. Restricted Assets**

Customer deposits held by the Town 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 purpose of maintaining, repairing, constructing, reconstructing or widening of local streets per G.S. 136-41.1 through 136-41.4.

### Restricted Cash

Governmental activities:

General Fund - Streets	\$ 183,925
American Rescue Plan Fund - ARP funds	<u>308,977</u>
Total governmental activities	<u>492,902</u>

Business-type activities:

Water & Sewer Fund - customer deposits	<u>90,875</u>
Total business-type activities	<u>90,875</u>

Total Primary Government	<u><u>\$ 583,777</u></u>
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## **4. Ad Valorem Taxes Receivable**

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad valorem taxes on property other than motor vehicles on July 1<sup>st</sup>, the beginning of the fiscal year. The taxes are due on September 1<sup>st</sup> (lien date); however, interest does not accrue until the following January 6<sup>th</sup>. These taxes are based on the assessed values as of January 1, 2021.

## **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 Town are valued at cost (first-in, first-out), which approximates market.

The inventories of the Town's enterprise fund consist of material and supplies held for consumption. The cost of these inventories is recorded as an expense as the inventories are consumed.

## 7. Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain amount and an estimated useful life in excess of one year. Minimum capitalization costs are as follows: all land, regardless of value; improvements other than buildings, \$5,000; buildings, improvements, substations, lines, and other plant and distribution systems, \$20,000; furniture and equipment, \$5,000; vehicles, \$5,000; and infrastructure, \$100,000. Donated capital assets received prior to June 30, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 30, 2015 are recorded at acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical cost. General infrastructure assets acquired prior to July 1, 2003, consist of the road network and water and sewer system assets that were acquired prior to July 1, 1980, and are reported at estimated historical cost using deflated replacement cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure (plant and distribution)	30 - 50
Buildings	30 - 50
Improvements	15 - 25
Vehicles and motorized equipment	3 - 10
Furniture and equipment	5 - 10
Equipment	3 - 5

## 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. As of June 30, 2022, the Town one item that meet this criterion, pension deferrals for the pension plan in the 2022 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. As of June 30, 2022, the Town 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. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method that approximates the effective interest method. Bonds payable are reported net of the applicable bond premiums or discount. Bond issuance costs, except for prepaid insurance costs, are expensed in the reporting period in which they are incurred. Prepaid insurance costs are expensed over the life of the debt.

In fund financial statements, governmental fund types recognize bond premiums and discounts,

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

#### **10. Compensated Absences**

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

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

#### **11. Reimbursement for Pandemic-related Expenditures**

In FY 2020/21, the American Rescue Plan Act (ARPA) established the Coronavirus State and Local Fiscal Recovery Funds to support urgent COVID-19 response efforts and replace lost revenue for the eligible state, local, territorial, and tribal governments. The Town was allocated \$617,954 of fiscal recovery funds to be paid in two equal installments. The first installment of \$308,977 was received in August 2021. The second installment will be received in early fiscal year 2022/23. The Town plans on using the funds for revenue replacement in fiscal year 2022/23. Revenue replacement funds will be transferred to the appropriate funds once the intended use of the funds is determined.

#### **12. 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.

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

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

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

Committed fund balance – portion of fund balance that can only be used for specific purposes imposed by majority vote by quorum of the Town of Mars Hill'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 the Town of Mars Hill intends to use for specific purposes.

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

Unassigned fund balance – portion of total fund balance that has not been restricted, committed, or assigned to specific purposes or other funds. The General Fund is the only fund that reports a positive unassigned fund balance amount.

The Town has not adopted a formal revenue spending policy that provides guidance for programs with multiple revenue sources; however, the Finance Officer will use resources in the following hierarchy: bond proceeds; federal funds; State funds; local non-town funds; town funds. For purposes of fund balance classification, expenditures are typically 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 if it is in the best interest of the Town.

#### **F. Defined Benefit Cost-Sharing Plans**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred

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

### **G. Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

## **Note 2 – Detail Notes on All Funds**

### **A. Assets**

#### **1. Deposits**

All of the Town's deposits are insured or collateralized using one of two options. Under the Dedicated Method, all deposits over the federal depository insurance coverage level are collateralized with securities held by the Town's agents in these units' names. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town, these deposits are considered to be held by the Town's agents in their names.

The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Town, or the escrow agent. Because of the inability to measure the exact amount of collateral pledged for the Town under the Pooling Method, the potential exists for under-collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Town has deposits only in the Pooling Method depositories. The Town has no formal policy regarding custodial credit risk for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The Town complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2022, the Town's deposits had a carrying amount of \$751,124 and a bank balance of \$806,858. Of the bank balance, \$250,000 was covered by federal depository insurance and \$556,858 was covered by collateral held under the pooling method. At June 30, 2022, the Town's petty cash fund totaled \$200.

#### **2. Investments**

At June 30, 2022, the Town had \$8,459,171 invested with the North Carolina Capital Management Trust's Government Portfolio which carried a credit rating of AAAM by Standard

and Poor's. The Town has no policy regarding credit risk. The City's investment in the NC Capital Management Trust Government Portfolio carried a credit rating of AAAM by Standard & Poor's and AAAM-mf by Moody's Investors Service as of June 30, 2022.

### 3. Receivables – Allowances for Doubtful Accounts

The amount presented in the Balance Sheet and the Statement of Net Position for the year ended June 30, 2022 is net of the following allowances for doubtful accounts:

<u>Funds</u>	
General Fund - Taxes Receivable	\$ 24,314
Enterprise Fund - Uncollectible Accounts	<u>230</u>
Total	<u>\$ 24,544</u>

### 4. Capital Assets

#### Primary Government

Capital asset activity for the Primary Government for the year ended June 30, 2022 was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
<b>Governmental activities:</b>				
<b>Capital assets not being depreciated:</b>				
Land	\$ 811,052	\$ -	\$ -	\$ 811,052
Total capital assets not being depreciated	<u>811,052</u>	<u>-</u>	<u>-</u>	<u>811,052</u>
<b>Capital assets being depreciated:</b>				
Buildings and improvements	2,863,068	-	-	2,863,068
Furniture and fixtures	20,845	-	-	20,845
Equipment	761,259	34,269	-	795,528
Vehicles and motorized equipment	2,044,392	174,452	169,517	2,049,327
Infrastructure	3,565,976	-	-	3,565,976
Total capital assets being depreciated	<u>9,255,540</u>	<u>208,721</u>	<u>169,517</u>	<u>9,294,744</u>
<b>Less accumulated depreciation for:</b>				
Buildings and improvements	1,078,513	68,275	-	1,146,788
Furniture and fixtures	5,956	2,978	-	8,934
Equipment	573,098	30,351	-	603,449
Vehicles and motorized equipment	1,257,785	151,120	161,397	1,247,508
Infrastructure	3,270,922	26,292	-	3,297,214
Total accumulated depreciation	<u>6,186,274</u>	<u>279,016</u>	<u>161,397</u>	<u>6,303,893</u>
Total capital assets being depreciated, net	<u>3,069,266</u>			<u>2,990,851</u>
<b>Governmental activities capital assets, net</b>	<u>\$ 3,880,318</u>			<u>\$ 3,801,903</u>

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

General government	\$ 26,780
Public safety	164,788
Transportation	28,745
Environmental protection	16,681
Cultural and recreational	<u>42,022</u>
Total depreciation expense	<u><u>\$ 279,016</u></u>

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
<b>Business-type activities:</b>				
<i>Water and Sewer Fund</i>				
<b>Capital assets not being depreciated:</b>				
Land	\$ 82,273	\$ -	\$ -	\$ 82,273
Total capital assets not being depreciated	<u>82,273</u>	<u>-</u>	<u>-</u>	<u>82,273</u>
<b>Capital assets being depreciated:</b>				
Buildings	671,860	-	-	671,860
Plant and distribution systems	15,500,794	63,452	-	15,564,246
Vehicles and motorized equipment	36,277	-	-	36,277
Equipment	<u>446,257</u>	<u>64,370</u>	<u>-</u>	<u>510,627</u>
Total capital assets being depreciated	<u>16,655,188</u>	<u>127,822</u>	<u>-</u>	<u>16,783,010</u>
<b>Less accumulated depreciation for:</b>				
Buildings	208,815	16,488	-	225,303
Plant and distribution systems	7,491,425	296,751	-	7,788,176
Vehicles and motorized equipment	36,277	-	-	36,277
Equipment	<u>381,321</u>	<u>17,314</u>	<u>-</u>	<u>398,635</u>
Total accumulated depreciation	<u>8,117,838</u>	<u>330,553</u>	<u>-</u>	<u>8,448,391</u>
Total capital assets being depreciated, net	<u>8,537,350</u>			<u>8,334,619</u>
<b>Business-type activities capital assets, net</b>	<u><u>\$ 8,619,623</u></u>			<u><u>\$ 8,416,892</u></u>

**B. Liabilities****1. Pension Plan and Postemployment Obligations****a. Local Governmental Employees' Retirement System****1. Plan Description**

The Town of Mars Hill 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 Annual Comprehensive Financial Report for the State of North Carolina. The State's Annual Comprehensive Financial Report includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, by calling (919) 981-5454, or at [www.osc.nc.gov](http://www.osc.nc.gov).

**2. Benefits Provided**

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

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

### 3. Contributions

Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. Town of Mars Hill employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Town of Mars Hill's contractually required contribution rate for the year ended June 30, 2022, was 12.04% of compensation for law enforcement officers, 11.41% for general employees, and 11.41% for 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 Town of Mars Hill were \$119,987 for the year ended June 30, 2022.

### 4. Refunds of Contributions

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

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

At June 30, 2022, the Town reported a liability of \$249,209 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2021. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2020. The total pension liability was then rolled forward to the measurement date of June 30, 2021 utilizing update procedures incorporating the actuarial assumptions. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2022, the Town's proportion was 0.01625%, which was an increase of .00136% from its proportion reported as of June 30, 2021.

For the year ended June 30, 2022, the Town recognized pension expense of \$107,922. At June 30, 2022, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 79,282	\$ -
Changes of assumptions and other inputs	156,567	-
Net difference between projected and actual earnings on pension plan investments	-	356,045
Changes in proportion and differences between Town contributions and proportionate share of contributions	12,106	5,149
Town contributions subsequent to the measurement date	119,987	-
Total	<u>\$ 367,942</u>	<u>\$ 361,194</u>

\$119,987 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2023. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended June 30:</u>	
2023	\$ 24,106
2024	(5,422)
2025	(22,971)
2026	(108,952)
2027	-
Thereafter	-
	<u>\$ (113,239)</u>

#### 6. Actuarial Assumptions

The total pension liability in the December 31, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5 percent
Salary increases	3.25 percent to 8.25 percent, including inflation and productivity factor
Investment rate of return	6.50 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, 2020 valuation were based on the results of an actuarial experience study for the period January 1, 2015 through December 31, 2019.

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

The projected long-term investment returns 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 weighing 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 rate of return for each major asset class as of June 30, 2022 and summarized in the following table:

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

The information above is based on 30 year expectations developed with the consulting actuary for the 2020 asset liability and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 2.50%. All rates of return and inflation are annualized.

#### 7. Discount rate

The discount rate used to measure the total pension liability was 6.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

#### 8. Sensitivity of the Town's proportionate share of the net pension liability to changes in the discount rate

The following presents the Town's proportionate share of the net pension liability calculated using the discount rate of 6.50 percent, as well as what the Town's proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage point lower (5.50 percent) or one percentage point higher (7.50 percent) than the current rate:

	<u>1% Decrease (5.50%)</u>	<u>Discount Rate (6.50%)</u>	<u>1% Increase (7.50%)</u>
Net pension liability (asset)	\$ 967,410	\$ 249,209	\$ (341,828)

#### 9. Pension plan fiduciary net position

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

**b. Law Enforcement Officers' Special Separation Allowance**

## 1. Plan Description

The Town of Mars Hill administers a public employee retirement system (the Separation Allowance), a single-employer defined benefit pension plan that provides retirement benefits to the Town's qualified sworn law enforcement officers under the age of 62 who have completed at least 30 years of creditable service or have attained 55 years of age and have completed five or more years of creditable service. The Separation Allowance is equal to 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.

All full-time Town law enforcement officers are covered by the Separation Allowance. At the valuation date of December 31, 2020, the Separation Allowance's membership consisted of:

Retirees receiving benefits	0
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	<u>6</u>
Total	<u>6</u>

## 2. Summary of Significant Accounting Policies

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

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

## 3. Actuarial Assumptions

The entry age actuarial cost method was used in the December 31, 2020 valuation. The total pension liability in the December 31, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 percent
Salary increases	3.25 to 7.75 percent, including inflation and productivity factor
Discount rate	2.25 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, 2020. The actuarial assumptions used in the December 31, 2020 valuation were based on the results of an experience study completed by the Actuary for the Local Government Employees' Retirement System for the five year period ending December 31, 2020.

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

#### 4. Contributions.

The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the amounts necessary to cover the benefits earned on a pay as you go basis through appropriations made in the General Fund operating budget. There were no contributions made by employees. The Town's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. The Town did not pay any benefits during the reporting period.

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

At June 30, 2022, the Town reported a total pension liability of \$145,332. The total pension liability was measured as of December 31, 2021 based on a December 31, 2020 actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2021 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2022, the Town recognized pension expense of \$13,598.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 17,789	\$ 8,647
Changes of assumptions and other inputs	35,614	5,128
Town benefit payments and plan administrative expense made subsequent to the measurement date	5,628	-
Total	<u>\$ 59,031</u>	<u>\$ 13,775</u>

\$5,628 reported as deferred outflows of resources related to pensions resulting from benefit payments made subsequent to the measurement date will be recognized as a decrease of the total pension liability in the year ended June 30, 2023. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended June 30:</u>	
2023	\$ 4,507
2024	6,709
2025	9,332
2026	9,247
2027	8,503
Thereafter	1,330
	<u>\$ 39,628</u>

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

The following presents the Town's total pension liability calculated using the discount rate of 2.25 percent, as well as what the Town's total pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (1.25 percent) or 1-percentage-point higher (3.25 percent) than the current rate:

	1% Decrease (1.25%)	Discount Rate (2.25%)	1% Increase (3.25%)
Total pension liability	\$ 160,543	\$ 145,332	\$ 131,537

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

	<u>2022</u>
Beginning balance	\$ 129,987
Service cost	12,475
Interest on the total pension liability	2,409
Changes of benefit terms	-
Differences between expected and actual experience in the measurement of the total pension liability	15,488
Change of assumptions or other inputs	(4,709)
Benefit payments	(10,318)
Other changes	-
Ending balance of the total pension liability	<u>\$ 145,332</u>

***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:

	<b>LGERS</b>	<b>LEOSSA</b>	<b>Total</b>
Pension expense	\$ 107,922	\$ 13,598	\$ 121,520
Pension liability	249,209	145,332	394,541
Proportionate share of the net pension liability	0.01489%	n/a	

**Deferred outflows of resources:**

Differences between expected and actual experience	\$ 79,282	\$ 17,789	\$ 97,071
Changes of assumptions and other inputs	156,567	35,614	192,181
Net difference between projected and actual earnings on plan investments	-	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	12,106	-	12,106
Benefit payments paid subsequent to the measurement date	119,987	5,628	125,615
	<u>\$ 367,942</u>	<u>\$ 59,031</u>	<u>\$ 426,973</u>

**Deferred inflows of resources:**

Differences between expected and actual experience	\$ -	\$ 8,647	\$ 8,647
Changes of assumptions	-	5,128	5,128
Net difference between projected and actual earnings on plan investments	356,045	-	356,045
Changes in proportion and differences between contributions and proportionate share of contributions	5,149	-	5,149
	<u>\$ 361,194</u>	<u>\$ 13,775</u>	<u>\$ 374,969</u>

**c. Supplemental Retirement Income Plan for Law Enforcement Officers****1. Plan Description**

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

## 2. Funding Policy

Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to five percent of each law enforcement officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2022 were \$12,586, which consisted of \$11,000 from the Town and \$1,586 from the law enforcement officers. No amounts were forfeited.

### d. Other Employment Benefits

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

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 Town considers these contributions to be immaterial. Because the benefit payments are made by the Death Benefit Plan and not by the Town, the Town does not determine the number of eligible participants. The contributions to the Death Benefit Plan cannot be separated between the postemployment benefit amount and the other benefit amount.

## 2. Deferred Outflows and Inflows of Resources

The Town has several deferred outflows of resources. Deferred outflows of resources comprises the following:

<u>Source</u>	<u>Amount</u>
Contributions to the pension plan in the current fiscal year	\$ 119,987
Benefit payments made for LEOSSA subsequent to measurement date	5,628
Differences between expected and actual experience	97,071
Changes in assumptions or other inputs	192,181
Net differences between projected and actual earnings	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	12,106
	<u>\$ 426,973</u>

Deferred inflows of resources at year-end comprises the following:

Source	Statement of Net Position	General Fund Balance Sheet
Prepaid taxes (General Fund)	\$ 2,866	\$ 2,866
Taxes receivable, less penalties (General Fund)	-	55,162
Changes in assumptions or other inputs	5,128	-
Differences between expected and actual experience	8,647	-
Net difference between projected and actual earnings on plan investments	356,045	
Changes in proportionation and differences between employer contributions and proportionate share of contributions (pension)	5,149	-
	\$ 377,835	\$ 58,028

### **Risk Management**

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town has general liability and auto liability coverage of \$1 million per occurrence, property coverage up to the total insurance values of the property and workers' compensation coverage up to statutory limits.

The Town carries commercial insurance for risks of loss. Settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years and there have been no significant reductions in insurance coverage in the prior year. The Town does not carry flood insurance.

In accordance with G.S. 159-29, the Town's employees that have access to \$100 or more at any given time of the Town's funds are performance bonded through a commercial surety bond. The finance officer and tax collector are individually bonded in an amount equal to or greater than \$50,000 each. The remaining employees that have access to funds are bonded under a blanket bond for equal to or greater than \$50,000.

### 3. Long-Term Obligations

#### a. Installment Purchase

The Town entered into a direct placement installment purchase contract to build an interconnector between Mars Hill and the water treatment facilities of the Town of Weaverville. A security interest in the facilities constructed is collateral for the debt while the debt is outstanding. This agreement was executed in September 2011 between the Town and the United States Department of Agriculture (USDA), and requires 40 annual installments of \$27,558 with interest at 3.375% per annum. The total principal borrowed was \$600,000. The agreement contains a provision that in an event of default, the entire outstanding balance becomes immediately due and payable. The balance of this direct placement installment purchase as of June 30, 2022 was \$513,456.

The Town entered into a direct placement installment purchase contract to refinance a general obligation bond originally issued to finance construction of facilities utilized in the operation of the water and sewer system and a USDA rural development loan originally issued for a sewer plant. The facilities constructed were pledged as collateral for this debt. The agreement was executed on April 25, 2014 between the Town and a local bank and requires eight annual payments of \$85,421, with interest of 2.35% per annum. The total principal borrowed is \$616,417. The agreement contains a provision that in an event of default, the entire outstanding balance becomes immediately due and payable. The balance of this direct placement installment was paid in full during the year.

Annual debt service payments of the installment purchases as of June 30, 2022, including \$308,655 of interest, are as follows:

Year ending June 30	Business-type Activities	
	Principal	Interest
2023	\$ 10,229	\$ 17,329
2024	10,574	16,984
2025	10,931	16,627
2026	11,300	16,258
2027	11,681	15,877
2028-2032	64,593	73,197
2033-2037	76,254	61,536
2038-2042	90,020	47,770
2043-2047	106,272	31,518
2048-2052	121,602	11,559
	<u>\$ 513,456</u>	<u>\$ 308,655</u>

As of June 30, 2022, the Town of Mars Hill had a legal debt margin of \$12,532,000.

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

The following is a summary of changes in the Town's long-term obligations for the year ended June 30, 2022:

	Balance July 1, 2021	Increase	Decrease	Balance June 30, 2022	Current Portion
Governmental Activities:					
Net pension liability (LGERS)	\$ 403,376	\$ -	\$ 213,005	\$ 190,371	\$ -
Total pension liability (LEOSSA)	129,987	15,345	-	145,332	-
Compensated absences	42,800	60,006	38,501	64,305	38,501
Governmental activity long-term liabilities	<u>\$ 576,163</u>	<u>\$ 75,351</u>	<u>\$ 251,506</u>	<u>\$ 400,008</u>	<u>\$ 38,501</u>
By purpose:					
General government	\$ 315,516	\$ 5,935	\$ 42,451	\$ 279,000	\$ 5,733
Public safety	228,382	56,990	168,973	116,399	24,795
Sanitation	11,019	3,992	11,731	3,280	2,561
Transportation	21,246	8,434	28,351	1,329	5,412
Total	<u>\$ 576,163</u>	<u>\$ 75,351</u>	<u>\$ 251,506</u>	<u>\$ 400,008</u>	<u>\$ 38,501</u>
Business-type Activities:					
Direct placement					
general obligation bonds	\$ 606,811	\$ -	\$ 93,355	\$ 513,456	\$ 10,229
Net pension liability (LGERS)	128,707	-	69,869	58,838	-
Compensated absences	11,155	15,302	14,255	12,202	12,202
Business-type activity long-term liabilities	<u>\$ 746,673</u>	<u>\$ 15,302</u>	<u>\$ 177,479</u>	<u>\$ 584,496</u>	<u>\$ 22,431</u>

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

**C. Net Investment in Capital Assets**

The following schedule provides a calculation of net investment in capital assets:

	Governmental	Business-type
Capital assets	\$ 3,801,903	\$ 8,416,892
Less: Long-term debt	-	513,456
Net investment in capital assets	<u>\$ 3,801,903</u>	<u>\$ 7,903,436</u>

**D. Interfund Balances and Transfers**

Interfund loans – During the year ended June 30, 2017, the General Fund borrowed \$322,001 from the Water and Sewer Fund to fund a fire truck purchase. This transaction was approved by the Board of Aldermen in the budget for the 2016-2017 fiscal year. \$223,898 of the loan was repaid during the year ended June 30, 2018, with a balance remaining on the loan of \$98,103, plus an additional amount borrowed by the general fund of \$29,100, as of June 30, 2021. The interfund loan was paid in full during the year ending June 30, 2022.

During the year ending June 30, 2022, \$198,052 was transferred from the water and sewer fund to the capital projects fund to satisfy an interfund payable related to a capital project that was completed in the prior fiscal year.

**E. Fund Balance**

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

Total fund balance - General Fund	\$ 5,251,727
Less:	
Restricted for:	
Stabilization by state statute	444,915
Fund balance available for appropriation	<u>\$ 4,806,812</u>

**F. On-Behalf Payments for Fringe Benefits and Salaries**

The Town has recognized as a revenue and an expenditure, on-behalf payments for fringe benefits and salaries of \$8,452 for the salary supplement and stipend benefits paid to eligible firemen by the local board of trustees of the Firemen's Relief fund during the fiscal year ended June 30, 2022. Under State law, the local board of trustees for the Fund receives and amount each year, which the board may use at its own discretion for eligible firemen or their departments.

**Note 3 – Related Organizations**

The five member board of the Mars Hill Housing Authority is appointed by the Mayor of the Town of Mars Hill. The Town is accountable for the Housing Authority because it appoints the governing board; however. The Town is not financially accountable for the Housing Authority. The Town of Mars Hill is also disclosed as a related organization in the notes to the financial statements for the Mars Hill Housing Authority.

**Note 4 – Joint Ventures**

The Town and the members of the Town's fire department each appoint two members to the five-member local board of trustees for the Firefighter's Relief Fund. The State Insurance Commissioner appoints one additional member to the local board of trustees. The Firefighter's Relief Fund is funded by a portion of the fire and lightning insurance premiums which insurers remit to the State. The State passes these monies to the local board of the Firefighter's Relief Fund. The funds are used to assist firefighters in various ways. The Town obtains an ongoing financial benefit from the Fund for the on-behalf of payments for salaries and fringe benefits made to members of the Town's fire department by the board of trustees. During the fiscal year ended June 30, 2022, the Town reported no revenues and expenditures made through the

Fireman's Relief Fund. The participating governments do not have any equity interest in the joint venture, so no equity has been reflected in the financial statements at June 30, 2022. The Firefighter's Relief Fund does not issue separate audited financial statements. Instead, the local board of trustees files an annual financial report with the State Firefighter's Association. This report can be obtained from the Association at 323 West Jones Street, Suite 401, Raleigh, North Carolina 27603.

**Note 5 – Contingencies**Federal and State Assisted Programs

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

**Note 6 – Concentration of Water Revenue**

Amounts billed to Mars Hill College for water and sewer services in the amount of approximately \$175,000 represented approximately 17% of revenue reported in the Water and Sewer Fund during the fiscal year ending June 30, 2022.

**REQUIRED SUPPLEMENTARY INFORMATION**

**TOWN OF MARS HILL, NORTH CAROLINA**

**TOWN'S PROPORTIONATE SHARE OF NET PENSION LIABILITY (ASSET)  
REQUIRED SUPPLEMENTARY INFORMATION  
LAST NINE FISCAL YEARS \***

Local Governmental Employees' Retirement System

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Town's proportionate share of the net pension liability (asset) (%)	0.01625%	0.01489%	0.14320%	0.01435%	0.01394%	0.13820%	0.01284%	-0.01110%	0.01160%
Town's proportion of the net pension liability (asset) (\$)	\$ 249,209	\$ 532,083	\$ 391,068	\$ 340,431	\$ 212,962	\$ 293,307	\$ 57,625	\$ (65,462)	\$ 139,825
Town's covered payroll	1,019,106	904,268	851,622	793,352	755,266	762,844	714,116	694,667	694,349
Town's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	24.45%	58.84%	45.92%	42.91%	28.20%	38.45%	8.07%	( 9.42%)	20.14%
Plan fiduciary net position as a percentage of the total pension liability	95.51%	88.61%	90.86%	91.63%	94.18%	91.47%	98.09%	102.64%	94.35%

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

**TOWN OF MARS HILL, NORTH CAROLINA**

SCHEDULE OF TOWN'S CONTRIBUTIONS  
REQUIRED SUPPLEMENTARY INFORMATION  
LAST NINE FISCAL YEARS

Local Governmental Employees' Retirement System

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 119,987	\$ 105,654	\$ 84,366	\$ 70,298	\$ 61,382	\$ 56,688	\$ 52,346	\$ 51,939	\$ 49,484
Contribution in relation to the contractually required contribution	<u>119,987</u>	<u>105,654</u>	<u>84,366</u>	<u>70,298</u>	<u>61,382</u>	<u>56,688</u>	<u>52,346</u>	<u>51,939</u>	<u>49,484</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Town's covered payroll	\$ 1,039,136	\$ 1,019,106	\$ 904,268	\$ 851,622	\$ 793,352	\$ 755,266	\$ 762,844	\$ 714,116	\$ 694,667
Contributions as a percentage of covered payroll	11.55%	10.37%	9.33%	8.25%	7.76%	7.48%	6.86%	7.15%	7.12%

**TOWN OF MARS HILL, NORTH CAROLINA**

**LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE  
REQUIRED SUPPLEMENTARY INFORMATION  
LAST SIX FISCAL YEARS**

**Schedule of Changes in Total Pension Liability**

	2022	2021	2020	2019	2018	2017
Beginning balance	\$ 129,987	\$ 73,272	\$ 57,618	\$ 57,227	\$ 78,410	\$ 72,105
Service cost	12,475	5,855	5,289	4,084	3,930	5,288
Interest on the total pension liability	2,409	2,389	2,097	1,808	3,027	2,574
Changes of benefit terms	-	-	-	-	-	-
Differences between expected and actual experience						
in the measurement of the total pension liability	15,488	2,136	5,631	(2,804)	(32,627)	-
Change of assumptions or other inputs	(4,709)	46,335	2,637	(2,697)	4,487	(1,557)
Benefit payments	(10,318)	-	-	-	-	-
Other changes	-	-	-	-	-	-
Ending balance of the total pension liability	<u>\$ 145,332</u>	<u>\$ 129,987</u>	<u>\$ 73,272</u>	<u>\$ 57,618</u>	<u>\$ 57,227</u>	<u>\$ 78,410</u>

**Schedule of Total Pension Liability as a Percentage of Covered Payroll**

Total pension liability	\$ 145,332	\$ 129,987	\$ 73,272	\$ 57,618	\$ 57,227	\$ 78,410
Covered payroll	285,616	224,849	219,219	179,351	195,610	253,023
Total pension liability as a percentage of covered payroll	50.88%	57.81%	33.42%	32.13%	29.26%	30.99%

Notes to the schedules:

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

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

**INDIVIDUAL FUND STATEMENTS AND SCHEDULES**

**TOWN OF MARS HILL, NORTH CAROLINA**

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

For the year ended June 30, 2022

	<b>2022</b>		
	Budget	Actual	Variance Positive (Negative)
<b>REVENUES</b>			
Ad valorem taxes:			
Current year		\$ 724,452	
Prior years		36,250	
Penalties and interest		7,100	
	704,500	767,802	63,302
Other taxes and licenses:			
Payments in lieu of taxes		11,157	
Excise tax		7,942	
Local option sales tax		790,824	
	547,000	809,923	262,923
Intergovernmental revenues:			
Unrestricted:			
Utilities sales tax		137,375	
Tax refunds		9,258	
Special fire district tax		752,583	
	759,100	899,216	140,116
Restricted:			
Federal grants		170,000	
Powell Bill		60,988	
	567,913	230,988	(336,925)
Permits and fees:			
Court cost, fees, etc.		180	
Parking revenues		12,512	
Building permits (zoning)		2,600	
	8,200	15,292	7,092
Sales and services			
Recreation revenue		31,636	
	21,000	31,636	10,636
Investment earnings	1,000	7,596	6,596
Other:			
Miscellaneous		25,945	
Contributions		1,310	
Fire department revenues		1,368	
	8,100	28,623	20,523
<b>Total revenues</b>	<b>2,616,813</b>	<b>2,791,076</b>	<b>174,263</b>

**TOWN OF MARS HILL, NORTH CAROLINA**

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
For the year ended June 30, 2022

	<b>2022</b>		
	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
<b>EXPENDITURES</b>			
General government:			
Governing board:			
Board honorarium		23,500	
Professional services		34,712	
Dues and subscriptions		3,078	
Leadership project		4,556	
Insurance and bonds		6,838	
Miscellaneous		7,396	
	<u>85,500</u>	<u>80,080</u>	5,420
Administration:			
Salaries and wages		144,445	
FICA tax expense		10,530	
Group insurance		15,329	
Retirement expense		14,320	
Telephone and postage		5,423	
Maintenance - equipment		4,118	
Contracted services		11,069	
Professional services		550	
Supplies and materials		2,247	
Dues and subscriptions		4,702	
Insurance and bonds		12,690	
Miscellaneous		4,042	
Incentive for vaccinations		8,504	
Non-capital equipment		836	
	<u>296,804</u>	<u>238,805</u>	57,999
Elections:			
Professional services		3,396	
	<u>7,000</u>	<u>3,396</u>	3,604
Tax collections:			
Telephone and postage		518	
Miscellaneous		899	
Printing and advertising		250	
	<u>3,000</u>	<u>1,667</u>	1,333
Public buildings:			
Utilities		7,564	
Maintenance - buildings/grounds		23,407	
Supplies and materials		1,888	
Insurance and bonds		3,490	
	<u>53,000</u>	<u>36,349</u>	16,651
Total general government	<u>445,304</u>	<u>360,297</u>	85,007

**TOWN OF MARS HILL, NORTH CAROLINA**

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

For the year ended June 30, 2022

	<b>2022</b>		
	Budget	Actual	Variance Positive (Negative)
Public safety:			
Police:			
Salaries and wages		248,497	
FICA tax expense		18,173	
Group insurance		38,477	
Retirement expense		27,340	
Retirement - supplemental		11,000	
Telephone and postage		6,409	
Contract labor		571	
Maintenance - auto		9,467	
Automotive supplies		25,184	
Supplies and materials		2,568	
Training and physicals		1,254	
Uniforms		9,272	
Maintenance - equipment		6,322	
Insurance and bonds		11,649	
Dues and subscriptions		1,711	
Miscellaneous		829	
	777,173	418,723	358,450
Fire:			
Salaries and wages		268,237	
FICA tax expense		19,983	
Group insurance		34,199	
Retirement expense		29,264	
Telephone and postage		2,264	
Utilities		6,307	
Maintenance - buildings/grounds		3,066	
Maintenance - equipment		10,040	
Maintenance - auto		19,219	
Pension fund		1,710	
Supplies and materials		21,340	
Training and physicals		7,208	
Uniforms		6,116	
Fire prevention		1,877	
Contracted labor		4,095	
Dues and subscriptions		636	
Insurance and bonds		37,801	
Christmas dinner		4,989	
Miscellaneous		1,383	
Capital outlay - equipment		34,694	
Noncapital equipment		32,047	
	642,600	546,475	96,125
Total public safety	1,419,773	965,198	454,575

**TOWN OF MARS HILL, NORTH CAROLINA**

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

For the year ended June 30, 2022

	<b>2022</b>		
	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Transportation:			
Streets:			
Salaries and wages		119,712	
FICA tax expense		8,754	
Group insurance		22,993	
Retirement expense		13,608	
Utilities		22,223	
Maintenance - equipment		2,569	
Maintenance - auto		3,247	
Automotive supplies		3,215	
Supplies and materials		5,524	
Uniforms		2,228	
Contracted labor		24,567	
Insurance and bonds		5,673	
Miscellaneous		901	
Capital outlay		27,819	
Christmas lights and parade		5,288	
	<u>277,936</u>	<u>268,321</u>	9,615
Powell Bill:			
Supplies and materials		5,191	
Noncapital equipment		8,554	
Contracted services		38,917	
	<u>163,000</u>	<u>52,662</u>	110,338
Total transportation	<u>440,936</u>	<u>320,983</u>	119,953
Environmental protection:			
Sanitation:			
Salaries and wages		84,901	
FICA tax expense		6,142	
Group insurance		19,395	
Retirement expense		7,771	
Maintenance - auto		2,804	
Automotive supplies		8,721	
Contract labor		10	
Uniforms		4,284	
Insurance and bonds		9,987	
Capital outlay - equipment		174,452	
Miscellaneous		1,056	
Total environmental protection	<u>327,100</u>	<u>319,523</u>	7,577

**TOWN OF MARS HILL, NORTH CAROLINA**

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL

For the year ended June 30, 2022

	<b>2022</b>		
	Budget	Actual	Variance Positive (Negative)
Cultural and recreational:			
Recreation:			
Salaries and wages		27,826	
FICA tax expense		2,129	
Telephone and postage		761	
Utilities		4,732	
Maintenance - building and grounds		8,307	
Maintenance - equipment		103	
Supplies and materials		9,836	
Contract labor		14,866	
Insurance and bonds		3,584	
Noncapital equipment		2,799	
Miscellaneous		6,377	
	108,200	81,320	26,880
Library:			
Utilities		5,497	
Supplies and materials		216	
Insurance and bonds		1,925	
Maintenance - equipment		62	
Maintenance - buildings and grounds		13,873	
	29,500	21,573	7,927
Total cultural and recreational	137,700	102,893	34,807
Total expenditures	2,770,813	2,068,894	701,919
Revenues over (under) expenditures	(154,000)	722,182	876,182
Other financing sources:			
Appropriated fund balance	154,000	-	(154,000)
Sale of capital assets	-	5,606	5,606
Total other financing sources	154,000	5,606	(148,394)
Net change in fund balance	\$ -	727,788	\$ 727,788
Fund balance, beginning of year		4,523,939	
Fund balance, end of year		\$ 5,251,727	

**TOWN OF MARS HILL, NORTH CAROLINA**

AMERICAN RESCUE PLAN FUND  
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -  
 BUDGET AND ACTUAL  
 From inception and for the year ended June 30, 2022

	Project Authorization	Prior Years	Current Year	Total
Revenues:				
ARP Funds	\$ 617,954	\$ -	\$ -	\$ -
Expenditures:				
Unassigned ARP Expenditures	617,954	-	-	-
Net change in fund balance	\$ -	\$ -	-	\$ -
Fund balance, beginning			-	
Fund balance, ending			\$ -	

**TOWN OF MARS HILL, NORTH CAROLINA**  
**WATER AND SEWER FUND**  
**SCHEDULE OF REVENUES AND EXPENDITURES -**  
**BUDGET AND ACTUAL (NON-GAAP)**  
For the year ended June 30, 2022

	<b>2022</b>		
	Budget	Actual	Variance Positive (Negative)
<b>OPERATING REVENUES</b>			
Charges for services		\$ 1,168,046	
Other operating revenues		27,618	
Total operating revenues	\$ 1,009,700	1,195,664	\$ 185,964
<b>NON-OPERATING REVENUES</b>			
Investment earnings		5,830	
Capital contributions		50,000	
Total non-operating revenues	102,000	55,830	(46,170)
Total revenues	1,111,700	1,251,494	139,794
<b>OPERATING EXPENDITURES</b>			
Water and sewer administration:			
Salaries and employee benefits		111,012	
Professional services		18,223	
Supplies and materials		2,962	
Insurance		32,904	
Other operating expenses		94,263	
Total water and sewer administration	345,100	259,364	85,736
Treatment and distribution:			
Salaries and employee benefits		253,304	
Supplies and materials		117,584	
Utilities		73,415	
Repairs and maintenance		14,645	
Non-capital equipment		372	
Capital outlay		127,822	
Miscellaneous		38,307	
Total treatment and distribution	760,599	625,449	135,150
Debt service:			
Principal retirement		93,355	
Interest		15,859	
Total debt service	113,100	109,214	3,886
Total expenditures	1,218,799	994,027	224,772

**TOWN OF MARS HILL, NORTH CAROLINA**  
**WATER AND SEWER FUND**  
**SCHEDULE OF REVENUES AND EXPENDITURES -**  
**BUDGET AND ACTUAL (NON-GAAP)**  
For the year ended June 30, 2022

	<b>2022</b>		
	<b>Budget</b>	<b>Actual</b>	Variance Positive (Negative)
<b>OTHER FINANCING SOURCES (USES)</b>			
Appropriated fund balance	305,151	-	(305,151)
Proceeds of sale of capital assets	-	<b>10,000</b>	10,000
Transfer to capital projects	(198,052)	<b>(198,052)</b>	-
Total other financing sources (uses)	107,099	<b>(188,052)</b>	(295,151)
 Revenues and other sources under expenditures and other uses	 \$ -	 <b>69,415</b>	 \$ 69,415
 Reconciliation from budgetary basis (modified accrual) to full accrual:			
Reconciling items:			
Payment of debt principal		93,355	
Capital project fund transfer		198,052	
Capital outlay		127,822	
Decrease in accrued interest		(1,882)	
Increase in compensated absence liability		(1,047)	
Increase in deferred outflows of resources - pensions		17,369	
Decrease in net pension liability		69,869	
Increase in deferred inflows of resources - pensions		(82,915)	
Depreciation		(330,553)	
Change in net position		\$ 159,485	

**TOWN OF MARS HILL, NORTH CAROLINA**

WATER AND SEWER CAPITAL PROJECT FUND  
 WATER AND SEWER IMPROVEMENTS PROJECT  
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -  
 BUDGET AND ACTUAL (NON-GAAP)  
 From inception and for the year ended June 30, 2022

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Current Year</u>	<u>Total</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:					
Restricted intergovernmental					
Federal grants	\$ 390,120	\$ 390,120	\$ -	\$ 390,120	\$ -
State grants	487,650	494,646	-	494,646	6,996
Interest	-	18	-	18	18
	<u>877,770</u>	<u>884,784</u>	<u>-</u>	<u>884,784</u>	<u>7,014</u>
Expenditures:					
Capital outlay					
Design, Administration	151,700	182,764	-	182,764	(31,064)
Construction	<u>935,392</u>	<u>900,072</u>	<u>-</u>	<u>900,072</u>	<u>35,320</u>
	<u>1,087,092</u>	<u>1,082,836</u>	<u>-</u>	<u>1,082,836</u>	<u>4,256</u>
Revenues under expenditures	(209,322)	(198,052)	-	(198,052)	11,270
Other Financing Sources:					
Transfers from the Water Fund	<u>209,322</u>	<u>-</u>	<u>198,052</u>	<u>198,052</u>	<u>(11,270)</u>
Revenues and other sources over expenditures	<u>\$ -</u>	<u>\$ (198,052)</u>	<u>\$ 198,052</u>	<u>\$ -</u>	<u>\$ -</u>

**SUPPLEMENTAL FINANCIAL DATA**

**TOWN OF MARS HILL, NORTH CAROLINA**

GENERAL FUND  
 SCHEDULE OF AD VALOREM TAXES RECEIVABLE  
 June 30, 2022

Fiscal Year	Uncollected Balance 6/30/2021	Additions	Collections And Credits	Uncollected Balance 6/30/2022
2021-2022	\$ -	\$ 772,585	\$ 724,452	48,133
2020-2021	31,256	-	23,129	8,127
2019-2020	9,926	-	6,378	3,548
2018-2019	7,855	-	4,343	3,512
2017-2018	2,262	-	(14)	2,276
2016-2017	5,273	-	2,331	2,942
2015-2016	2,128	-	(16)	2,144
2014-2015	2,682	-	(20)	2,702
2013-2014	2,868	-	(16)	2,884
2012-2013	3,220	-	12	3,208
2011-2012	2,343	-	2,343	-
	\$ 69,813	\$ 772,585	\$ 762,922	\$ 79,476
Less allowance for uncollectible ad valorem taxes receivable				(24,314)
Ad valorem taxes receivable, net				\$ 55,162
Reconcilement with Revenues:				
Taxes - Ad valorem - General Fund				\$ 767,802
Reconciling items:				
Amount written off for fiscal year 2011-2012				2,343
Interest collected				(7,100)
Other adjustments				(123)
Total collections and credits				\$ 762,922

**TOWN OF MARS HILL, NORTH CAROLINA**

GENERAL FUND  
ANALYSIS OF CURRENT TAX LEVY  
For the year ended June 30, 2022

	Property Valuation	Rate	Total Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Original levy	\$ 164,618,298	0.00470	\$ 773,706	\$ 712,217	\$ 61,489
Total			<u>773,706</u>	<u>712,217</u>	<u>61,489</u>
Discoveries:					
Current year taxes and penalties	203,404		956	956	-
Abatements	<u>(441,915)</u>		<u>(2,077)</u>	<u>(2,077)</u>	<u>-</u>
Total property valuation	<u>\$ 164,379,787</u>				
Net levy			772,585	711,096	61,489
Uncollected taxes at June 30, 2022			<u>48,133</u>	<u>48,133</u>	<u>-</u>
Current year's taxes collected			<u>\$ 724,452</u>	<u>\$ 662,963</u>	<u>\$ 61,489</u>
Current levy collection percentage			<u>93.77%</u>	<u>93.23%</u>	<u>100.00%</u>

## **COMPLIANCE SECTION**



**GOULD KILLIAN  
CPA GROUP, P.A.**  
CERTIFIED PUBLIC ACCOUNTANTS

**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 Auditors' Report

To the Honorable Mayor and  
Members of the Board of Aldermen  
Mars Hill, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Mars Hill, North Carolina, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprises the Town of Mars Hill, North Carolina's basic financial statements, and have issued our report thereon dated November 23, 2022.

***Internal Control Over Financial Reporting***

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule findings and responses, we identified certain deficiencies in internal control, as item 2022-001, that we consider to be a material weakness.

### ***Compliance and Other Matters***

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

### ***Town of Mars Hill's Response to Finding***

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

### ***Purpose of this Report***

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

*Donald Killian CPA Group, P.A.*

Asheville, North Carolina  
November 23, 2022

**TOWN OF MARS HILL, NORTH CAROLINA  
SCHEDULE OF FINDINGS AND RESPONSES  
For the year ended June 30, 2022**

**I. Summary of Auditor’s Results**

Financial Statements

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

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

**II. Financial Statement Findings**

MATERIAL WEAKNESS

**2022 – 001** Segregation of duties in regard to cash receipts

**Criteria:** Duties in regard to cash receipts should be segregated to provide reasonable assurance that transactions are handled appropriately and consistently.

**Condition:** There is a lack of segregation of duties among Town personnel. Presently, a single individual can receive cash, post transactions to customer accounts and the general ledger, prepare cash deposits, and make deposit at the banking institution.

**Effect:** Transactions could be mishandled. Errors in financial reporting could occur and not be detected.

**Cause:** Overall, there is limited number of Town personnel involved in the receipting process due to the size of the Town. But, these limited number of personnel have the ability and perform all steps within the cash receipting process depending on when assigned to the intake desk and the receipting function. Staffing situations dictate the need due to when a staff member is not working and their responsibility is covered by another individual in the Town’s office.

**Recommendation:** The duties should be separated as much as possible, and alternative controls should be used to compensate for lack of separation. Individuals would not have the ability to perform all functions within the receipting process.

**Views of responsible officials and planned corrective actions:** The Town agrees with this finding and will adhere to the corrective action plan on next page in this audit report.



# Town of Mars Hill

**John L. Chandler**  
*Mayor*  
**Nicholas A. Honeycutt**  
*Vice-Mayor*  
**Robert W. Zink**  
*Treasurer*  
**Stuart L. Jolley**  
*Clerk*  
**Larry H. Davis**  
*Secretary*

Town of Mars Hill, North Carolina  
Corrective Action Plan  
For the Year Ended June 30, 2022

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## Section II – Financial Statement Findings

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### MATERIAL WEAKNESS

#### **2022 – 001** Segregation of duties

Name of contact person: Nathan Bennett, Town Manager

Corrective Action: The duties will be separated as much as possible and alternative controls will be used to compensate for lack of separation.

Proposed Completion Date: January 2023

### Mars Hill Town Hall

280 North Main Street • P.O. Box 368 Mars Hill, North Carolina  
28754 Phone: (828) 689-2301 • Fax: (828) 689-3333  
[www.townofmarshall.org](http://www.townofmarshall.org)

**TOWN OF MARS HILL, NORTH CAROLINA**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
For the year ended June 30, 2022

**Finding:** 2021-01

**Status:** This finding has been repeated in the current year.