

**TOWN OF MARS HILL, NORTH CAROLINA**

Financial Statements  
and Supplementary Information

Year Ended June 30, 2019

and  
Independent Auditors' Report



**TOWN OF MARS HILL, NORTH CAROLINA**

Financial Report

Year Ended June 30, 2019

Board of Aldermen

John L. Chandler, Mayor

Larry Davis

Stuart Jolley

Nicholas Honeycutt

Robert W. Zink

Administrative and Financial Staff

Nathan Bennett, Town Manager

Robert W. Zink, Finance Officer



## Table of Contents

	<u>Page</u>
<b>Financial Section:</b>	
<b>Independent Auditors' Report</b>	1–3
<b>Management’s Discussion and Analysis</b>	5–13
<b>Basic Financial Statements:</b>	
Government-wide Financial Statements:	
Statement of Net Position	15
Statement of Activities	16
Fund Financial Statements:	
Balance Sheet – Governmental Funds	17
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	17
Statement of Revenues, Expenditures, and Changes in Fund Balances -- Governmental Fund Type	18
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Fund Type to the Statement of Activities	19
Statement of Revenues, Expenditures, and Changes in Fund Balances -- Annual Budget and Actual – General Fund	20
Statement of Fund Net Position – Proprietary Fund	21
Statement of Revenues, Expenses, and Changes in Fund Net Position -- Proprietary Fund	22
Statement of Cash Flows – Proprietary Fund	23
Notes to the Financial Statements	25–54

Table of Contents - continued

	<u>Page</u>
<b>Required Supplementary Financial Data:</b>	
Schedule of the Proportionate Share of the Net Pension Liability (Asset) – Local Government Employees’ Retirement System	55
Schedule of Contributions – Local Government Employees’ Retirement System	56
Schedule of the Proportionate Share of the Net Pension Liability – Firefighters’ and Rescue Squad Workers’ Pension	57
Schedule of Changes in Total Pension Liability – Law Enforcement Officers’ Special Separation Allowance	58
Schedule of Total Pension Liability as a Percentage of Covered Payroll – Law Enforcement Officers’ Special Separation Allowance	59
<b>Individual Fund Statements and Schedules:</b>	
Schedule of Revenues, Expenditures, and Changes in Fund Balance -- Budget and Actual – General Fund	61–67
Schedule of Revenues, Expenditures, and Changes in Fund Balance -- Budget and Actual – Capital Projects Fund	69
Schedule of Revenues and Expenditures -- Budget and Actual: (Non-GAAP) – Water and Sewer Enterprise Fund	71
Schedule of Revenues, Expenditures, and Changes in Fund Balance -- Budget and Actual: (Non-GAAP) – Water and Sewer Improvements – Enterprise Capital Projects Fund	72
<b>Other Schedules:</b>	
Schedule of Ad Valorem Taxes Receivable	73
Analysis of Current Tax Levy	74
<b>Compliance Section:</b>	
Independent Auditors’ Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	75–76

Table of Contents - continued

	<u>Page</u>
Schedule of Findings and Responses	77–78
Corrective Action Plan	79
Summary Schedule of Prior Year Audit Findings	80





## **Independent Auditors' Report**

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Mars Hill, North Carolina, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Town of Mars Hill's basic financial statements as listed in the table of contents.

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

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

### **Auditors' Responsibility**

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

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

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

### **Opinions**

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Mars Hill, North Carolina as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 5 through 13 and the Local Government Employees' Retirement System's Schedule of the Proportionate Share of the Net Pension Liability and Contributions, on pages 55 and 56, respectively, the Firefighters' and Rescue Squad Workers' Pension Fund Schedule of the Proportionate Share of Net Pension Liability on page 57, and the Law Enforcement Officers' Special Separation Allowance Schedules of the Changes in Total Pension Liability and Total Pension Liability as a Percentage of Covered Payroll on pages 58 and 59, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### **Supplementary and Other Information**

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

The individual fund statements, budgetary schedules, and other schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the individual fund 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 December 31, 2019, on our consideration of the Town of Mars Hill, North Carolina's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town of Mars Hill, North Carolina's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Mars Hill, North Carolina's internal control over financial reporting and compliance.

*Johnson Price Sprinkle PA*

Asheville, NC  
December 31, 2019

TOWN OF MARS HILL, NORTH CAROLINA

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**TOWN OF MARS HILL**  
**Mars Hill, North Carolina**

**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, 2019. 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**

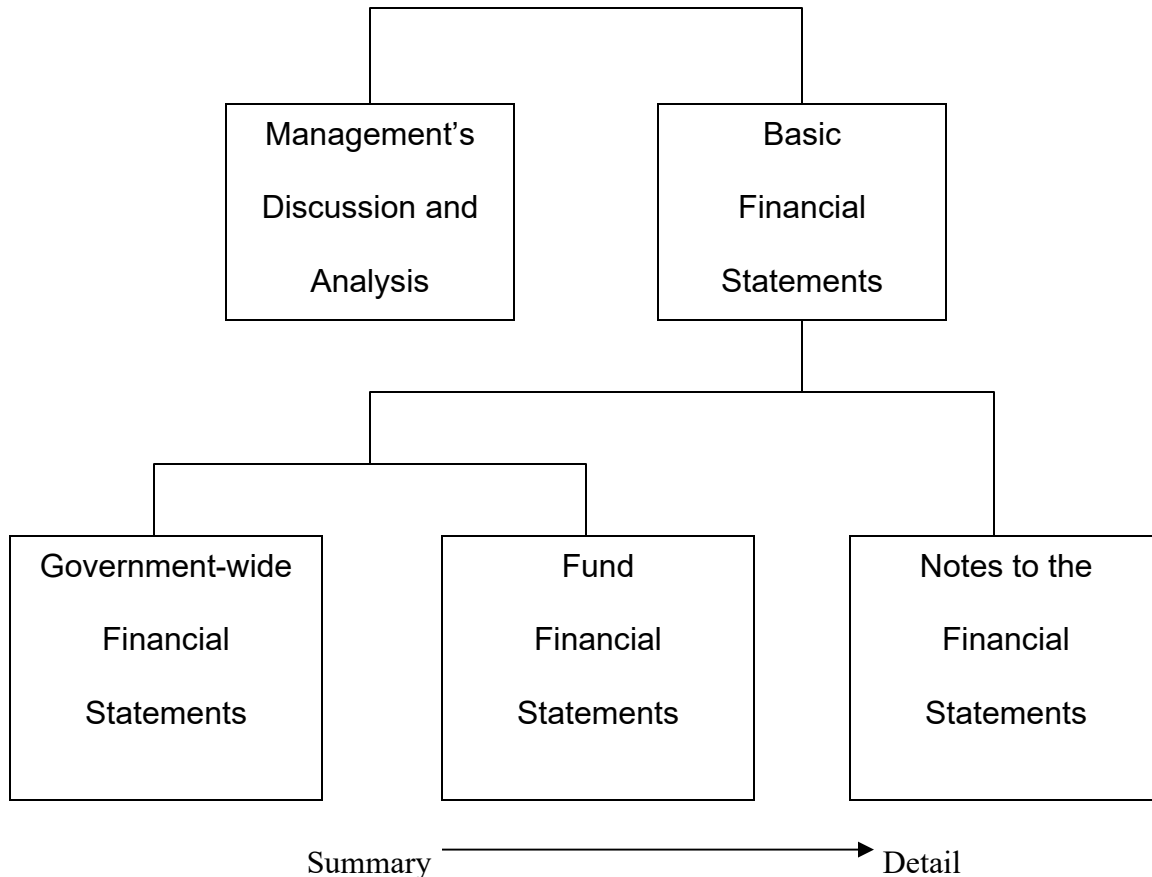
- The assets and deferred outflows of resources of the Town of Mars Hill exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$18,725,315 (net position).
- The government's total net position increased by \$1,740,925, due to the increases in the governmental and enterprise activities net positions.
- As of the close of the current fiscal year, the Town of Mars Hill's governmental funds reported ending fund balances of \$3,168,968, an increase of \$169,972 in comparison with the prior year. Approximately 8.3% of this total amount, or \$262,354, is non-spendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$2,786,614, or 149.6% of total General Fund expenditures for the fiscal year.
- The Town of Mars Hill's total debt increased by \$40,622 during the current fiscal year. The key factor in this increase is due to increases in pension related debt offset by principal retirement of the installment debt.

**Overview of the Financial Statements**

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

## Required Components of Annual Financial Report

Figure 1



### Basic Financial Statements

The first two statements (pages 15 and 16) 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 (pages 17 through 23) 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 statements; and 3) the proprietary fund statements.

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

## Management's Discussion and Analysis

### Town of Mars Hill

#### 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 two categories: 1) governmental activities; and, 2) business-type activities. 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 on pages 15 and 16 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 of Mars Hill's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting* that provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the Town's programs. The relationship between governmental 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

## Management's Discussion and Analysis

### Town of Mars Hill

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. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. Town of Mars Hill uses enterprise funds to account for its water and sewer activity. These funds are the same as those functions shown in the business-type activities in the Statement of Net Position and the Statement of Activities.

**Notes to the Financial Statements** – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 25 of this report.

**Other Information** – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the Town's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 55 of this report.

### Government-wide Financial Analysis

The following comparative data will allow opportunities for comparative analysis.

#### The Town of Mars Hill's Net Position June 30, 2019 and 2018

Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Current and other assets	\$ 3,248,357	\$ 3,080,705	\$ 3,984,975	\$ 3,590,729	\$ 7,233,332	\$ 6,671,434
Capital assets	4,267,498	3,467,501	8,503,512	8,058,869	12,771,010	11,526,370
Deferred outflows of resources	203,231	125,086	62,647	40,545	265,878	165,631
Total assets and deferred outflows of resources	7,719,086	6,673,292	12,551,134	11,690,143	20,270,220	18,363,435
Long-term liabilities outstanding	355,934	252,854	877,506	939,964	1,233,440	1,192,818
Other liabilities	41,828	41,341	229,759	103,555	271,587	144,896
Deferred inflows of resources	37,286	38,359	2,592	2,972	39,878	41,331
Total liabilities and deferred inflows of resources	435,048	332,554	1,109,857	1,046,491	1,544,905	1,379,045
Net position:						
Net investment in capital assets	4,267,498	3,467,501	7,716,655	7,185,213	11,984,153	10,652,714
Restricted	262,354	275,693	-	-	262,354	275,693
Unrestricted	2,754,186	2,597,544	3,724,622	3,458,439	6,478,808	6,055,983
Total net position	\$ 7,284,038	\$ 6,340,738	\$ 11,441,277	\$ 10,643,652	\$ 18,725,315	\$ 16,984,390



## Management's Discussion and Analysis

### Town of Mars Hill

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets and deferred outflows of the Town of Mars Hill exceeded liabilities and deferred inflows by \$18,725,315 as of June 30, 2019.

The Town's net position increased by \$1,740,925 for the fiscal year ended June 30, 2019. However, the largest portion of net position (64.0%) reflects the Town's net investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt still outstanding that was issued to acquire those items. 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 its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Town's net position, \$262,354, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$6,478,807 is unrestricted.

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

- Continued diligence in the collection of property taxes with a collection rate as of year-end of 97.315% and additional efforts for collection of delinquent taxes of all prior years following close of fiscal year.
- Continued low cost of debt due to Town's high bond rating. Number of years of debt reduced due to refinancing at lower interest resulting in ability to pay-off in less number of years.
- New projects in the current fiscal year: Recreational Greenway Project and a Wastewater Treatment Improvements Project.

**Governmental activities.** Governmental activities increased the Town's net position by \$943,300, thereby accounting for 54.18% of the total change in the net position of the Town of Mars Hill. Key elements of this increase are as follows:

- Tax revenues increased slightly due to moderate increase in construction within the Town and the Mars Hill Fire Department.
- Sales Tax and Utilities Franchise Tax revenue exceeded projected amounts.
- Grant revenue received for purchase of land for Recreational Greenway Project.

**Business-type activities:** Business-type activities increased the Town of Mars Hill's net position by \$797,625, accounting for 45.82% of the increase in the government's net position. Key elements of this increase are as follows:

- Amendments to Town's Water Policy allow more incentives for timely collections of utility charges.
- Increase in investment revenue and slight increase in water rates.
- Grant revenue received for Wastewater Treatment project.

Management's Discussion and Analysis  
**Town of Mars Hill**

**Town of Mars Hill – Changes in Net Position  
Years Ended June 30, 2019 and 2018**

**Figure 3**

	Governmental		Business-type		Total	
	Activities		Activities			
	2019	2018	2019	2018	2019	2018
Revenues:						
Program revenues:						
Charges for services	\$ 34,905	\$ 37,641	\$ 1,073,453	\$ 1,060,563	\$ 1,108,358	\$ 1,098,204
Operating grants and contributions	69,934	110,939	-	-	69,934	110,939
Capital grants and contributions	657,326	25,000	625,027	-	1,282,353	25,000
General revenues:						
Property taxes	571,968	555,069	-	-	571,968	555,069
Other taxes	598,126	567,595	-	-	598,126	567,595
Grants and contributions not restricted to specific programs	718,069	712,356	-	-	718,069	712,356
Other	57,754	49,801	53,866	27,221	111,620	77,022
Total revenues	2,708,082	2,058,401	1,752,346	1,087,784	4,460,428	3,146,185
Expenses:						
General government	334,848	310,003	-	-	334,848	310,003
Public safety	950,998	864,873	-	-	950,998	864,873
Transportation	271,451	209,370	-	-	271,451	209,370
Environmental protection	108,615	103,022	-	-	108,615	103,022
Cultural and recreation	98,870	106,842	-	-	98,870	106,842
Interest on long-term debt	-	654	25,576	27,672	25,576	28,326
Water and sewer	-	-	929,145	941,228	929,145	941,228
Total expenses	1,764,782	1,594,764	954,721	968,900	2,719,503	2,563,664
Increase (decrease) in net position	943,300	463,637	797,625	118,884	1,740,925	582,521
Net position, beginning	6,340,738	5,877,101	10,643,652	10,524,768	16,984,390	16,401,869
Net position, ending	\$ 7,284,038	\$ 6,340,738	\$ 11,441,277	\$ 10,643,652	\$ 18,725,315	\$ 16,984,390

**Financial Analysis of the Town of Mars Hill 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 Town of Mars Hill's financing requirements.

## Management's Discussion and Analysis

### Town of Mars Hill

The general fund is the chief operating fund of the Town of Mars Hill. At the end of the current fiscal year, Town of Mars Hill's unassigned fund balance in the General Fund was \$2,786,614 while total fund balance totaled \$3,167,394. The Town currently has an available fund balance of 149.6% of general fund expenditures, while total fund balance represents 170.0% of the same amount.

As of June 30, 2019, the governmental funds of the Town of Mars Hill reported a fund balance of \$3,168,968, a 5.7% increase over last year.

**General Fund Budgetary Highlights:** Amendments were made to the General Fund Budget to allow for the purchase of needed Fire Department Equipment.

**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 \$3,724,622. The total increase in net position for this fund was \$797,625. Other factors concerning the finances of this fund have already been addressed in the discussion of the Town of Mars Hill's business-type activities.

### Capital Assets 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, 2019, totals \$11,984,153 (net of accumulated depreciation). These assets include buildings, roads, land, machinery and equipment, park facilities, water and sewer lines, treatment facilities, and vehicles.

Major capital asset transactions during the year include the following additions (there were no significant demolitions or disposals):

- Purchase of Bailey Mountain land for a recreational project for \$680,752.
- Purchase of office furniture for Town Hall building of \$20,845.
- Purchase of a used fire truck for \$327,006 and two used vehicles for the fire department.
- Purchase of a tractor for the street department for \$23,195.
- Purchase of SCADA equipment of \$31,728 for the Wastewater treatment plant, construction of lines and distribution systems of \$49,948 and construction in progress of \$647,218 for the Wastewater Improvements project.

**Town of Mars Hill**

**Town of Mars Hill's Capital Assets  
June 30, 2019 and 2018**

**Figure 4**

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Land	\$ 811,052	\$ 130,300	\$ 82,273	\$ 82,273	\$ 893,325	\$ 212,573
Construction in progress	-	-	647,218	-	647,218	-
Buildings and systems	1,921,103	1,987,578	496,123	513,227	2,417,226	2,500,805
Furniture and fixtures	20,845	-	-	-	20,845	-
Machinery and equipment	231,464	242,270	98,961	90,159	330,425	332,429
Infrastructure	374,780	430,764	7,178,613	7,371,586	7,553,393	7,802,350
Vehicles and motorized equipment	908,254	676,589	324	1,624	908,578	678,213
<b>Total</b>	<b>\$ 4,267,498</b>	<b>\$ 3,467,501</b>	<b>\$ 8,503,512</b>	<b>\$ 8,058,869</b>	<b>\$ 12,771,010</b>	<b>\$ 11,526,370</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, 2019 the Town of Mars Hill had total bonded debt outstanding of \$0.

**Mars Hill's Outstanding Debt  
General Obligation  
June 30, 2019 and 2018**

**Figure 5**

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Direct placement Installment debt	\$ -	\$ -	\$ 786,857	\$ 873,656	\$ 786,857	\$ 873,656
Pension related debt (LGERS)	259,268	159,607	81,163	53,355	340,431	212,962
Pension related debt (LEO)	57,618	57,227	-	-	57,618	57,227
Compensated absences	39,048	36,020	9,486	12,953	48,534	48,973
<b>Total</b>	<b>\$ 355,934</b>	<b>\$ 252,854</b>	<b>\$ 877,506</b>	<b>\$ 939,964</b>	<b>\$ 1,233,440</b>	<b>\$ 1,192,818</b>

## Management's Discussion and Analysis

### Town of Mars Hill

The Town of Mars Hill's total bonded debt did not change during the past fiscal year. North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for Town of Mars Hill is \$8,951,892.

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.

- Madison County's unemployment rate as of June 30, 2019 was an average of 4% which was in line with the prior year.
- Occupancy rates on office and retail space within the Town have remained stable as most existing spaces are occupied.
- The number of small businesses in the Town has increased slightly with the opening of a new business.
- Developers have initiated construction on two large scale single family housing developments, projecting an addition of at least 130 new homes when fully built out. These developments have been voluntarily annexed into the Town and will provide additional tax base.

### Budget Highlights for the Fiscal Year Ending June 30, 2020

**Governmental Activities:** Projected revenue is increased due to increase in Utilities Franchise and Local Option Sales Taxes. In addition, anticipated tax revenue from the Town and the Fire District are anticipated to exceed prior years because of construction in progress and with at least two new residential housing developments anticipated.

An increase in budgeted expenditures is expected due to an overall increase in operations of all departments including a modest increase in employee compensation.

**Business – type Activities:** Continuation of prior year's plan for a recurring increase of 2.5% in water rates will account for an increase in water and sewer revenue combined with an increase in billed water connections. Water and sewer tap fees anticipated are also increased. Investment income is slightly increased. All this will potentially offset an increase in general operating expenses as well as maintenance/addition of equipment necessary for operations.

### Requests for Information

This report is designed to provide an overview of the Town of Mars Hill'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, Post Office Box 368, Mars Hill, North Carolina, 28754 or telephone (828) 689-2301.

TOWN OF MARS HILL, NORTH CAROLINA

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# TOWN OF MARS HILL, NORTH CAROLINA

## STATEMENT OF NET POSITION

June 30, 2019

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$ 3,049,048	\$ 2,526,181	\$ 5,575,229
Taxes receivable - net	31,676	-	31,676
Accounts receivable - net	149,627	188,582	338,209
Grants receivable	-	275,936	275,936
Due from other governments	602,326	127,700	730,026
Accrued interest receivable	4,956	-	4,956
Inventory	-	69,498	69,498
Internal balances	(700,429)	700,429	-
Restricted cash and cash equivalents	111,153	96,649	207,802
Total current assets	<u>3,248,357</u>	<u>3,984,975</u>	<u>7,233,332</u>
Capital assets			
Land, non-depreciable improvements, and construction in progress	811,052	729,491	1,540,543
Other capital assets, net of depreciation	3,456,446	7,774,021	11,230,467
Total capital assets	<u>4,267,498</u>	<u>8,503,512</u>	<u>12,771,010</u>
<b>TOTAL ASSETS</b>	<u>7,515,855</u>	<u>12,488,487</u>	<u>20,004,342</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pension deferrals	<u>203,231</u>	<u>62,647</u>	<u>265,878</u>
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable and accrued liabilities	41,828	128,643	170,471
Accrued interest payable	-	17,584	17,584
Deferred charges	-	5,592	5,592
Deposits	-	77,940	77,940
Total current liabilities	<u>41,828</u>	<u>229,759</u>	<u>271,587</u>
Long-term liabilities			
Net pension liability	259,268	81,163	340,431
Total pension liability	57,618	-	57,618
Due within one year	39,048	98,417	137,465
Due in more than one year	-	697,926	697,926
Total long-term liabilities	<u>355,934</u>	<u>877,506</u>	<u>1,233,440</u>
<b>TOTAL LIABILITIES</b>	<u>397,762</u>	<u>1,107,265</u>	<u>1,505,027</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Prepaid taxes	929	-	929
Pension deferrals	36,357	2,592	38,949
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<u>37,286</u>	<u>2,592</u>	<u>39,878</u>
Net investment in capital assets	4,267,498	7,716,655	11,984,153
Restricted for:			
Stabilization by State Statute	149,627	-	149,627
Capital Project - Parks and Recreation	1,574	-	1,574
Transportation	111,153	-	111,153
Unrestricted	2,754,186	3,724,622	6,478,808
<b>TOTAL NET POSITION</b>	<u>\$ 7,284,038</u>	<u>\$ 11,441,277</u>	<u>\$ 18,725,315</u>

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

**TOWN OF MARS HILL, NORTH CAROLINA**  
**STATEMENT OF ACTIVITIES**  
Year Ended June 30, 2019

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>Governmental Activities:</b>							
General government	\$ 334,848	\$ -	\$ -	\$ -	\$ (334,848)	\$ -	\$ (334,848)
Public safety	950,998	6,243	12,285	-	(932,470)	-	(932,470)
Transportation	271,451	-	57,649	-	(213,802)	-	(213,802)
Environmental protection	108,615	-	-	-	(108,615)	-	(108,615)
Cultural and recreation	98,870	28,662	-	657,326	587,118	-	587,118
Total governmental activities	<u>1,764,782</u>	<u>34,905</u>	<u>69,934</u>	<u>657,326</u>	<u>(1,002,617)</u>	<u>-</u>	<u>(1,002,617)</u>
<b>Business-type activities:</b>							
Water and sewer	<u>954,721</u>	<u>1,073,453</u>	<u>-</u>	<u>625,027</u>	<u>-</u>	<u>743,759</u>	<u>743,759</u>
Total business-type activities	<u>954,721</u>	<u>1,073,453</u>	<u>-</u>	<u>625,027</u>	<u>-</u>	<u>743,759</u>	<u>743,759</u>
Total government	<u>\$ 2,719,503</u>	<u>\$ 1,108,358</u>	<u>\$ 69,934</u>	<u>\$ 1,282,353</u>	<u>(1,002,617)</u>	<u>743,759</u>	<u>(258,858)</u>
General revenues:							
Taxes:							
Property taxes, levied for general purpose					571,968	-	571,968
Other taxes					598,126	-	598,126
Grants and contributions not restricted to specific programs					718,069	-	718,069
Unrestricted investment earnings					56,120	53,866	109,986
Miscellaneous					<u>1,634</u>	<u>-</u>	<u>1,634</u>
Total general revenues					<u>1,945,917</u>	<u>53,866</u>	<u>1,999,783</u>
Change in net position					943,300	797,625	1,740,925
Net position, beginning					<u>6,340,738</u>	<u>10,643,652</u>	<u>16,984,390</u>
Net position, ending					<u>\$ 7,284,038</u>	<u>\$ 11,441,277</u>	<u>\$ 18,725,315</u>

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



# TOWN OF MARS HILL, NORTH CAROLINA

## BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2019

	Major Funds		Totals Governmental Funds
	General Fund	Bailey Mountain Capital Project Fund	
ASSETS			
Cash and investments	\$ 3,047,474	\$ 1,574	\$ 3,049,048
Restricted cash	111,153	-	111,153
Taxes receivable - net	31,676	-	31,676
Accounts receivable	149,627	-	149,627
Due from other governments	-	602,326	602,326
	<u>-</u>	<u>602,326</u>	<u>602,326</u>
TOTAL ASSETS	\$ <u>3,339,930</u>	\$ <u>603,900</u>	\$ <u>3,943,830</u>
LIABILITIES AND FUND BALANCES			
Accounts payable and accrued liabilities	\$ 41,828	\$ -	\$ 41,828
Due to other funds	98,103	602,326	700,429
	<u>139,931</u>	<u>602,326</u>	<u>742,257</u>
TOTAL LIABILITIES	<u>139,931</u>	<u>602,326</u>	<u>742,257</u>
DEFERRED INFLOWS OF RESOURCES			
Property taxes receivable	31,676	-	31,676
Prepaid taxes	929	-	929
	<u>32,605</u>	<u>-</u>	<u>32,605</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>32,605</u>	<u>-</u>	<u>32,605</u>
FUND BALANCES			
Restricted:			
Stabilization by State Statute	149,627	-	149,627
Streets	111,153	-	111,153
Parks and Recreation	-	1,574	1,574
Assigned:			
Subsequent year's expenditures	120,000	-	120,000
Unassigned	2,786,614	-	2,786,614
	<u>3,167,394</u>	<u>1,574</u>	<u>3,168,968</u>
TOTAL FUND BALANCES	<u>3,167,394</u>	<u>1,574</u>	<u>3,168,968</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ <u>3,339,930</u>	\$ <u>603,900</u>	

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

Capital assets used in governmental activities are not financial resources and therefore not reported in the funds.	4,267,498
Deferred outflows of resources related to pensions are not reported in the funds	203,231
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.	4,956
Earned revenues considered deferred inflows of resources in fund statements	31,676
Some liabilities, including accrued interest are not due and payable in the current period and therefore are not reported in the net position of governmental activities.	(39,048)
Net pension liability	(259,268)
Total pension liability	(57,618)
Pension related deferrals	(36,357)
Net position of governmental activities	<u>\$ 7,284,038</u>

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

**TOWN OF MARS HILL, NORTH CAROLINA**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCES -- GOVERNMENTAL FUND TYPE**

Year Ended June 30, 2019

	<b>Major Funds</b>		<b>Total Governmental Funds</b>
	<b>General Fund</b>	<b>Bailey Mountain Capital Project Fund</b>	
<b>REVENUES</b>			
Ad valorem taxes	\$ 574,917	\$ -	\$ 574,917
Other taxes and licenses	598,126	-	598,126
Unrestricted intergovernmental	718,069	-	718,069
Restricted intergovernmental	57,649	657,326	714,975
Permits and fees	6,243	-	6,243
Sales and services	28,662	-	28,662
Investment earnings	56,120	-	56,120
Miscellaneous	16,836	-	16,836
	<u>2,056,622</u>	<u>657,326</u>	<u>2,713,948</u>
<b>TOTAL REVENUES</b>	<u>2,056,622</u>	<u>657,326</u>	<u>2,713,948</u>
<b>EXPENDITURES</b>			
Current:			
General government	330,475	-	330,475
Public safety	1,133,989	-	1,133,989
Transportation	230,241	-	230,241
Sanitation	105,913	-	105,913
Cultural and recreation	62,606	-	62,606
Capital outlay	-	680,752	680,752
	<u>1,863,224</u>	<u>680,752</u>	<u>2,543,976</u>
<b>TOTAL EXPENDITURES</b>	<u>1,863,224</u>	<u>680,752</u>	<u>2,543,976</u>
Excess (deficiency) of revenues over expenditures	193,398	(23,426)	169,972
Fund balances, beginning of year	<u>2,973,996</u>	<u>25,000</u>	<u>2,998,996</u>
Fund balances, end of year	<u>\$ 3,167,394</u>	<u>\$ 1,574</u>	<u>\$ 3,168,968</u>

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

**TOWN OF MARS HILL, NORTH CAROLINA**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES --**  
**GOVERNMENTAL FUND TYPE TO THE STATEMENT OF ACTIVITIES**  
Year Ended June 30, 2019

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

Net changes in fund balances - total governmental funds	\$	169,972
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.		
Capital outlay expenditures that were capitalized	\$	1,085,084
Depreciation expense for governmental assets	<u>(280,716)</u>	804,368
Gain (loss) on sale of assets		629
Proceeds from sale of assets		(5,000)
Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities		53,539
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		
Change in unavailable revenue for tax revenues		(3,133)
Change in accrued interest on tax revenues		184
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		(3,028)
Pension expense		(73,754)
Pension expense - LEOSA		<u>(477)</u>
Total changes in net position of governmental activities	<u>\$</u>	<u>943,300</u>

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

# TOWN OF MARS HILL, NORTH CAROLINA

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -- ANNUAL BUDGET AND ACTUAL - GENERAL FUND

Year Ended June 30, 2019

	General Fund			Variance with Final Budget Positive (Negative)
	Budget		Actual	
	Original	Final		
REVENUES				
Ad valorem taxes	\$ 527,700	\$ 527,700	\$ 574,917	\$ 47,217
Other taxes and licenses	432,000	432,000	598,126	166,126
Unrestricted intergovernmental	665,000	665,000	718,069	53,069
Restricted intergovernmental	60,000	60,000	57,649	(2,351)
Permits and fees	7,200	7,200	6,243	(957)
Sales and services	29,000	29,000	28,662	(338)
Investment earnings	5,000	5,000	56,120	51,120
Miscellaneous	18,600	18,600	16,836	(1,764)
TOTAL REVENUES	1,744,500	1,744,500	2,056,622	312,122
EXPENDITURES				
General government	346,000	346,000	330,475	15,525
Public safety	853,800	1,178,800	1,133,989	44,811
Transportation	344,700	344,700	230,241	114,459
Sanitation	119,500	119,500	105,913	13,587
Cultural and recreation	101,000	101,000	62,606	38,394
Debt service				
Interest	-	-	-	-
Principal	100,000	100,000	-	100,000
TOTAL EXPENDITURES	1,865,000	2,190,000	1,863,224	326,776
Excess (deficiency) of revenues over expenditures	(120,500)	(445,500)	193,398	638,898
OTHER FINANCING SOURCES (USES)				
Appropriated fund balance	120,500	445,500	-	(445,500)
TOTAL OTHER FINANCING SOURCES (USES)	120,500	445,500	-	(445,500)
Excess (deficiency) of revenues over expenditures and other sources (uses)	-	-	193,398	193,398
Fund balance at beginning of year	-	-	2,973,996	2,973,996
Fund balance at end of year	\$ -	\$ -	\$ 3,167,394	\$ 3,167,394

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

# TOWN OF MARS HILL, NORTH CAROLINA

## STATEMENT OF FUND NET POSITION--

### PROPRIETARY FUND

June 30, 2019

		<b>Major Enterprise Fund</b>
		<b>Water and Sewer Fund</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$	2,526,181
Accounts receivable - billed		188,582
Grants receivable		275,936
Due from other governments		127,700
Inventory		69,498
Due from other funds		700,429
Restricted cash and cash equivalents		96,649
Total current assets		<u>3,984,975</u>
Capital assets:		
Land and construction in progress		729,491
Other capital assets, net of depreciation		7,774,021
Capital assets (net)		<u>8,503,512</u>
Total noncurrent assets		<u>8,503,512</u>
Total assets		<u>12,488,487</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Pension deferrals		<u>62,647</u>
<b>LIABILITIES</b>		
Current liabilities:		
Installment loan payable - current		88,931
Accounts payable and accrued liabilities		128,643
Accrued interest payable		17,584
Customer deposits		77,940
Compensated absences - current		9,486
Deferred charges		5,592
Total current liabilities		<u>328,176</u>
Noncurrent liabilities:		
Other noncurrent liabilities:		
Net pension liability		81,163
Installment loan payable - noncurrent		697,926
Total noncurrent liabilities		<u>779,089</u>
Total liabilities		<u>1,107,265</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Pension deferrals		<u>2,592</u>
<b>NET POSITION</b>		
Net investment in capital assets		7,716,655
Unrestricted		3,724,622
Total net position	\$	<u><u>11,441,277</u></u>

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

# TOWN OF MARS HILL, NORTH CAROLINA

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION -- PROPRIETARY FUND

Year Ended June 30, 2019

	Major Enterprise Fund	
	Water and Sewer Fund	
OPERATING REVENUES		
Charges for services	\$	1,064,494
Other operating revenue		8,959
		<hr/>
Total operating revenues		1,073,453
		<hr/>
OPERATING EXPENSES		
Water administration		173,355
Water operations		471,539
Depreciation		284,251
		<hr/>
Total operating expenses		929,145
		<hr/>
Operating income (loss)		144,308
		<hr/>
NON-OPERATING REVENUES (EXPENSES)		
Interest on investments		53,866
Interest expense		(25,576)
		<hr/>
Total non-operating revenues (expenses)		28,290
		<hr/>
Income (loss) before capital contributions		172,598
		<hr/>
Capital contributions		625,027
		<hr/>
Change in net position		797,625
		<hr/>
Net position, beginning of year		10,643,652
		<hr/>
Net position, end of year	\$	11,441,277

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

# TOWN OF MARS HILL, NORTH CAROLINA

## STATEMENT OF CASH FLOWS

### PROPRIETARY FUND

Year Ended June 30, 2019

Major Enterprise Fund
Water and Sewer Fund

Cash flows from operating activities:	
Cash received from customers	\$ 1,090,273
Cash paid for goods and services	(622,112)
Cash paid to employees	(290,808)
Other operating revenue	8,959
Net cash provided by (used in) operating activities	<u>186,312</u>
Cash flows from noncapital financing activities:	
Increase in due from other funds	<u>(610,933)</u>
Net cash provided by (used in) noncapital financing activities	<u>(610,933)</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(728,894)
Principal paid on finance contracts	(86,799)
Capital contributions	625,027
Interest paid on finance contracts	(26,180)
Net cash provided by (used in) capital and related financing activities	<u>(216,846)</u>
Cash flows from investing activities:	
Interest on investments	53,866
Net cash provided by (used in) investing activities	<u>53,866</u>
Net increase (decrease) in cash and equivalents	(587,601)
Cash and equivalents, beginning of year	<u>3,210,431</u>
Cash and equivalents, end of year	<u>\$ 2,622,830</u>
Reconciliation of operating income (loss)	
to net cash provided by (used in) operating activities:	
Operating income (loss)	\$ 144,308
Adjustments to reconcile operating income (loss)	
to net cash provided by (used in) operating activities	
Depreciation	284,251
Change in assets and liabilities:	
(Increase) decrease in:	
Accounts receivable	19,419
Grants receivable	(275,936)
Due from other governments	(120,020)
Deferred outflows of resources - pensions	(22,102)
Inventory	5,623
Increase (decrease) in:	
Accounts payable and accrued liabilities	120,448
Customer deposits	3,445
Deferred charges	2,915
Compensated absences	(3,467)
Net pension liability	27,808
Deferred inflows of resources - pensions	(380)
Total adjustments	<u>42,004</u>
Net cash provided by (used in) operating activities	<u>\$ 186,312</u>

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

TOWN OF MARS HILL, NORTH CAROLINA

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## TOWN OF MARS HILL, NORTH CAROLINA

### Notes to the Financial Statements

June 30, 2019

#### Note 1 – Significant Accounting Policies

The accounting policies of the Town of Mars Hill, North Carolina 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 council.

##### B. Basis of Presentation

*Government-wide Statements:* The statement of net position and the statement of activities display information about the primary government. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the 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. 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.

**TOWN OF MARS HILL, NORTH CAROLINA**  
Notes to the Financial Statements – continued  
June 30, 2019

**Note 1 – Significant Accounting Policies – continued**

The Town reports the following major governmental funds:

**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.

**Bailey Mountain Capital Projects Fund.** This fund is used to account for the Town’s recreational project to extend the current greenway to develop numerous outdoor activities such as hiking, trails and bike trails, with a goal of increasing tourism for the Town of Mars Hill and Madison County, North Carolina.

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.

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. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the 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 taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

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

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

**TOWN OF MARS HILL, NORTH CAROLINA**  
Notes to the Financial Statements – continued  
June 30, 2019

**Note 1 – Significant Accounting Policies – continued**

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

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

Sales taxes and certain intergovernmental revenues, such as the utilities franchise tax, collected and held by the State at year-end on behalf of the 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. All taxes, including those dedicated for specific purposes are reported as general revenues rather than program revenues. Under the terms of grant agreements, the Town funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there is both restricted and unrestricted net position available to finance the program. It is the Town's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

**D. Budgetary Data**

The 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. Project ordinances are adopted for the Bailey Mountain Capital Project Fund and the Enterprise Capital Projects Fund. The enterprise fund project is consolidated with its respective operating fund for reporting purposes. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the object level for the multi-year 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

**TOWN OF MARS HILL, NORTH CAROLINA**  
Notes to the Financial Statements – continued  
June 30, 2019

**Note 1 – Significant Accounting Policies – continued**

time until the annual ordinance can be adopted.

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

1. Deposits and Investments

All deposits of the 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), an SEC-registered (2a-7) money market mutual fund. The Town's investments are reported at fair value. The NCCMT Government Portfolio, a SEC-registered (2a-7) external investment pool, is measured at amortized cost, which is the NCCMT's share price.

2. Cash and Cash Equivalents

The 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 Cash and Cash Equivalents

Powell Bill funds are classified as restricted cash and cash equivalents because they can be expended only for the purposes of maintaining, repairing, constructing or reconstructing or widening of local streets per G.S. 136-41.1 through 136-41.4. Customer deposits held by the Town before any services are supplied are restricted to the service for which the deposit was collected. Funds related to the water and sewer capital projects fund are classified as restricted cash and cash equivalents because they can be expended only for the purpose of the water and sewer improvements capital projects.

**TOWN OF MARS HILL, NORTH CAROLINA**  
Notes to the Financial Statements – continued  
June 30, 2019

**Note 1 – Significant Accounting Policies – continued**

Town of Mars Hill Restricted Cash and Cash Equivalents

Governmental Activities:

General Fund	Streets	\$111,153
<u>Total Governmental Activities</u>		<u>\$111,153</u>

Business-type Activities:

Water and Sewer Fund	Customer deposits	\$77,940
	Capital project	18,709
<u>Total Business-type Activities</u>		<u>\$96,649</u>

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, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, interest does not accrue until the following January 6. These taxes are based on the assessed values of January 1, 2018.

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 materials and supplies held for consumption. The cost of these inventories is recorded as an expense as the inventories are consumed.

**TOWN OF MARS HILL, NORTH CAROLINA**  
Notes to the Financial Statements – continued  
June 30, 2019

**Note 1 – Significant Accounting Policies – continued**

**7. Capital Assets**

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. Minimum capitalization costs are as follows: land, \$5,000; buildings, improvements, substations, lines, and other plant and distribution systems, \$5,000; infrastructure, \$5,000; furniture and equipment, \$5,000; vehicles, \$5,000; and computer software and computer equipment, \$5,000. Donated capital assets received prior to June 15, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 15, 2015 are recorded at acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical cost. General infrastructure assets acquired prior to July 1, 2003 consist of the road network and water and sewer system assets that were acquired or that received substantial improvements subsequent to July 1, 1980, and are reported at estimated historical cost using deflated replacement cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

Asset Class	Estimated Useful Lives
Infrastructure	30–50
Buildings	30–50
Improvements	15–25
Vehicles and motorized equipment	3–10
Furniture and equipment	5–10
Computer 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. The Town has one item that meets this criterion, pension deferrals for the pension plan in the 2019 fiscal year. In addition to liabilities, the Statement of Financial Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Town has several items that meet the criteria for this category – property taxes receivable, prepaid taxes, and pension deferrals.

**TOWN OF MARS HILL, NORTH CAROLINA**  
Notes to the Financial Statements – continued  
June 30, 2019

**Note 1 – Significant Accounting Policies – continued**

9. Long-Term Obligations

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

In fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether 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 twenty 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 does not have any obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

11. Net Position/Fund Balances

Net Position

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

**TOWN OF MARS HILL, NORTH CAROLINA**  
Notes to the Financial Statements – continued  
June 30, 2019

**Note 1 – Significant Accounting Policies – continued**

**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.

**Restricted for Parks and Recreation** – portion of fund balance that is restricted by revenue source for purchase of recreational land.



## **TOWN OF MARS HILL, NORTH CAROLINA**

Notes to the Financial Statements – continued

June 30, 2019

### **Note 1 – Significant Accounting Policies – continued**

Committed Fund Balance – portion of fund balance that can only be used for specific purposes imposed by majority vote by quorum of 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 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 – the portion of fund balance that has not been restricted, committed, or assigned to specific purposes or other funds.

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: debt proceeds, federal funds, State funds, local non-town funds, and town funds. For purposes of fund balance classification, expenditures are to be spent from restricted fund balance first, followed in order by committed fund balance, assigned fund balance and lastly unassigned fund balance. The Finance Officer has the authority to deviate from this if it is in the best interest of the Town.

#### **12. Pensions**

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.

For purposes of measuring the net pension expense, information about the fiduciary net position of the Firefighters' and Rescue Squad Workers' Pension Fund (FRSWPF) and additions to/deductions from FRSWPF's fiduciary net position have been determined on the same basis as they are reported by FRSWPF. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**TOWN OF MARS HILL, NORTH CAROLINA**  
Notes to the Financial Statements – continued  
June 30, 2019

**Note 2 – Stewardship, Compliance and Accountability**

A. Significant Violations of Finance-Related Legal and Contractual Provisions

1. Excess of Expenditures over Appropriations

For the fiscal year ended June 30, 2019, the expenditures made in the Town's General Fund exceeded the authorized appropriations made by the governing board for public buildings by \$14,031. The expenditures made in the Town's Bailey Mountain Capital Project Fund exceeded the authorized appropriations made by the governing board for land purchase by \$5,752.

2. Deficit in Fund Balance

For the fiscal year ended June 30, 2019, there is a deficit fund balance in the water and sewer improvements capital projects fund of \$(15,177). The Town will fund the deficit in the subsequent year as required by NC G.S. 159-13(b)(2), which states that the full amount of any deficit in each fund shall be appropriated.

**Note 3 – Detail Notes on All Funds and Account Groups**

A. Assets

**Deposits**

All of the Town's deposits are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the Town's agent in the Town's name. 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 agent in the Town's name. 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 amounts 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.

## **TOWN OF MARS HILL, NORTH CAROLINA**

Notes to the Financial Statements – continued

June 30, 2019

### **Note 3 – Detail Notes on All Funds and Account Groups – continued**

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 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.

As of June 30, 2019, the Town's deposits had a carrying amount of \$427,782 and a bank balance of \$527,149. Of the bank balance, \$250,000 was fully covered by federal depository insurance and \$277,149 was covered by collateral held under the pooling method. The Town's petty cash fund totaled \$200.

### **Investments**

As of June 30, 2019, the Town of Mars Hill had \$5,355,049 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.

### **Receivables – Allowance for Doubtful Accounts**

The amounts presented in the Balance Sheet and the Statement of Net Position are net of the following allowances for doubtful accounts:

<u>Fund</u>	<u>June 30, 2019</u>
General Fund – taxes receivable	\$ <u>11,176</u>

**TOWN OF MARS HILL, NORTH CAROLINA**  
Notes to the Financial Statements – continued  
June 30, 2019

**Note 3 – Detail Notes on All Funds and Account Groups – continued**

**Capital Assets**

**Primary Government**

Capital asset activity for the Town of Mars Hill for the year ended June 30, 2019, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
<b>Governmental activities:</b>				
<b>Capital assets not being depreciated:</b>				
Land	\$ 130,300	\$ 680,752	\$ -	\$ 811,052
Total capital assets not being depreciated	<u>130,300</u>	<u>680,752</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	724,669	23,195	-	747,864
Vehicles and motorized equipment	1,630,722	360,292	47,686	1,943,328
Infrastructure	<u>3,565,976</u>	<u>-</u>	<u>-</u>	<u>3,565,976</u>
Total capital assets being depreciated	<u>8,784,435</u>	<u>404,332</u>	<u>47,686</u>	<u>9,141,081</u>
<b>Less accumulated depreciation for:</b>				
Buildings and improvements	875,490	66,475	-	941,965
Equipment	482,399	34,001	-	516,400
Vehicles and motorized equipment	954,133	124,256	43,315	1,035,074
Infrastructure	<u>3,135,212</u>	<u>55,984</u>	<u>-</u>	<u>3,191,196</u>
Total accumulated depreciation	<u>5,447,234</u>	<u>280,716</u>	<u>43,315</u>	<u>5,684,635</u>
Total capital assets being depreciated, net	<u>3,337,201</u>			<u>3,456,446</u>
<b>Governmental activity capital assets, net</b>	<u>\$ 3,467,501</u>			<u>\$ 4,267,498</u>

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

General government	\$ 23,726
Public safety	158,947
Transportation	61,779
Cultural and recreation	<u>36,264</u>
Total depreciation expense	<u>\$ 280,716</u>

# TOWN OF MARS HILL, NORTH CAROLINA

## Notes to the Financial Statements – continued

June 30, 2019

### Note 3 – Detail Notes on All Funds and Account Groups – continued

	Beginning Balances	Increases	Decreases	Ending Balances
<b>Business-type Activities:</b>				
<i>Water and Sewer Fund</i>				
<b>Capital assets not being depreciated:</b>				
Land	\$ 82,273	\$ -	\$ -	\$ 82,273
Construction in progress	-	647,218	-	647,218
Total capital assets not being depreciated	<u>82,273</u>	<u>647,218</u>	<u>-</u>	<u>729,491</u>
<b>Capital assets being depreciated:</b>				
Buildings	671,860	-	-	671,860
Plant and distribution systems	14,131,997	49,949	-	14,181,946
Vehicles and motorized equipment	36,277	-	-	36,277
Equipment	455,377	31,729	38,144	448,962
Total capital assets being depreciated	<u>15,295,511</u>	<u>81,678</u>	<u>38,144</u>	<u>15,339,045</u>
<b>Less accumulated depreciation for:</b>				
Buildings	158,633	17,104	-	175,737
Plant and distribution systems	6,760,411	242,922	-	7,003,333
Vehicles and motorized equipment	34,653	1,300	-	35,953
Equipment	365,218	22,927	38,144	350,001
Total accumulated depreciation	<u>7,318,915</u>	<u>284,253</u>	<u>38,144</u>	<u>7,565,024</u>
Total capital assets being depreciated, net	<u>7,976,596</u>			<u>7,774,021</u>
<b>Business-type activities capital assets, net</b>	<u>\$ 8,058,869</u>			<u>\$ 8,503,512</u>

## B. Liabilities

### Pension Plan Obligations

#### 1. Local Governmental Employees' Retirement System

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

**TOWN OF MARS HILL, NORTH CAROLINA**  
Notes to the Financial Statements – continued  
June 30, 2019

**Note 3 – Detail Notes on All Funds and Account Groups – continued**

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

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

*Contributions.* Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. The Town's 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's contractually required contribution rate, for the year ended June 30, 2019, was 8.5% of compensation for law enforcement officers and 7.82% for general employees and firefighters, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Town were \$70,298 for the year ended June 30, 2019.

*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.

**TOWN OF MARS HILL, NORTH CAROLINA**  
Notes to the Financial Statements – continued  
June 30, 2019

**Note 3 – Detail Notes on All Funds and Account Groups – continued**

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

As of June 30, 2019, the Town reported a liability of \$340,431 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2017. The total pension liability was then rolled forward to the measurement date of June 30, 2018 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. As of June 30, 2018, the Town's proportion was 0.01435%, which was an increase of 0.00041% from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the Town recognized pension expense of \$95,838. As of June 30, 2019, 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	\$ 52,520	\$ 1,762
Changes of assumptions	90,337	-
Net difference between projected and actual earnings on pension plan investments	46,731	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	2,879	9,110
Town contributions subsequent to the measurement date	70,298	-
Total	\$ 262,765	\$ 10,872

\$70,298 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 ending June 30, 2020. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

**Year ending June 30:**

2020	\$ 90,742		
2021	56,760		
2022	8,156		
2023	25,937		
2024	-		
Thereafter	-		
	\$ 181,595		

**TOWN OF MARS HILL, NORTH CAROLINA**  
Notes to the Financial Statements – continued  
June 30, 2019

**Note 3 – Detail Notes on All Funds and Account Groups – continued**

*Actuarial Assumptions.* The total pension liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

The actuarial assumptions used in the December 31, 2017 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

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

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2018 are summarized in the following table:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
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	<u>6.0%</u>	4.0%
Total	<u>100%</u>	



## TOWN OF MARS HILL, NORTH CAROLINA

Notes to the Financial Statements – continued

June 30, 2019

### Note 3 – Detail Notes on All Funds and Account Groups – continued

The information above is based on 30 year expectations developed with the consulting actuary for the 2017 asset, liability, and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.00%. All rates of return and inflation are annualized.

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

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

*Sensitivity of the 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 7.00 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 (6.00 percent) or one percentage point higher (8.00 percent) than the current rate:

	<b>1% Decrease (6.00%)</b>	<b>Discount Rate (7.00%)</b>	<b>1% Increase (8.00%)</b>
Town's proportionate share of the net pension liability (asset)	\$ 817,745	\$ 340,431	\$ (58,420)

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

**TOWN OF MARS HILL, NORTH CAROLINA**  
Notes to the Financial Statements – continued  
June 30, 2019

**Note 3 – Detail Notes on All Funds and Account Groups – continued**

2. Law Enforcement Officers Special Separation Allowance

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 law enforcement officers of the Town are covered by the Separation Allowance. As of December 31, 2017, the Separation Allowance's membership consisted of:

Retirees receiving benefits	0
Terminated plan members entitled to but not yet receiving benefits	0
Active plan members	<u>4</u>
Total	<u>4</u>

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 and refunds 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.

**TOWN OF MARS HILL, NORTH CAROLINA**  
Notes to the Financial Statements – continued  
June 30, 2019

**Note 3 – Detail Notes on All Funds and Account Groups – continued**

Actuarial Assumptions

The entry age normal actuarial cost method was used in the December 31, 2017 valuation. The total pension liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 percent
Salary increases	3.50 to 7.35 percent, including inflation and productivity factor
Discount rate	3.64 percent

The discount rate is based on the yield of the S & P Municipal Bond 20 Year High Grade Rate Index as of December 31, 2017.

Mortality rates are based on the RP-2014 Mortality tables with adjustments for mortality improvements based on Scale AA.

Contributions

The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the benefit payments on a pay as you go basis through appropriations made in the General Fund operating budget. The Town's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. There were no contributions made by employees. Administration costs of the Separation Allowance are financed through investment earnings. The Town made no payments during the reporting period as there were no benefits that came due.

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

As of June 30, 2019, the Town reported a total pension liability of \$57,618. The total pension liability was measured as of December 31, 2018 based on a December 31, 2017 actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2018 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2019, the Town recognized pension expense of \$477.

**TOWN OF MARS HILL, NORTH CAROLINA**  
Notes to the Financial Statements – continued  
June 30, 2019

**Note 3 – Detail Notes on All Funds and Account Groups – continued**

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ -	\$ 24,976
Changes of assumptions	3,109	3,101
Town benefit payments and plan administrative expense made subsequent to the measurement date	-	-
Total	<u>\$ 3,109</u>	<u>\$ 28,077</u>

The Town reported no deferred outflows of resources related to pensions resulting from benefit payments made and administrative expenses incurred subsequent to the measurement date that would be recognized as a decrease of the total pension liability in the year ending June 30, 2020. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

2020	\$ (5,415)
2021	(5,415)
2022	(5,415)
2023	(5,250)
2024	(3,048)
Thereafter	(425)
Total	<u>\$ (24,968)</u>

*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 3.64 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 (2.64percent) or 1-percentage-point higher (4.64 percent) than the current rate:

	<b>1% Decrease (2.64%)</b>	<b>Discount Rate (3.64%)</b>	<b>1% Increase (4.64%)</b>
Total pension liability	\$ 63,373	\$ 57,618	\$ 52,372

**TOWN OF MARS HILL, NORTH CAROLINA**  
Notes to the Financial Statements – continued  
June 30, 2019

**Note 3 – Detail Notes on All Funds and Account Groups – continued**

<b>Schedule of Changes in Total Pension Liability</b>			
<b>Law Enforcement Officers' Special Separation Allowance</b>			
	<b>2019</b>		
Beginning balance	\$ 57,227		
Service cost	4,084		
Interest on the total pension liability	1,808		
Changes of benefit terms	-		
Differences between expected and actual experience in the measurement of the total pension liability	(2,804)		
Changes of assumptions or other inputs	(2,697)		
Benefit payments	-		
Other changes	-		
Ending balance of the total pension liability	<u>\$ 57,618</u>		

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

The actuarial assumptions used in the December 31, 2017 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

**TOWN OF MARS HILL, NORTH CAROLINA**  
Notes to the Financial Statements – continued  
June 30, 2019

**Note 3 – Detail Notes on All Funds and Account Groups – continued**

**Total Expense, Liabilities, and Deferred Outflows and Inflows of Resources of 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	\$ 95,838	\$ 477	\$ 96,315
Pension Liability	\$ 340,431	\$ 57,618	\$ 398,049
Proportionate share of the net pension liability	0.01435%	n/a	

**Deferred of Outflows of Resources**

Differences between expected and actual experience	\$ 52,520	\$ -	\$ 52,520
Changes of assumptions	90,337	3,109	93,446
Net difference between projected and actual earnings on plan investments	46,735	-	46,735
Changes in proportion and differences between contributions and proportionate share of contributions	2,879	-	2,879
Contributions/benefit payments and administrative costs paid subsequent to the measurement date	70,298	-	70,298

**Deferred of Inflows of Resources**

Differences between expected and actual experience	\$ 1,762	\$ 24,976	\$ 26,738
Change of assumptions	-	3,101	3,101
Net difference between projected and actual earnings on plan investments	-	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	9,110	-	9,110

**3. Supplemental Retirement Income Plan for Law Enforcement Officers**

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

## TOWN OF MARS HILL, NORTH CAROLINA

### Notes to the Financial Statements – continued

June 30, 2019

#### Note 3 – Detail Notes on All Funds and Account Groups – continued

*Funding Policy.* Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2019 were \$12,266, which consisted of \$10,388 from the Town and \$1,878 from the law enforcement officers.

#### 4. Firefighters' and Rescue Squad Workers' Pension Fund

*Plan Description.* The State of North Carolina contributes, on behalf of the Town of Mars Hill, to the Firefighters' and Rescue Squad Workers' Pension Fund (FRSWPF), a cost-sharing multiple-employer defined benefit pension plan with a special funding situation administered by the State of North Carolina. The fund provides pension benefits for eligible fire and rescue squad workers that have elected to become members of the fund. Article 86 of G.S. Chapter 58 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 Firefighters' and Rescue Squad Workers' Pension Fund is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for the Firefighter's and Rescue Squad Workers' Pension Fund. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, by calling (919) 981-5454, or at [www.osc.nc.gov](http://www.osc.nc.gov).

*Benefits Provided.* FRSWPF provides retirement and survivor benefits. The present retirement benefit is \$170 per month. Plan members are eligible to receive the monthly benefit at age 55 with 20 years of creditable service as a firefighter or rescue squad worker, and have terminated duties as a firefighter or rescue squad worker. Eligible beneficiaries of members who die before beginning to receive the benefit will receive the amount paid by the member and contributions paid on the member's behalf into the plan. Eligible beneficiaries of members who die after beginning to receive benefits will be paid the amount the member contributed minus the benefits collected.

*Contributions.* Plan members are required to contribute \$10 per month to the plan. The State, a non-employer contributor, funds the plan through appropriations. The Town does not contribute to the plan. Contribution provisions are established by General Statute 58-86 and may be amended only by the North Carolina General Assembly. For the fiscal year ended June 30, 2017, the State contributed \$17,952,000 to the plan. The Town of Mars Hill's proportionate share of the State's contribution is \$1,880.

*Refunds of Contributions* – Plan members who are no longer eligible or choose not to participate in the plan may file an application for a refund of their contributions. Refunds include the member's contributions and contributions paid by others on the member's behalf. No interest will be paid on the amount of the refund. The acceptance of a refund payment cancels the individual's right to employer contributions or any other benefit provided by FRSWPF.

**TOWN OF MARS HILL, NORTH CAROLINA**  
Notes to the Financial Statements – continued  
June 30, 2019

**Note 3 – Detail Notes on All Funds and Account Groups – continued**

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

As of June 30, 2019, the Town reported no liability for its proportionate share of the net pension liability, as the State provides 100% pension support to the Town through its appropriations to the FRSWPF. The total portion of the net pension liability that was associated with the Town and supported by the State was \$5,114. The net pension liability was measured as of June 30, 2018. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2017. The total pension liability was then rolled forward to the measurement date of June 30, 2018 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 contributions to the pension plan relative to the projected contributions of all participating employers. As the Town is not projected to make any future contributions to the plan, its proportionate share as of June 30, 2019 and as of June 30, 2018 was 0%.

For the year ended June 30, 2019, the Town recognized pension expense of \$1,454 and revenue of \$1,454 for support provided by the State. As of June 30, 2019, the Town reported no deferred outflows of resources and no deferred inflows of resources related to pensions.

*Actuarial Assumptions.* The total pension liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation		3.0 percent
Salary increases		Not applicable
Investment rate of return		7.00 percent, net of pension plan investment expense, including inflation

For more information regarding actuarial assumptions, including mortality tables, the actuarial experience study, the consideration of future ad hoc COLA amounts, the development of the projected long-term investment returns, and the asset allocation policy, refer to the discussion of actuarial assumptions for the LGERS plan in Section 1 of this note.

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

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



## **TOWN OF MARS HILL, NORTH CAROLINA**

Notes to the Financial Statements – continued

June 30, 2019

### **Note 3 – Detail Notes on All Funds and Account Groups – continued**

#### **5. 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.

#### **Deferred Outflows and Inflows of Resources**

Deferred outflows of resources is comprised of the following:

	<u>Amount</u>
Contributions to pension plan in current fiscal year	\$ 70,298
Differences between expected and actual experience	52,520
Changes of assumptions	93,446
Net difference between projected and actual experience	46,735
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>2,879</u>
Total	<u>\$ 265,878</u>

**TOWN OF MARS HILL, NORTH CAROLINA**  
Notes to the Financial Statements – continued  
June 30, 2019

**Note 3 – Detail Notes on All Funds and Account Groups – continued**

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

	Statement of Net Position	General Fund Balance Sheet
Prepaid taxes (General Fund)	\$ 929	\$ 929
Taxes receivable, (General Fund)	-	31,676
Changes in assumptions	3,101	-
Differences between expected and actual experience	26,738	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	9,110	-
Total	<u>\$ 39,878</u>	<u>\$ 32,605</u>

**Risk Management**

The Town of Mars Hill is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Town has property, general liability, auto liability coverage of \$1 million per occurrence, property coverage up to the total insurance values of the property, workers' compensation and employee health coverages. Claims have not exceeded coverage in any of the past three fiscal years. The Town does not carry flood insurance.

Under North Carolina G.S. 159-29, the Town finance officer and tax collector are bonded in an amount equal to or greater than \$50,000. The Town's remaining employees that have access to funds are bonded under a blanket bond.

**Installment Purchases**

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 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, 2019 was \$542,182.

**TOWN OF MARS HILL, NORTH CAROLINA**  
Notes to the Financial Statements – continued  
June 30, 2019

**Note 3 – Detail Notes on All Funds and Account Groups – continued**

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 purchase as of June 30, 2019 was \$244,675.

Annual debt service payments of the direct placement installment purchases as of June 30, 2019 are as follows:

Year Ending June 30	Business-type Activities		Total	
	Principal	Interest	Principal	Interest
2020	\$ 88,931	\$ 24,049	\$ 88,931	\$ 24,049
2021	91,115	21,864	91,115	21,864
2022	93,355	19,624	93,355	19,624
2023	10,229	17,329	10,229	17,329
2024	10,574	16,984	10,574	16,984
2025-2029	58,470	79,320	58,470	79,320
2030-2034	69,026	68,764	69,026	68,764
2035-2039	81,488	56,302	81,488	56,302
2040-2044	96,199	41,591	96,199	41,591
2045-2049	113,566	24,224	113,566	24,224
2050-2054	73,904	4,143	73,904	4,143
Thereafter	-	-	-	-
<b>Total</b>	<b>\$ 786,857</b>	<b>\$ 374,194</b>	<b>\$ 786,857</b>	<b>\$ 374,194</b>

As of June 30, 2019, the Town of Mars Hill had a legal debt margin of \$8,951,892.

**TOWN OF MARS HILL, NORTH CAROLINA**  
Notes to the Financial Statements – continued  
June 30, 2019

**Note 3 – Detail Notes on All Funds and Account Groups – continued**

**Long-term Liabilities**

During the year ended June 30, 2019, the following changes occurred in long-term liabilities:

	Balance			Balance	Current
	July 1, 2018	Additions	Retirements	June 30, 2019	Portion of Balances
Governmental Activities:					
By type of debt:					
Net pension liability (LGERS)	\$ 159,607	\$ 99,661	\$ -	\$ 259,268	\$ -
Total pension liability (LEO)	57,227	391	-	57,618	-
Compensated absences	36,020	38,460	35,432	39,048	39,048
Total	<u>\$ 252,854</u>	<u>\$ 138,512</u>	<u>\$ 35,432</u>	<u>\$ 355,934</u>	<u>\$ 39,048</u>
By purpose:					
General government	\$ 165,087	\$ 106,987	\$ 9,721	\$ 262,353	\$ 3,088
Public safety	81,173	25,602	22,077	84,698	27,077
Environmental protection	2,632	1,875	1,282	3,225	3,225
Transportation	3,962	4,048	2,352	5,658	5,658
Total	<u>\$ 252,854</u>	<u>\$ 138,512</u>	<u>\$ 35,432</u>	<u>\$ 355,934</u>	<u>\$ 39,048</u>
Business-type activities:					
Direct placement installment purchases	\$ 873,656	\$ -	\$ 86,799	\$ 786,857	\$ 88,931
Net pension liability (LGERS)	53,355	27,808	-	81,163	-
Compensated absences	12,953	17,973	21,440	9,486	9,486
Total	<u>\$ 939,964</u>	<u>\$ 45,781</u>	<u>\$ 108,239</u>	<u>\$ 877,506</u>	<u>\$ 98,417</u>

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

**Interfund Balances and Activity**

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 as of June 30, 2019. The intention is to repay the remaining balance of the loan within the 2019-2020 fiscal year.

The Bailey Mountain Capital Project fund borrowed \$602,326 from the Water and Sewer Fund to finance the purchase of land. This loan is to be repaid from grant proceeds in the 2019-2020 fiscal year.

## **TOWN OF MARS HILL, NORTH CAROLINA**

Notes to the Financial Statements – continued

June 30, 2019

### **Note 3 – Detail Notes on All Funds and Account Groups – continued**

#### **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	\$ 3,167,394
Less:	
Stabilization by State Statute	149,627
Streets–Powell Bill	111,153
Appropriated fund balance in 2019-2020 budget	<u>120,000</u>
Remaining fund balance	<u>\$ 2,786,614</u>

#### **Powell Bill Revenues and Expenditures**

Powell Bill Fund revenues and expenditures, which are included in the General Fund, for the year ended June 30, 2019 were as follows:

Revenues:	
State Treasurer	\$ 57,649
Interest earned	<u>1,615</u>
Total revenues	<u>59,264</u>
Expenditures:	
Traffic control	1,130
Snow and ice removal	1,674
Curb and gutter	144
Maintenance	<u>46,343</u>
Total expenditures	<u>49,291</u>
Excess of revenues over expenditures	<u>\$ 9,973</u>

#### **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 \$6,064 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, 2019. Under State law the local board of trustees for the Fund receives an amount each year, which the board may use at its own discretion for eligible firemen or their departments.

**TOWN OF MARS HILL, NORTH CAROLINA**  
Notes to the Financial Statements – continued  
June 30, 2019

**Note 4 – Related Organization**

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 5 – Joint Venture**

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 Firemen's Relief Fund. The State Insurance Commissioner appoints one additional member to the local board of trustees. The Firemen's Relief Fund is funded by a portion of the fire and lightning insurance premiums which insurers remit to the State. The State passes these monies to the local board of the Firemen's Relief Fund. The funds are used to assist firefighters in various ways. The Town obtains an ongoing financial benefit from the Fund for the on-behalf of payments for fringe benefits made to members of the Town's fire department by the board of trustees. During the fiscal year ended June 30, 2019, the Town reported revenues of \$9,153 and expenditures of \$6,064 for payments made through the Firemen'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, 2019. The Firemen's Relief Fund does not issue separate audited financial statements. Instead, the local board of trustees files an annual financial report with the State Firemen's Association. This report can be obtained from the Association at 323 West Jones Street, Suite 401, Raleigh, North Carolina 27603.

**Note 6 – 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 7 – Subsequent Events**

In preparing these financial statements, the Town of Mars Hill has evaluated events and transactions for potential recognition or disclosure through December 31, 2019, the date the financial statements were available to be issued, and noted no additional subsequent events to disclose.

## Required Supplementary Financial Data

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

- Schedule of Proportionate Share of Net Pension Liability (Asset) for Local Government Employees' Retirement System
- Schedule of Contributions to Local Government Employees' Retirement System
- Schedule of Proportionate Share of Net Pension Liability for Firefighters' and Rescue Squad Workers' Pension Plan
- Schedule of Changes in Total Pension Liability for the Law Enforcement Officers' Special Separation Allowance
- Schedule of Total Pension Liability as a Percentage of Covered Payroll for the Law Enforcement Officers' Special Separation Allowance

**TOWN OF MARS HILL, NORTH CAROLINA**  
Schedule of Proportionate Share of Net Pension Liability (Asset)  
Required Supplementary Information  
Last Six Fiscal Years\*

Local Government Employees' Retirement System

	2019	2018	2017	2016	2015	2014
Mars Hill's proportion of the net pension liability (asset)(%)	0.01435%	0.01394%	0.01382%	0.01284%	-0.01110%	0.01160%
Mars Hill's proportion of the net pension liability (asset)(\$)	\$ 340,431	\$ 212,962	\$ 293,307	\$ 57,625	\$ (65,462)	\$ 139,825
Mars Hill's covered-employee payroll as of the prior fiscal year	\$ 793,352	\$ 755,266	\$ 762,844	\$ 714,116	\$ 694,667	\$ 694,349
Mars Hill's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	42.91%	28.20%	38.45%	8.07%	-9.42%	20.14%
Plan fiduciary net position as a percentage of the total pension liability**	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.

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



**TOWN OF MARS HILL, NORTH CAROLINA**  
Schedule of Contributions  
Required Supplementary Information  
Last Six Fiscal Years

Local Government Employees' Retirement System

	2019	2018	2017	2016	2015	2014
Contractually required contribution	\$ 70,298	\$ 61,382	\$ 56,688	\$ 52,346	\$ 51,939	\$ 49,484
Contributions in relation to the contractually required contribution	\$ 70,298	\$ 61,382	\$ 56,688	\$ 52,346	\$ 51,939	\$ 49,484
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Mars Hill's covered-employee payroll	\$ 851,622	\$ 793,352	\$ 755,266	\$ 762,844	\$ 714,116	\$ 694,667
Contributions as a percentage of covered-employee payroll	8.25%	7.74%	7.51%	6.86%	7.27%	7.12%

**TOWN OF MARS HILL, NORTH CAROLINA**  
Proportionate Share of Net Pension Liability  
Required Supplementary Information  
Last Five Fiscal Years\*

Firefighters' and Rescue Squad Workers' Pension

	2019	2018	2017	2016	2015
Mars Hill's proportionate share of the net pension liability (%)	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%
Mars Hill's proportionate share of the net pension liability (\$)	\$ -	\$ -	\$ -	\$ -	\$ -
State's proportionate share of the net pension liability associated with Town of Mars Hill	5,114	4,572	2,547	3,372	3,245
Total	<u>\$ 5,114</u>	<u>\$ 4,572</u>	<u>\$ 2,547</u>	<u>\$ 3,372</u>	<u>\$ 3,245</u>
Mars Hill's covered-employee payroll	\$ 202,763	\$ 198,756	\$ 124,465	\$ 183,786	\$ 130,952
Mars Hill's proportionate share of the net pension liability as a percentage of its covered-employee payroll	2.52%	2.30%	2.05%	1.83%	2.48%
Plan fiduciary net position as a percentage of the total pension liability	89.69%	89.35%	84.94%	91.40%	93.42%

\* 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 Changes in Total Pension Liability  
Law Enforcement Officers' Special Separation Allowance  
Last Three Fiscal Years

	2019		2018		2017
Beginning balance	\$ 57,227	\$	78,410	\$	72,105
Service cost	4,084		3,930		5,288
Interest on the total pension liability	1,808		3,027		2,574
Changes of benefit terms	-		-		-
Differences between expected and actual experience in the measurement of the total pension liability	(2,804)		(32,627)		-
Changes of assumptions or other inputs	(2,697)		4,487		(1,557)
Benefit payments	-		-		-
Other changes	-		-		-
Ending balance of the total pension liability	\$ <u>57,618</u>	\$	<u>57,227</u>	\$	<u>78,410</u>

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

**TOWN OF MARS HILL, NORTH CAROLINA**  
Schedule of Total Pension Liability as a Percentage of Covered Payroll  
Law Enforcement Officers' Special Separation Allowance  
Last Three Fiscal Years

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total pension liability	\$ 57,618	\$ 57,227	\$ 78,410
Covered payroll	179,351	195,610	253,023
Total pension liability as a percentage of covered payroll	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.

TOWN OF MARS HILL, NORTH CAROLINA

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## **General Fund**

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

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# TOWN OF MARS HILL, NORTH CAROLINA

## General Fund

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

Year Ended June 30, 2019

	2019		Variance
	Budget	Actual	Favorable (Unfavorable)
<b>REVENUES</b>			
Ad valorem taxes			
Current year	\$ 520,000	\$ 556,808	\$ 36,808
Prior years	5,500	15,570	10,070
Tax penalties and interest	2,200	2,539	339
Total Ad valorem taxes	527,700	574,917	47,217
Other taxes and licenses			
Privilege licenses	-	6,435	6,435
Payments in lieu of taxes	7,000	11,455	4,455
Excise tax	8,000	9,162	1,162
Local option sales tax	417,000	571,074	154,074
Total Other taxes and licenses	432,000	598,126	166,126
Unrestricted intergovernmental			
Utilities franchise tax	130,000	142,899	12,899
Tax refunds	15,000	8,961	(6,039)
Special fire district tax	520,000	566,209	46,209
Total Unrestricted intergovernmental	665,000	718,069	53,069
Restricted intergovernmental			
Powell Bill allocation	60,000	57,649	(2,351)
Total Restricted intergovernmental	60,000	57,649	(2,351)
Permits and fees			
Court costs, fees, etc.	100	248	148
Parking revenues	7,000	5,385	(1,615)
Fire code inspections	-	100	100
Building permits (zoning)	100	510	410
Total Permits and fees	7,200	6,243	(957)

# TOWN OF MARS HILL, NORTH CAROLINA

## General Fund

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

Year Ended June 30, 2019

	2019		Variance
	Budget	Actual	Favorable (Unfavorable)
Sales and services			
Recreation revenue	\$ 26,000	\$ 27,162	\$ 1,162
Rent and concessions	3,000	1,500	(1,500)
Total Sales and services	<u>29,000</u>	<u>28,662</u>	<u>(338)</u>
Investment earnings	<u>5,000</u>	<u>56,120</u>	<u>51,120</u>
Other			
Miscellaneous	11,500	6,005	(5,495)
Police donations	100	4,072	3,972
Fire department revenues	<u>7,000</u>	<u>6,759</u>	<u>(241)</u>
Total Other	<u>18,600</u>	<u>16,836</u>	<u>(1,764)</u>
TOTAL REVENUES	<u>1,744,500</u>	<u>2,056,622</u>	<u>312,122</u>
EXPENDITURES			
General government			
Governing body			
Board honorarium		16,000	
Professional services		35,322	
Dues and subscriptions		3,938	
Insurance and bonds		3,773	
Miscellaneous		<u>5,174</u>	
Total Governing body	<u>68,000</u>	<u>64,207</u>	<u>3,793</u>
Administrative			
Salaries and wages		144,750	
FICA tax expense		10,361	
Group insurance		14,108	
Retirement expense		10,271	
Telephone and postage		<u>5,664</u>	



# TOWN OF MARS HILL, NORTH CAROLINA

## General Fund

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

Year Ended June 30, 2019

	2019		Variance
	Budget	Actual	Favorable (Unfavorable)
Administrative - continued:			
Maintenance - equipment	\$	\$ 1,922	\$
Maintenance - auto		1,439	
Contract labor		10,352	
Supplies and materials		3,670	
Dues and subscriptions		1,025	
Insurance and bonds		11,249	
Miscellaneous		5,264	
Capital outlay		2,000	
Total Administrative	244,500	222,075	22,425
Tax Collections			
Telephone and postage		404	
Contracted services		(742)	
Total Tax Collections	3,000	(338)	3,338
Public Buildings			
Utilities		5,113	
Maintenance - building/grounds		15,350	
Supplies and materials		2,231	
Insurance and bonds		2,992	
Capital outlay		18,845	
Total Public Buildings	30,500	44,531	(14,031)
Total General government	346,000	330,475	15,525

# TOWN OF MARS HILL, NORTH CAROLINA

## General Fund

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

Year Ended June 30, 2019

	2019		Variance
	Budget	Actual	Favorable (Unfavorable)
Public safety			
Police Department			
Salaries and wages	\$	\$ 218,707	\$
FICA tax expense		16,377	
Group insurance		33,899	
Retirement expense		18,564	
Retirement - supplemental		10,388	
Telephone and postage		8,043	
Utilities		326	
Travel		651	
Contract labor		234	
Maintenance - auto		4,295	
Automotive supplies		18,335	
Supplies and materials		5,005	
Training and physicals		734	
Uniforms		813	
Maintenance - equipment		4,954	
Dues and subscriptions		231	
Insurance and bonds		12,649	
Miscellaneous		632	
Capital outlay - equipment		33,286	
Total Police Department	395,300	388,123	7,177
Fire Department			
Salaries and wages		210,327	
FICA tax expense		15,925	
Group insurance		33,743	
Retirement expense		16,730	
Telephone and postage		2,099	
Utilities		6,411	

# TOWN OF MARS HILL, NORTH CAROLINA

## General Fund

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

Year Ended June 30, 2019

	2019		
	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Fire Department - continued:			
Maintenance - building/grounds	\$	\$ 3,687	\$
Maintenance - equipment		18,120	
Maintenance - auto		35,764	
Pension fund		490	
Supplies and materials		18,705	
Training		667	
Uniforms		1,216	
Fire prevention		135	
Contracted labor		8,074	
Dues and subscriptions		3,325	
Insurance and bonds		36,996	
Christmas dinner		2,934	
Travel		1,046	
Miscellaneous		2,367	
Capital outlay - equipment		327,006	
Noncapital equipment		99	
	<u>783,500</u>	<u>745,866</u>	<u>37,634</u>
Total Fire Department			
	<u>1,178,800</u>	<u>1,133,989</u>	<u>44,811</u>
Total Public Safety			
Transportation			
Streets and highways			
Salaries and wages		67,705	
Professional services		6,272	
FICA tax expense		5,181	
Group insurance		13,519	
Retirement expense		5,370	
Utilities		19,519	
Maintenance - equipment		530	
Maintenance - auto		3,258	
Automotive supplies		2,319	
Supplies and materials		4,108	
Uniforms		825	
Contracted labor		18,854	
Insurance and bonds		5,537	
Miscellaneous		830	
Capital outlay		26,195	
Telephone and postage		298	
Christmas lights and parade		630	
	<u>199,700</u>	<u>180,950</u>	<u>18,750</u>
Total Streets and Highways			

# TOWN OF MARS HILL, NORTH CAROLINA

General Fund

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

Year Ended June 30, 2019

	2019		Variance
	Budget	Actual	Favorable (Unfavorable)
Powell Bill			
Supplies and materials	\$	\$ 437	\$
Maintenance - equipment		674	
Contracted labor		48,180	
Total Powell Bill	145,000	49,291	95,709
Total Transportation	344,700	230,241	114,459
Sanitation			
Salaries and wages		71,421	
FICA tax expense		5,501	
Group insurance		6,732	
Retirement expense		2,603	
Utilities		700	
Maintenance - auto		2,285	
Maintenance - equipment		135	
Automotive supplies		6,398	
Contract labor		1,357	
Uniforms		713	
Insurance and bonds		7,384	
Miscellaneous		684	
Total Sanitation	119,500	105,913	13,587
Cultural and recreation			
Recreation			
Salaries and wages		22,111	
FICA tax expense		1,828	
Telephone and postage		618	
Utilities		4,770	
Maintenance - building and grounds		4,306	
Maintenance - equipment		7	
Supplies and materials		5,420	
Contract labor		1,265	
Insurance and bonds		3,321	
Miscellaneous		1,301	
Total Recreation	80,000	44,947	35,053

# TOWN OF MARS HILL, NORTH CAROLINA

## General Fund

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

Year Ended June 30, 2019

	2019		Variance
	Budget	Actual	Favorable (Unfavorable)
Library			
Telephone and postage	\$	\$ 914	\$
Utilities		6,012	
Supplies and materials		195	
Insurance and bonds		1,495	
Maintenance - building and grounds		9,043	
Total Library	21,000	17,659	3,341
Total Cultural and recreation	101,000	62,606	38,394
Debt service			
Principal and interest	100,000	-	100,000
Total Debt service	100,000	-	100,000
TOTAL EXPENDITURES	2,190,000	1,863,224	326,776
Excess (deficiency) of revenues over expenditures	(445,500)	193,398	638,898
OTHER FINANCING SOURCES (USES)			
Appropriated fund balance	445,500	-	(445,500)
TOTAL OTHER FINANCING SOURCES (USES)	445,500	-	(445,500)
Excess of revenues over expenditures and other sources (uses)	\$ -	193,398	\$ 193,398
Fund balance at beginning of year		2,973,996	
Fund balance at end of year		\$ 3,167,394	

TOWN OF MARS HILL, NORTH CAROLINA

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# Capital Projects Fund

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Capital Project Funds are used to account for the construction of particular projects.

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**Bailey Mountain Capital Projects Fund** - This fund is used to account for the Town's recreational project to extend the current greenway to develop numerous outdoor activities such as hiking, trails, and bike trails, with a goal of increasing tourism for the Town of Mars Hill and Madison County, NC.

# TOWN OF MARS HILL, NORTH CAROLINA

## CAPITAL PROJECTS FUND BAILEY MOUNTAIN PROJECT SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -- BUDGET AND ACTUAL Year Ended June 30, 2019

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Current Year</u>	<u>Total to Date</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues					
Restricted intergovernmental					
Federal grants	\$ 250,000	\$ -	\$ 250,000	\$ 250,000	\$ -
State grants	352,326	-	352,326	352,326	-
Local funds	106,074	25,000	55,000	80,000	(26,074)
	<u>708,400</u>	<u>25,000</u>	<u>657,326</u>	<u>682,326</u>	<u>(26,074)</u>
Expenditures					
Capital outlay					
Land purchase	675,000	-	680,752	680,752	(5,752)
Administration	33,400	-	-	-	33,400
	<u>708,400</u>	<u>-</u>	<u>680,752</u>	<u>680,752</u>	<u>27,648</u>
Revenues over (under) expenditures	<u>-</u>	<u>25,000</u>	<u>(23,426)</u>	<u>1,574</u>	<u>1,574</u>
Excess (deficiency) of revenues over expenditures and other sources (uses)	\$ <u>-</u>	\$ <u>25,000</u>	<u>(23,426)</u>	\$ <u>1,574</u>	\$ <u>1,574</u>
Fund balance, beginning			<u>25,000</u>		
Fund balance, ending			\$ <u><u>1,574</u></u>		



TOWN OF MARS HILL, NORTH CAROLINA

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# Enterprise Funds

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Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or where the governing body has decided that periodic determination of net income is appropriate for accountability purposes.

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

**Water and Sewer Capital Projects Fund** - This fund is used to account for improvements to the Town's water and sewer operations.

**TOWN OF MARS HILL, NORTH CAROLINA**

Water and Sewer Enterprise Fund  
SCHEDULE OF REVENUES AND EXPENDITURES  
BUDGET AND ACTUAL (NON-GAAP)

Year Ended June 30, 2019

	2019		Variance Favorable (Unfavorable)
	Budget	Actual	
<b>REVENUES</b>			
Operating revenues:			
Charges for services	\$ 960,000	\$ 1,064,494	\$ 104,494
Other	28,000	8,959	(19,041)
Total operating revenues	<u>988,000</u>	<u>1,073,453</u>	<u>85,453</u>
Nonoperating revenues:			
Investment earnings	4,000	53,848	49,848
	<u>4,000</u>	<u>53,848</u>	<u>49,848</u>
Total revenues	<u>992,000</u>	<u>1,127,301</u>	<u>135,301</u>
<b>EXPENDITURES</b>			
Operating expenses			
Administration			
Salaries and benefits		54,462	
Professional services		38,554	
Insurance		33,942	
Supplies and materials		22,883	
Operating expenses		23,440	
Total administration	<u>190,800</u>	<u>173,281</u>	<u>17,519</u>
Treatment and distribution			
Salaries and benefits		238,205	
Utilities		77,146	
Maintenance		17,294	
Supplies and materials		86,590	
Miscellaneous		22,293	
Capital outlay		119,096	
Total treatment and distribution	<u>713,100</u>	<u>560,624</u>	<u>152,476</u>
Total operating expenses	<u>903,900</u>	<u>733,905</u>	<u>169,995</u>
Debt service			
Interest	26,180	26,180	-
Principal retirement	86,920	86,799	121
Total debt service	<u>113,100</u>	<u>112,979</u>	<u>121</u>
Total expenditures	<u>1,017,000</u>	<u>846,884</u>	<u>170,116</u>
Revenues over (under) expenditures	(25,000)	280,417	305,417
Other financing sources (uses)			
Appropriated fund balance	25,000	-	25,000
Total other financing sources (uses)	<u>25,000</u>	<u>-</u>	<u>25,000</u>
Revenues and other sources over expenditures and other uses	<u>\$ -</u>	<u>280,417</u>	<u>\$ 280,417</u>
Reconciliation of modified accrual basis to full accrual basis			
Excess of revenues and other sources over expenditures and other uses		280,417	
Reconciling items:			
Debt principal		86,799	
Contributed capital		625,027	
Capital project interest income		18	
Capital outlay		90,870	
Decrease in accrued interest payable		604	
Decrease in compensated absences		3,467	
Increase in net pension liability		(27,808)	
Increase in deferred outflow of resources		22,102	
Decrease in deferred inflows of resources		380	
Depreciation expense		<u>(284,251)</u>	
Change in net position		<u>\$ 797,625</u>	

**TOWN OF MARS HILL, NORTH CAROLINA**  
**ENTERPRISE FUND CAPITAL PROJECTS**  
**Water and Sewer Improvements Projects**  
**Schedule of Revenues, Expenditures and**  
**Changes in Fund Balance - Budget and Actual (Non-GAAP)**  
**Year Ended June 30, 2019**

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Current Year</u>	<u>Total to Date</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues					
Restricted intergovernmental					
Federal Grants	\$ 390,120	\$ -	\$ 251,592	\$ 251,592	\$ (138,528)
State Grants	487,650	-	373,436	373,436	(114,214)
Local Funds	97,530	-	-	-	(97,530)
Interest	-	-	18	18	18
	<u>975,300</u>	<u>-</u>	<u>625,046</u>	<u>625,046</u>	<u>(350,254)</u>
Expenditures					
Capital outlay					
Design, Administration	151,700	-	124,461	124,461	27,239
Construction	748,700	-	522,757	522,757	225,943
Miscellaneous	74,900	-	-	-	74,900
	<u>975,300</u>	<u>-</u>	<u>647,218</u>	<u>647,218</u>	<u>328,082</u>
Revenues over (under) expenditures	\$ <u>-</u>	\$ <u>-</u>	(22,172)	\$ <u>(22,172)</u>	\$ <u>(22,172)</u>
Fund balance, beginning			<u>6,995</u>		
Fund balance, ending			<u>\$ (15,177)</u>		

**TOWN OF MARS HILL, NORTH CAROLINA**  
Schedule of Ad Valorem Taxes Receivable  
June 30, 2019

<u>Fiscal Year</u>	<u>July 1, 2018</u>	<u>Additions and Adjustments</u>	<u>Collections and Credits</u>	<u>June 30, 2019</u>
2018-2019	\$ -	\$ 572,151	\$ 556,788	\$ 15,363
2017-2018	20,354	-	15,002	5,352
2016-2017	6,683	-	568	6,115
2015-2016	2,140	-	-	2,140
2014-2015	2,706	-	-	2,706
2013-2014	2,926	-	10	2,916
2012-2013	3,377	(65)	7	3,305
2011-2012	2,413	-	3	2,410
2010-2011	1,495	-	-	1,495
2009-2010	1,050	-	-	1,050
2008-2009	1,086	-	1,086	-
	<u>\$ 44,230</u>	<u>\$ 572,086</u>	<u>\$ 573,464</u>	42,852
Less allowance for uncollectible taxes				<u>11,176</u>
Ad Valorem taxes receivable - net				<u>\$ 31,676</u>
Reconcilement with revenues:				
Taxes - Ad Valorem, General Fund				\$ 574,917
Amounts written off				<u>1,086</u>
				576,003
Less interest collected				<u>2,539</u>
Total collections and credits				<u>\$ 573,464</u>

**TOWN OF MARS HILL, NORTH CAROLINA**  
**Analysis of Current Tax Levy**  
**Year Ended June 30, 2019**

	<u>Property Valuation</u>	<u>Total DMV Valuation</u>	<u>Total Property Valuation</u>
Tax Levy			
Real	\$ 101,384,070	\$ -	\$ 101,384,070
Personal	10,179,783	10,991,228	21,171,011
	<u>111,563,853</u>	<u>10,991,228</u>	<u>122,555,081</u>
Exemptions and other adjustments	(1,075,827)	-	(1,075,827)
Discoveries	255,640	-	255,640
Releases			
Real	<u>(534)</u>	<u>-</u>	<u>(534)</u>
Total	<u>\$ 110,743,132</u>	<u>\$ 10,991,228</u>	<u>\$ 121,734,360</u>
Rate	0.0047	0.0047	0.0047
Taxes levied	\$ 520,493	\$ 51,658	\$ 572,151
Less uncollected tax at June 30, 2019	<u>15,363</u>	<u>-</u>	<u>15,363</u>
Current year's taxes collected	<u>\$ 505,130</u>	<u>\$ 51,658</u>	<u>\$ 556,788</u>
Percent of current year levy collected	<u>97.048%</u>	<u>100.000%</u>	<u>97.315%</u>

## Compliance Section







**Independent Auditors' 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**

To the Honorable Mayor  
and 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 financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Mars Hill, North Carolina as of June 30, 2019, and the related notes to the financial statements, which collectively comprise the Town of Mars Hill, North Carolina's basic financial statements, and have issued our report thereon dated December 31, 2019.

**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 are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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 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.

Johnson Price Sprinkle PA

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as item 2019-001, that we consider to be a material weakness.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the 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*.

### **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 Town of Mars Hill, North Carolina'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.

*Johnson Price Sprinkle PA*

Asheville, NC  
December 31, 2019

## Section I. Summary of Auditors' Results

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

Internal control over financial reporting:

- Material weakness(es) identified?   X   yes        no
- Significant deficiency(s)        yes   X   none reported

Noncompliance material to financial statements noted?

\_\_\_\_\_yes                        X  no

Town of Mars Hill, North Carolina  
Schedule of Findings and Responses – continued  
For the Year Ended June 30, 2019

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**Section II – Financial Statement Findings**

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**MATERIAL WEAKNESS**

**2019 – 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.

Condition: There is a lack of segregation of duties among Town personnel. Presently, a single individual can receive cash, post transactions to the general ledger, and prepare cash deposits.

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

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

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

Views of responsible officials and planned corrective actions: The Town agrees with this finding and will adhere to the correction action plan on page 79 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*

## MATERIAL WEAKNESS

2019 – 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 use to compensate for lack of separation. The governing board will become more involved in providing some of these controls.

Proposed Completion Date: The Board will implement the above procedure immediately

Town of Mars Hill, North Carolina  
Schedule of Prior Year Audit Findings  
For the Year Ended June 30, 2019

**Finding:** No prior year findings noted.