



CITY OF SALUDA, NORTH CAROLINA

Financial Statements and
Supplementary Information

Year Ended June 30, 2023

CITY OF SALUDA, NORTH CAROLINA

Board of Commissioner Members

Tangie Morgan, Mayor
Stanley Walker, Mayor Pro Tem
Paul Marion
Mark Oxtoby
Melanie Talbot

Administrative and Financial Staff

Steven Orr, City Manager
Julie Osteen, Finance Officer
Pam Waters, City Clerk

Chief of Police

Clay Price

Public Works Supervisor

Kevin Queen

CITY OF SALUDA, NORTH CAROLINA

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FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

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

Report on the Audit of Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Saluda (the City), North Carolina, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Saluda, North Carolina, as of June 30, 2023, and the respective changes in financial position and cash flows, where appropriate, thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Responsibilities of Management for the Audit of 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; and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Accounting Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Governmental Auditing Standards*, we

- exercised professional judgement and maintained professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City of Saluda's internal control. Accordingly, no such opinion is expressed.

To the Honorable Mayor
and Members of the City Council
City of Saluda, North Carolina
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- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Saluda's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 5 through 14, the Local Government Employees' Retirement System's Schedules of the Proportionate Share of Net Pension Liability and Contributions, on pages 52 and 53, respectively, and the Law Enforcement Officers' Special Separation Allowance Schedules of Changes in Total Pension Liability and Total Pension Liability as a Percentage of Covered Payroll on pages 54 and 55, respectively, be presented to supplement the basic financial statements. Such information is the responsibility of management, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the 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 consist 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.

To the Honorable Mayor
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Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the City of Saluda, 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. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This 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 November 8, 2023, on our consideration of the City of Saluda's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of City of Saluda'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 City of Saluda's internal control over financial reporting and compliance.

CARTER, P.C.

Asheville, North Carolina
November 8, 2023

CITY OF SALUDA, NORTH CAROLINA

Management's Discussion and Analysis

As management of the City of Saluda (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2023. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the City's financial statements, which follow this narrative.

Financial Highlights

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$6,687,699 (*net position*).
- The government's total net position increased by \$220,976, primarily due to increases in general fund revenues and tighter budgetary controls during the year.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$2,034,063 with a net increase in fund balance of \$358,076. Approximately 18.3% of ending fund balances, or \$372,254, is restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$1,443,130 or 90% of total general fund expenditures for the fiscal year.
- The City's long-term liabilities increased by \$158,975 (6.3%) during the current fiscal year. The key factor in this increase was actuarial increases in pension liabilities.

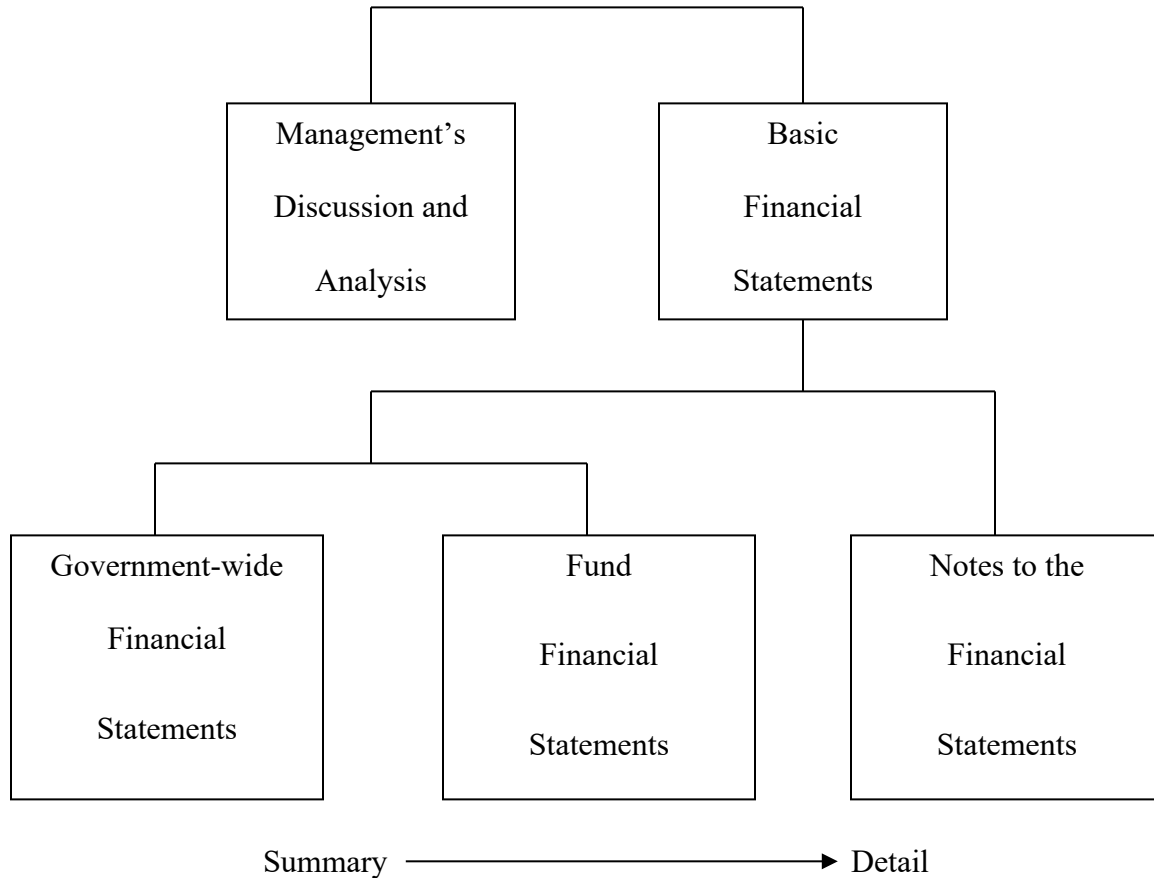
Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (see Figure 1). The basic financial statements present two different views of the City through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the City of Saluda.

CITY OF SALUDA, NORTH CAROLINA

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

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

The next statements (Exhibits 3 through 8) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the City'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 for major governmental funds; and 3) the proprietary fund statements.

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

CITY OF SALUDA, NORTH CAROLINA

Government-Wide Financial Statements

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

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

The government-wide statements are divided into three categories: 1) governmental activities; 2) business-type activities; and 3) component units. The governmental activities include most of the City's basic services such as public safety, streets, parks and recreation, and general administration. Property taxes and State and federal grant funds finance most of these activities. The business-type activities are those that the City charges customers to provide. These include the water and sewer services offered by the City. The final category is the component unit. Although legally separate from the City, the Saluda District D Tourism Development Authority (Authority) is important to the City. The City exercises control over the Authority by appointing its members.

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

Fund Financial Statements

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

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

CITY OF SALUDA, NORTH CAROLINA

The City adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the City, the management of the City, and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the City to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the City complied with the budget ordinance and whether the City succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the board; 2) the final budget as amended by the board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges.

Proprietary Funds - The City has one kind of proprietary fund. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses an enterprise fund to account for its water and sewer activity. The fund is the same as those functions shown in the business-type activities in the Statement of Net Position and the Statement of Activities.

Notes to the Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 26 of this report.

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

Interdependence with Other Entities - The City depends on financial resources flowing from, or associated with, both the federal government and the State of North Carolina. Because of this dependency, the City is subject to changes in specific flows of intergovernmental revenues based on modifications to federal and State laws and federal and State appropriations. It is also subject to changes in investment earnings and asset values associated with U.S. Treasury Securities because of actions by foreign governments and other holders of publicly held U.S. Treasury Securities.

CITY OF SALUDA, NORTH CAROLINA

Government-Wide Financial Analysis

City of Saluda's Net Position Figure 2

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
Current and other assets	\$2,105,920	\$1,742,452	\$ 697,983	\$ 951,787	\$2,803,903	\$2,694,239
Capital assets	1,811,843	1,663,131	4,785,851	4,803,078	6,597,694	6,466,209
Deferred outflows of resources	<u>181,428</u>	<u>145,557</u>	<u>76,420</u>	<u>63,505</u>	<u>257,848</u>	<u>209,062</u>
Total assets and deferred outflows of resources	<u>4,099,191</u>	<u>3,551,140</u>	<u>5,560,254</u>	<u>5,818,370</u>	<u>9,659,445</u>	<u>9,369,510</u>
Long-term liabilities outstanding	565,123	417,259	2,202,742	2,191,631	2,767,865	2,608,890
Other liabilities	45,533	48,805	101,814	41,821	147,347	90,626
Deferred inflows of resources	<u>42,533</u>	<u>144,268</u>	<u>14,001</u>	<u>59,003</u>	<u>56,534</u>	<u>203,271</u>
Total liabilities and deferred inflows of resources	<u>653,189</u>	<u>610,332</u>	<u>2,318,557</u>	<u>2,292,455</u>	<u>2,971,746</u>	<u>2,902,787</u>
Net position:						
Net investment in capital assets	1,532,848	1,359,699	2,697,996	2,657,727	4,230,844	4,017,426
Restricted	372,254	178,836			372,254	178,836
Unrestricted	<u>1,540,900</u>	<u>1,402,273</u>	<u>543,701</u>	<u>868,188</u>	<u>2,084,601</u>	<u>2,270,461</u>
Total net position	<u>\$3,446,002</u>	<u>\$2,940,808</u>	<u>\$3,241,697</u>	<u>\$3,525,915</u>	<u>\$6,687,699</u>	<u>\$6,466,723</u>

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets and deferred outflows of the City exceeded liabilities and deferred inflows by \$6,687,699 as of June 30, 2023.

Other liabilities increased by \$56,721 from the previous year. The main factor causing the increase was payroll related accruals.

Long-term liabilities which include notes, compensated absences, and postemployment obligations of the primary government increased by \$158,975. The main cause of the increase was the City's net pension liability for the Local Government Employees' Retirement System.

The City's net position increased by \$220,976 for the fiscal year ended June 30, 2023. By far, the largest portion reflects the City's net investment in capital assets (e.g. land, buildings, infrastructure, machinery, and equipment). The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's net investment in capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities.

An additional portion of the City's net position, \$372,254, represents resources that are subject to external restrictions on how they may be used.

CITY OF SALUDA, NORTH CAROLINA

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

- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 98.99%.
- Increased tax revenues of approximately \$23,000 due to the growth of the City and increased property valuations.
- Detailed monthly review of transactions and budget comparisons by the City Council.

City of Saluda's Changes in Net Position
Figure 3

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
Revenues:						
Program revenues:						
Charges for services	\$ 144,212	\$ 147,742	\$ 872,477	\$ 958,999	\$1,016,689	\$1,106,741
Operating grants and contributions	362,622	45,706	50,591	188,891	413,213	234,597
General revenues:						
Property taxes	980,531	957,425			980,531	957,425
Licenses	3,705	3,285			3,705	3,285
Other taxes	372,323	346,278			372,323	346,278
Unrestricted investment earnings	79,288	3,397		4	79,288	3,401
Other	22,080	35,428	11,965	70,129	34,045	105,557
Total revenues	<u>1,964,761</u>	<u>1,539,261</u>	<u>935,033</u>	<u>1,218,023</u>	<u>2,899,794</u>	<u>2,757,284</u>
Expenses:						
General government	457,947	419,307			457,947	419,307
Public safety	558,036	475,385			558,036	475,385
Transportation	186,249	74,658			186,249	74,658
Environmental protection	135,418	127,922			135,418	127,922
Cultural and recreation	111,534	86,595			111,534	86,595
Interest on long-term debt	10,383	11,233			10,383	11,233
Water and sewer			1,219,251	967,795	1,219,251	967,795
Total expenses	<u>1,459,567</u>	<u>1,195,100</u>	<u>1,219,251</u>	<u>967,795</u>	<u>2,678,818</u>	<u>2,162,895</u>
Change in net position before transfers	505,194	344,161	(284,218)	250,228	220,976	594,389
Transfers		20,000		(20,000)		
Change in net position	505,194	364,161	(284,218)	230,228	220,976	594,389
Net position, beginning	<u>2,940,808</u>	<u>2,576,647</u>	<u>3,525,915</u>	<u>3,295,687</u>	<u>\$6,466,723</u>	<u>5,872,334</u>
Net position, June 30	<u>\$3,446,002</u>	<u>\$2,940,808</u>	<u>\$3,241,697</u>	<u>\$3,525,915</u>	<u>\$6,687,699</u>	<u>\$6,466,723</u>

CITY OF SALUDA, NORTH CAROLINA

Governmental activities. Governmental activities increased the City's net position by \$505,194, accounting for 248.9% of the total growth in the net position of the City. The increase in net position was the result of increased revenue generation as well as continued effort to control costs and manage expenditures. During the current year, City management continued to reduce non-essential programs to a minimum and implemented cost saving strategies across City departments. Certain nonrecurring expenses were either postponed or renegotiated to maintain a healthy net position. The \$264,496 (22.1% over the prior year) increase in total expenses was largely attributable to salary increases provided to employees and required repairs and maintenance during the current fiscal year.

Management believes healthy investment in the City will result in additional revenues, adding to the City's net position by investing in capital assets.

Increased efforts to maximize tax collections also contributed to the favorable net position. Though many of the City's residents were hit hard by the recession, tax revenue remained steady. City management acknowledges that 2023 was a successful year and plans on improving upon these approaches as a long-term strategy to realize continued fiscal health. Key elements of this stability are continued diligence in tax collections and monitoring expenditures.

Business-type activities. Business-type activities decreased the City's net position by \$284,218, accounting for negative 128.7% of the total growth in the government's net position. A key element of this decrease was the use of American Rescue Plan funds received in the prior year that were used to repair and replace damaged water and sewer lines within the city.

Financial Analysis of City's Funds

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

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

The general fund is the chief operating fund of the City. At the end of the current fiscal year, the City's fund balance available in the General Fund was \$975,221 while total fund balance reached \$1,985,123. The Governing Body of the City has determined that the City should maintain an available fund balance of 26% of the general fund expenditures in case of unforeseen needs or opportunities, in addition to meeting cash flow needs of the City. The City currently has an available fund balance of 60.82% of general fund expenditures, while total fund balance represents 123.81% of the same amount.

At June 30, 2023, the governmental funds reported a combined fund balance of \$2,034,063, with a net increase in fund balance of \$358,076.

CITY OF SALUDA, NORTH CAROLINA

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

There were several reasons the City revised its budget throughout the year. Amendments were made to adjust budgeted revenues to match the actual collections and to adjust budgeted expenditures to cover actual expenditures incurred during the year.

Proprietary Funds. The City'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 \$543,701. The total change in net position for the Water and Sewer Fund was (\$284,218). The change in net position is the result of maintenance and repairs completed in the current year on aging water and sewer infrastructure.

Capital Asset and Debt Administration

Capital assets. The City's capital assets for its governmental and business-type activities as of June 30, 2023, totals \$6,597,694 (net of accumulated depreciation) an increase of 2.03% over the prior year. These assets include buildings, infrastructure, roads, land, machinery and equipment, park facilities, and vehicles.

Major capital asset transactions during the year include the following:

- New restrooms at Pace Park costing \$87,927 were placed into service.
- A new roof at City Hall was constructed at a cost of \$51,969.

City of Saluda's Capital Assets (net of depreciation)

Figure 4

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
Land	\$ 95,753	\$ 95,753	\$	\$	\$ 95,753	\$ 95,753
Construction in progress		75,322				75,322
Buildings and system	889,049	784,966	4,652,686	4,693,901	5,541,735	5,478,867
Infrastructure	230,420	110,413			230,420	110,413
Other improvements	505,220	508,583			505,220	508,583
Equipment and furniture	57,011	69,507			57,011	69,507
Vehicles	34,390	18,587	133,165	109,177	167,555	127,794
Total	<u>\$1,811,843</u>	<u>\$1,663,131</u>	<u>\$4,785,851</u>	<u>\$4,803,078</u>	<u>\$6,597,694</u>	<u>\$6,466,209</u>

Additional information on the City's capital assets can be found in Note 3.A.4 of the Basic Financial Statements.

CITY OF SALUDA, NORTH CAROLINA

City of Saluda's Outstanding Debt

Long-term debt. As of June 30, 2023, the City had total debt outstanding of \$2,767,865. The City's long-term debt consisted mainly of revolving loans and pension related debt.

City of Saluda's Outstanding Debt
Figure 5

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
Revolving loans	\$ 278,995	\$ 303,432	\$2,087,855	\$2,145,351	\$2,366,850	\$2,448,783
Compensated absences	30,524	23,097	10,535	7,894	41,059	30,991
Pension related debt (LGERS)	229,056	87,369	104,352	38,386	333,408	125,755
Pension related debt (LEO)	26,548	3,361			26,548	3,361
Total	<u>\$ 565,123</u>	<u>\$ 417,259</u>	<u>\$2,202,742</u>	<u>\$2,191,631</u>	<u>\$2,767,865</u>	<u>\$2,608,890</u>

The City's total debt increased by \$158,975, during the current fiscal year. The key factors in this increase were increases in pension-related debt for LGERS.

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8% of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for the City is \$11,663,314.

Additional information regarding the City's long-term debt can be found in Note 3.B.6 of this report.

Economic Factors and Next Year's Budgets and Rates

The following key economic indicators reflect the growth and prosperity of the City:

- Continued diligence in the collection of current taxes.
- Continued effort by the City to limit excess costs.
- Continued enforcement of civil citations and aggressive solicitation of donations and grants to offset certain costs.

CITY OF SALUDA, NORTH CAROLINA

Budget Highlights for the Fiscal Year Ending June 30, 2024

General Fund: The City's tax rate is \$0.690 per \$100, stated at \$.056 for general government and \$0.13 fire protection. Debt service payments are continuing for City Hall of \$34,000. The budget includes capital outlay requests for Administration and Public Safety.

Administration: The City's budget provided funding for 4 positions: City Manager, Finance Officer, City Clerk and Administrative Assistant. Funding is provided allowing a 5% salary increase and up to a 3% merit reserve in lieu of longevity pay. The budget renewed funding for Economic Development and the continuation for Polk and Henderson County to collect City taxes.

Public Safety: Police staffing provides for 5 positions: Chief, Lieutenant, and 3 deputy officers which will provide 24-hour coverage. Funding is provided allowing a 5% salary increase and up to a 3% merit reserve. Funding has been included to transfer funds for the next Police Vehicle.

Other Departments: The City's other department budgets include reasonable estimates to provide City services at the lowest possible costs. Included in this budget are repairs for the final section of the sidewalk for Main Street. Additionally, the City has received \$360,000 in grant funds to improve McCreery Park.

Water/Sewer: Revenues are estimated using projected user consumption, including user fees of \$27.50 per month, per user. User fees are provided to fund the water drought infrastructure venture with Tryon and Columbus, as well as major system repairs needed to the City infrastructure. Funding allows for 4 positions: Supervisor, and 3 maintenance staff. Funding is provided allowing a 5% salary increase and up to a 3% merit reserve. Funding has been included to continue repairs to aging water and sewer lines. Funding has been included to set aside for future equipment needs.

These budgets are prepared in accordance with the North Carolina Government Budget Fiscal Control Act.

Requests for Information

This report is designed to provide an overview of the City's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Finance Officer, City of Saluda, P.O. Box 248, Saluda, North Carolina 28773-0248. One can also call 828-749-2581, visit our website www.cityofsaludanc.com or send an email to saludafinance@cityofsaludanc.com for more information.

BASIC FINANCIAL STATEMENTS

CITY OF SALUDA, NORTH CAROLINA

Statement of Net Position
June 30, 2023

	Primary Government			
	Governmental	Business-type	Total	Authority
	Activities	Activities		
Assets				
Current assets:				
Cash and cash equivalents	\$ 1,532,082	\$ 378,284	\$ 1,910,366	\$ 74,338
Taxes receivable (net)	17,924		17,924	
Accounts receivable (net)	138,486	127,714	266,200	
Due from other funds	14,601		14,601	
Escrow account receivable		9,754	9,754	
Restricted cash and cash equivalents	402,827	182,231	585,058	
Total current assets	<u>2,105,920</u>	<u>697,983</u>	<u>2,803,903</u>	<u>74,338</u>
Non-current assets:				
Capital assets:				
Land and construction in progress	95,753		95,753	
Other capital assets, net of depreciation	1,716,090	4,785,851	6,501,941	
Total non-current assets	<u>1,811,843</u>	<u>4,785,851</u>	<u>6,597,694</u>	
Total assets	<u>\$ 3,917,763</u>	<u>\$ 5,483,834</u>	<u>\$ 9,401,597</u>	<u>\$ 74,338</u>
Deferred outflows of resources				
Pension deferrals	<u>\$ 181,428</u>	<u>\$ 76,420</u>	<u>\$ 257,848</u>	
Liabilities				
Current liabilities:				
Accounts payable and accrued expenses	\$ 45,533	\$ 57,194	\$ 102,727	\$
Customer deposits		30,019	30,019	
Current portion of long-term liabilities	24,438	58,496	82,934	
Due to other funds		14,601	14,601	
Total current liabilities	<u>69,971</u>	<u>160,310</u>	<u>230,281</u>	
Long-term liabilities:				
Due in more than one year	<u>540,685</u>	<u>2,144,246</u>	<u>2,684,931</u>	
Total liabilities	<u>\$ 610,656</u>	<u>\$ 2,304,556</u>	<u>\$ 2,915,212</u>	
Deferred inflows of resources				
Special events	\$ 8,400	\$	\$ 8,400	\$
Pension deferrals	34,133	14,001	48,134	
Total deferred inflows of resources	<u>\$ 42,533</u>	<u>\$ 14,001</u>	<u>\$ 56,534</u>	

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

CITY OF SALUDA, NORTH CAROLINA

Statement of Net Position (continued)
June 30, 2023

	Primary Government			Authority
	Governmental Activities	Business-type Activities	Total	
Net position				
Net investment in capital assets	\$ 1,532,848	\$ 2,697,996	\$ 4,230,844	\$
Restricted for:				
Stabilization by State Statute	153,087		153,087	
Amphitheatre	565		565	
Centennial	620		620	
Pace Park	7,693		7,693	
Historical Committee	5,615		5,615	
Streets	2,957		2,957	
Police	1,349		1,349	
Streetlights	368		368	
McCreery Park	200,000		200,000	
Unrestricted	<u>1,540,900</u>	<u>543,701</u>	<u>2,084,601</u>	<u>74,338</u>
Total net position	<u>\$ 3,446,002</u>	<u>\$ 3,241,697</u>	<u>\$ 6,687,699</u>	<u>\$ 74,338</u>

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

CITY OF SALUDA, NORTH CAROLINA

Statement of Activities
For the Year Ended June 30, 2023

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Authority
					Governmental Activities	Business-type Activities	Total	
Primary Government:								
Governmental activities:								
General government	\$ 457,947	\$ 2,050	\$	\$ 110,000	\$ (345,897)	\$	\$ (345,897)	\$
Public safety	558,036	2,979			(555,057)		(555,057)	
Transportation	186,249		41,630		(144,619)		(144,619)	
Environmental protection	135,418	132,983	492		(1,943)		(1,943)	
Cultural and recreation	111,534	6,200		210,500	105,166		105,166	
Interest on long-term debt	10,383				(10,383)		(10,383)	
Total governmental activities (See Note 1)	1,459,567	144,212	42,122	320,500	(952,733)		(952,733)	
Business-type activities:								
Water and sewer	1,219,251	872,477	50,591			(296,183)	(293,183)	
Total primary government	\$ 2,678,818	\$ 1,016,689	\$ 92,713	\$ 320,500	(952,733)	(296,183)	(1,248,916)	
Component unit	\$ 19,213	\$	\$	\$				(19,213)
General revenues:								
Taxes:								
Property taxes, levied for general purpose					980,531		980,531	
Licenses					3,705		3,705	
Other taxes					372,323		372,323	38,050
Unrestricted investment earnings					79,288		79,288	
Miscellaneous					22,080	11,965	34,045	
Total general revenues not including transfers					1,457,927	11,965	1,469,892	38,050
Change in net position					505,194	(284,218)	220,976	18,837
Net position, beginning					2,940,808	3,525,915	6,466,723	55,501
Net position, ending					\$ 3,446,002	\$ 3,241,697	\$ 6,687,699	\$ 74,338

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

CITY OF SALUDA, NORTH CAROLINA

Balance Sheet
Governmental Funds
June 30, 2023

	Major Fund	Non-Major Fund	Total
	General Fund	Capital Reserve Fund	Governmental Funds
Assets			
Cash and cash equivalents	\$ 1,483,142	\$ 48,940	\$ 1,532,082
Restricted cash and cash equivalents	402,827		402,827
Due from other funds	14,601		14,601
Receivables, net:			
Taxes	17,924		17,924
Accounts	138,486		138,486
Total assets	<u>\$ 2,056,980</u>	<u>\$ 48,940</u>	<u>\$ 2,105,920</u>
Liabilities			
Accounts payable and accrued liabilities	\$ 45,533	\$	\$ 45,533
Deferred inflows of resources			
Property taxes receivable	17,924		17,924
Unavailable revenue	8,400		8,400
Total deferred inflows of resources	<u>26,324</u>		<u>26,324</u>
Fund balances			
Restricted:			
Stabilization by State Statute	153,087		153,087
Amphitheatre	565		565
Centennial	620		620
Pace Park	7,693		7,693
Historical Committee	5,615		5,615
Streets	2,957		2,957
Police	1,349		1,349
Street Lighting	368		368
McCreery Park	200,000		200,000
Assigned:			
Subsequent year's expenditures	169,739		169,739
Unassigned	1,443,130	48,940	1,492,070
Total fund balances	<u>1,985,123</u>	<u>48,940</u>	<u>2,034,063</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 2,056,980</u>	<u>\$ 48,940</u>	<u>\$ 2,105,920</u>

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

CITY OF SALUDA, NORTH CAROLINA

Balance Sheet Governmental Funds (continued) June 30, 2023

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

Total fund balance, Governmental Funds	\$ 2,034,063
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:	
Gross capital assets at historical cost	3,498,256
Accumulated depreciation	(1,686,413)
Deferred outflows of resources related to pensions are not reported in the funds	181,428
Deferred inflows of resources related to pensions are not reported in the funds	(34,133)
Earned revenues considered deferred inflows of resources in fund statements	17,924
Long-term liabilities used in governmental activities are not financial uses and therefore are not reported in the funds:	
Long-term debt included as net position below	(278,995)
Accrued compensated absences	(30,524)
Net pension liability	(229,056)
Total pension liability	<u>(26,548)</u>
Net position of governmental activities	<u>\$ 3,446,002</u>

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

CITY OF SALUDA, NORTH CAROLINA

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2023

	Major Fund	Non-Major Fund	Total
	General Fund	Capital Reserve Fund	Governmental Funds
Revenues			
Ad valorem taxes	\$ 977,216	\$	\$ 977,216
Other taxes and licenses	3,705		3,705
Unrestricted intergovernmental	372,323		372,323
Restricted intergovernmental	362,622		362,622
Permits and fees	5,029		5,029
Sales and services	139,183		139,183
Investment earnings	78,625	663	79,288
Miscellaneous	22,080		22,080
Total revenues	<u>1,960,783</u>	<u>663</u>	<u>1,961,446</u>
Expenditures			
Current:			
General government	470,956		470,956
Public safety	560,865		560,865
Transportation	300,785		300,785
Environmental protection	158,774		158,774
Cultural and recreation	77,169		77,169
Debt service:			
Principal	24,438		24,438
Interest and other charges	10,383		10,383
Total expenditures	<u>1,603,370</u>		<u>1,603,370</u>
Excess of revenues over expenditures	<u>357,413</u>	<u>663</u>	<u>358,076</u>
Other financing sources (uses)			
Transfers from other funds	19,749		19,749
Transfers to other funds		(19,749)	(19,749)
Total other financing sources (uses)	<u>19,749</u>	<u>(19,749)</u>	
Net change in fund balance	377,162	(19,086)	358,076
Fund balance, beginning	<u>1,607,961</u>	<u>68,026</u>	<u>1,675,987</u>
Fund balance, ending	<u>\$ 1,985,123</u>	<u>\$ 48,940</u>	<u>\$ 2,034,063</u>

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

CITY OF SALUDA, NORTH CAROLINA

Statement of Revenues, Expenditures, and Changes in Fund Balances (continued) **Governmental Funds** **For the Year Ended June 30, 2023**

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

Net changes in fund balances - total governmental funds	\$ 358,076
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period:	
Capital outlay expenditures which were capitalized	253,186
Depreciation expense for governmental assets	(104,476)
Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities	(14,938)
Benefit payments paid and administrative expense for the LEOSSA are not included on the Statement of Activities	(6,980)
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	3,315
The repayment of the principal of long-term debt consumes the current financial resources of governmental funds. This transaction has no effect on net position:	
Principal payments on long-term debt	24,438
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	<u>(7,427)</u>
Total changes in net position of governmental activities	<u>\$ 505,194</u>

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

CITY OF SALUDA, NORTH CAROLINA

General Fund

Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2023

	Budget		Actual	Variance with Final Budget- Positive (Negative)
	Original	Final	Amounts	
Revenues				
Ad valorem taxes	\$ 906,000	\$ 969,800	\$ 977,216	\$ 7,416
Other taxes and licenses	1,000	2,000	3,705	1,705
Unrestricted intergovernmental	351,010	352,800	372,323	19,523
Restricted intergovernmental	151,900	152,400	362,622	210,222
Permits and fees	3,500	4,300	5,029	729
Sales and services	135,200	144,625	139,183	(5,442)
Investment earnings	1,000	61,000	78,625	17,625
Miscellaneous	9,400	20,495	22,080	1,585
Total revenues	<u>1,559,010</u>	<u>1,707,420</u>	<u>1,960,783</u>	<u>253,363</u>
Expenditures				
Current:				
General government	554,326	552,352	470,956	81,396
Public safety	561,383	628,893	560,865	68,028
Transportation	228,700	310,111	300,785	9,326
Environmental protection	119,500	161,200	158,774	2,426
Cultural and recreation	75,073	112,093	77,169	34,924
Debt service	35,000	35,000	34,821	179
Contingency	<u>25,000</u>			
Total expenditures	<u>1,598,982</u>	<u>1,799,649</u>	<u>1,603,370</u>	<u>196,279</u>
Revenues over (under) expenditures	(39,972)	(92,229)	357,413	449,642
Other financing sources (uses)				
Transfers from other funds		26,000	19,749	(6,251)
Fund balance appropriated	<u>39,972</u>	<u>66,229</u>		<u>(66,229)</u>
Net change in fund balance	<u>\$</u>	<u>\$</u>	377,162	<u>\$ 377,162</u>
Fund balance, beginning			<u>1,607,961</u>	
Fund balance, ending			<u>\$ 1,985,123</u>	

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

CITY OF SALUDA, NORTH CAROLINA

Statement of Fund Net Position

Water and Sewer Fund

June 30, 2023

	<u>Major Fund</u> <u>Water and</u> <u>Sewer Fund</u>
Assets	
Current assets:	
Cash and cash equivalents	\$ 378,284
Accounts receivable (net)	127,714
Escrow account receivable	9,754
Restricted cash and cash equivalents	<u>182,231</u>
Total current assets	<u>697,983</u>
Noncurrent assets:	
Capital assets, net of depreciation	<u>4,785,851</u>
Total noncurrent assets	<u>4,785,851</u>
Total assets	<u>\$ 5,483,834</u>
Deferred outflows of resources	
Pension deferrals	<u>\$ 76,420</u>
Liabilities	
Current liabilities:	
Accounts payable and accrued liabilities	\$ 57,194
Due to other funds	14,601
Customer deposits	30,019
Current portion of notes payable	<u>58,496</u>
Total current liabilities	<u>160,310</u>
Noncurrent liabilities:	
Net pension liability	104,352
Compensated absences	10,535
Noncurrent portion of notes payable	<u>2,029,359</u>
Total noncurrent liabilities	<u>2,144,246</u>
Total liabilities	<u>\$ 2,304,556</u>
Deferred inflows of resources	
Pension deferrals	<u>\$ 14,001</u>
Net position	
Net investment in capital assets	\$ 2,697,996
Unrestricted	<u>543,701</u>
Total net position	<u>\$ 3,241,697</u>

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

CITY OF SALUDA, NORTH CAROLINA

Statement of Revenues, Expenses, and Changes in Fund Net Position
 Water and Sewer Fund
 For the Year Ended June 30, 2023

	<u>Major Fund</u> <u>Water and</u> <u>Sewer Fund</u>
Operating revenues	
Charges for services	\$ 872,477
Operating grants	50,591
Other operating revenues	<u>11,965</u>
Total operating revenues	<u>935,033</u>
Operating expenses	
Administration	517,074
Water treatment plant	276,120
Water distribution	221,045
Depreciation	<u>153,795</u>
Total operating expenses	<u>1,168,034</u>
Operating loss	<u>(233,001)</u>
Nonoperating revenues (expenses)	
Interest expense	<u>(51,217)</u>
Change in net position	(284,218)
Total net position, beginning	<u>3,525,915</u>
Total net position, ending	<u>\$ 3,241,697</u>

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

CITY OF SALUDA, NORTH CAROLINA

Statement of Cash Flows
Water and Sewer Fund
For the Year Ended June 30, 2023

	<u>Major Fund</u> <u>Water and</u> <u>Sewer Fund</u>
Cash flows from operating activities	
Cash received from customers	\$ 921,223
Cash paid for goods and services	(704,021)
Cash paid to employees for services	(239,786)
Customer deposits received, net	250
Net cash used by operating activities	<u>(22,334)</u>
Cash flows from capital and related financing activities	
Acquisition and construction of capital assets	(136,567)
Principal paid on long-term debt	(57,496)
Interest paid on long-term debt	(51,217)
Net cash used by capital and related financing activities	<u>(245,280)</u>
Net decrease in cash and equivalents	(267,614)
Cash and equivalents, beginning	<u>828,129</u>
Cash and equivalents, ending	<u>\$ 560,515</u>
Reconciliation of operating income to net cash provided by operating activities	
Operating loss	\$ (233,001)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	153,795
Change in assets and liabilities:	
Increase in accounts receivable	(13,810)
Increase in accounts payable and accrued liabilities	45,142
Increase in due to other funds	14,601
Increase in customer deposits	250
Increase in accrued compensated absences	2,641
Increase in net pension liability	65,965
Decrease in deferred outflows of resources	(12,915)
Decrease in deferred inflows of resources	(45,002)
Net cash used by operating activities	<u>\$ (22,334)</u>

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

CITY OF SALUDA, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2023

Note 1 - Summary of Significant Accounting Policies

The accounting policies of City of Saluda, North Carolina (the City) and its discretely presented component unit conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant accounting policies:

A. Reporting Entity

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

Saluda District D Tourism Development Authority

In August 2017, the Saluda District D Tourism Development Authority (the Authority) was legislatively enacted to promote travel and tourism in the City. The Authority is authorized to levy an occupancy tax of up to 3%, of which 2/3 must be used to promote travel and tourism and the remainder can be used for tourism-related expenditures. The members of the Authority are appointed by the City. The Authority, which has a June 30 year-end, is presented as if it were a proprietary fund (discrete presentation).

B. Basis of Presentation

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

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

Note 1 - Summary of Significant Accounting Policies (continued)

Fund Financial Statements: The fund financial statements provide information about the City's funds. Separate statements for each fund category - *governmental and proprietary* - are presented. The City has no fiduciary funds to report. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as non-major funds.

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

The City reports the following major governmental fund:

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

The City reports the following non-major governmental fund:

Capital Reserve Fund. The Capital Reserve Fund is used to account for monies saved for future capital expenditures.

The City reports the following major enterprise funds:

Water and Sewer Fund. This fund is used to account for the City's water and sewer operations. A Sewer Capital Project Fund has been consolidated into the Sewer Fund for Financial Reporting purposes. The budgetary comparison for the Sewer Capital Project Fund has been included in the supplemental information.

C. Measurement Focus and Basis of Accounting

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

Government-wide and Proprietary Fund Financial Statements. The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, and donations.

Note 1 - Summary of Significant Accounting Policies (continued)

On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

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

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

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

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

Note 1 - Summary of Significant Accounting Policies (continued)

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

D. Budgetary Data

The City's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund and the Water and Sewer Fund. All annual appropriations lapse at the fiscal year-end. Projects ordinances are adopted for the Water and Sewer Capital Project Fund. The enterprise fund capital projects are consolidated with their 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 project level for the multi-year funds. All amendments must be approved by the governing board and the Board must adopt an interim budget that covers that time until the annual ordinances can be adopted.

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

1. Deposits and Investments

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

State law [G.S. 159-30(c)] authorizes the City and the Authority to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States, obligations of the State of North Carolina, bonds and notes of any North Carolina local government or public authority, obligations of certain non-guaranteed federal agencies, certain high quality issues of commercial paper and bankers' acceptances, and the North Carolina Capital Management Trust (NCCMT). The City's and the Authority's investments are reported at fair value. The NCCMT Government Portfolio, an SEC-registered (2a-7) external investment pool, is measured at fair value. Because the NCCMT Government Portfolio has a weighted average maturity of less than 90 days, it is presented as an investment with a maturity of less than 6 months.

Note 1 - Summary of Significant Accounting Policies (continued)

In accordance with State law, the City has invested in securities which are callable, and which provide for periodic interest rate increases in specific increments until maturity. These investments are reported at fair value as determined by quoted market prices.

2. Cash and Cash Equivalents

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

3. Restricted Assets

Customer deposits held by the City before any services are supplied are restricted to the service for which the deposit was collected. Powell Bill funds are also classified as restricted cash because they can be expended only for the purposes outlined in G.S. 136-41.1 through 136-41.4.

City of Saluda Restricted Cash

Governmental activities:

General Fund:

Amphitheatre	\$ 565
Centennial	620
Pace Park	7,693
Streets	2,957
State Statute	153,087
ARPA Funds	30,573
McCreery Park	200,000
Historical Committee	5,615
Streetlights	368
Police	<u>1,349</u>
Total governmental activities	<u>402,827</u>

Business-type activities:

Water and sewer fund:

Customer deposits	30,019
USDA debt reserve	38,676
USDA short lived asset reserve	<u>113,536</u>
Total business-type activities:	<u>182,231</u>
Total restricted cash	<u>\$ 585,058</u>

4. Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the City levies ad valorem taxes on property other than motor vehicles on July 1st, the beginning of the fiscal year. The taxes are due on September 1st (lien date); however, interest does not accrue until the following January 6th. These taxes are based on the assessed values as of January 1, 2022. As allowed by State law, the City has established a schedule of discounts that apply to taxes that are paid prior to the due date. In the City's General Fund, ad valorem tax revenues are reported net of such discounts.

Note 1 - Summary of Significant Accounting Policies (continued)

5. Allowances for Doubtful Accounts

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

6. Prepaid Items

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

7. Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. Donated capital assets received prior to June 30, 2015, are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 30, 2015, are recorded at acquisition value. All other purchased or constructed assets are reported at cost or estimated historical cost. The cost of normal maintenance and repairs that do not add to the functionality of the asset or materially extend assets' lives are not capitalized.

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	40
Infrastructure	50
Plant and distribution system	10-50
Other Improvements	5-40
Equipment and furniture	5-10
Vehicles	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. For the 2023, fiscal year, the City has one item that meets this criterion, pension deferrals. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The City has several items that meet the criterion for this category - property taxes receivable, deposits made in advance, and pension deferrals.

Note 1 - Summary of Significant Accounting Policies (continued)

9. Long-Term Obligations

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

10. Compensated Absences

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

The City's sick leave policy provides for an unlimited accumulation of earned sick leave. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since the City does not have any obligation for the accumulated sick leave until it is 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 externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through state statute.

Fund Balances

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

The governmental fund types classify fund balances as follows:

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

Note 1 - Summary of Significant Accounting Policies (continued)

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

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

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

Restricted for Amphitheatre - portion of fund balance that is restricted by contributors for construction of an Amphitheatre.

Restricted for Centennial - portion of fund balance that is restricted by contributors for the 150th anniversary celebration of the City.

Restricted for Pace Park - portion of fund balance that is restricted by contributors for improvements to Pace Park.

Restricted for Historical Committee - portion of fund balance that is restricted by contributors for activities of the Historical Committee.

Restricted for Street Lights - the portion of fund balance that is restricted by contributors for Street Lights.

Committed Fund Balance - portion of fund balance that can only be used for specific purposes imposed by majority vote by quorum of City of Saluda'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.

Note 1 - Summary of Significant Accounting Policies (continued)

Assigned Fund Balance - portion of fund balance that the City intends to use for specific purposes.

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

Unassigned fund balance - portion of fund balance that has not been restricted, committed, or assigned to specific purposes or other funds and that has not been reported as nonspendable fund balance.

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

The City of Saluda has also adopted a minimum fund balance policy for the general fund which instructs management to conduct the business of the City in such a manner that available fund balance is at least equal to or greater than 26% of budgeted expenditures. Any portion of the general fund balances in excess of 26% of budgeted expenditures may be appropriated for one-time expenditures and may not be used for any purpose that would obligate the City in a future budget.

12. Defined Benefit Cost-Sharing Plans

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

Note 2 - Stewardship, Compliance, and Accountability

The City does not have any instances of stewardship, compliance, or accountability violations to report for the fiscal year ended June 30, 2023.

Note 3 - Detail Notes on All Funds

A. Assets

1. Deposits

All the deposits of the City and the Authority are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed federal depository insurance coverage level are collateralized with securities held by the City's or the Authority's agent in these units' names. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the City and the Authority, these deposits are considered to be held by the City's and the Authority's agents in the entities' names. The amount of the pledged collateral is based on an approved averaging method for non-interest-bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the City, the Authority, or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the City and the Authority under the Pooling Method, the potential exists for under-collateralization. This risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The City has no formal policy regarding custodial credit risk for deposits but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The City complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured. The Authority has no formal policy regarding custodial credit risk for deposits.

At June 30, 2023, the City's deposits had a carrying amount of \$509,075 and a bank balance of \$533,534. Of the bank balance, \$250,000 was covered by federal depository insurance and the remainder was covered by collateral held under the Pooling Method. The carrying amount of deposits for the Authority was \$74,338 and the bank balance was \$69,928. All of the bank balance was covered by federal depository insurance. At June 30, 2023, the City's petty cash fund totaled \$700.

2. Investments

At June 30, 2023, the City had \$1,990,058 invested with the North Carolina Capital Management Trust's Government Portfolio which carried a credit rating of AAAm by Standard and Poor's. The City has no policy regarding credit risk.

Note 3 - Detail Notes on All Funds (continued)

3. Receivables - Allowances for Doubtful Accounts

The amount of taxes receivable presented in the Balance Sheet and the Statement of Net Position includes no penalties levied and outstanding. The amounts presented in the Balance Sheet and the Statement of Net Position for the year ended June 30, 2023 are net of the following allowance for doubtful accounts:

General Fund - Taxes receivable	<u>\$ 500</u>
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4. Capital Assets

Primary Government

Capital asset activity for the governmental activities of the Primary Government for the year ended June 30, 2023, was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 95,753	\$	\$	\$ 95,753
Construction in progress	<u>75,322</u>	<u>12,605</u>	<u>(87,927)</u>	
Total capital assets not being depreciated	<u>171,075</u>	<u>12,605</u>	<u>(87,927)</u>	<u>95,753</u>
Capital assets being depreciated:				
Buildings	1,322,129	139,896		1,462,025
Infrastructure	117,019	132,282		249,301
Other improvements	1,299,676	23,356		1,323,032
Equipment and furniture	232,058	4,720	3,212	233,566
Vehicles	<u>128,508</u>	<u>28,256</u>	<u>22,185</u>	<u>134,579</u>
Total capital assets being depreciated	<u>3,099,390</u>	<u>328,510</u>	<u>25,397</u>	<u>3,402,503</u>
Less accumulated depreciation for:				
Buildings	537,163	35,813		572,976
Infrastructure	6,606	12,275		18,881
Other improvements	791,093	26,719		817,812
Equipment and furniture	162,551	17,216	3,212	176,555
Vehicles	<u>109,921</u>	<u>12,453</u>	<u>22,185</u>	<u>100,189</u>
Total accumulated depreciation	<u>1,607,334</u>	<u>\$ 104,476</u>	<u>\$ 25,397</u>	<u>1,686,413</u>
Total capital assets being depreciated, net	<u>1,492,056</u>			<u>1,716,090</u>
Governmental activities capital assets, net	<u>\$ 1,663,131</u>			<u>\$ 1,811,843</u>

Note 3 - Detail Notes on All Funds (continued)

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

General government	\$ 21,845
Public safety	17,916
Transportation	17,745
Cultural and recreation	46,970
Total depreciation expense	<u>\$ 104,476</u>

Capital asset activity for the business-type activities of the Primary Government for the year ended June 30, 2023, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
Capital assets being depreciated:				
Plant and distribution system	\$ 6,038,563	\$ 79,445	\$	\$ 6,118,008
Vehicles and equipment	<u>504,565</u>	<u>58,246</u>	<u>11,231</u>	<u>551,580</u>
Total capital assets being depreciated	<u>6,543,128</u>	<u>137,691</u>	<u>11,231</u>	<u>6,669,588</u>
Less accumulated depreciation for:				
Plant and distribution system	1,344,662	120,660		1,465,322
Vehicles and equipment	<u>395,388</u>	<u>33,136</u>	<u>10,108</u>	<u>418,415</u>
Total accumulated depreciation	<u>1,740,050</u>	<u>\$ 153,795</u>	<u>\$ 10,108</u>	<u>1,883,737</u>
Total capital assets being depreciated, net	<u>4,803,078</u>			<u>4,785,851</u>
Business-type activities capital assets, net	<u>\$ 4,803,078</u>			<u>\$ 4,785,851</u>

Construction commitments

The City has one active construction project as of June 30, 2023. This project is for Waste Water Treatment Plant Filter Screen and Solids Handling improvements. The total cost of this project is expected to be \$274,200. This project will be funded in part by a grant in the amount of \$160,000 from North Carolina Department of Environmental Quality.

Note 3 - Detail Notes on All Funds (continued)

B. Liabilities

1. Pension Plan Obligations

a. Local Governmental Employees' Retirement System

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

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.

Note 3 - Detail Notes on All Funds (continued)

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 5 years of creditable service as a LEO and have reached age 55, or have completed 15 years of creditable service as a LEO if killed in the line of duty. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions.

Contributions. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. City employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The City's contractually required contribution rate for the year ended June 30, 2023, was 13.04% of compensation for law enforcement officers and 12.15% for general employees, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the City were \$67,298 for the year ended June 30, 2023.

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

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

At June 30, 2023, the City reported a liability of \$333,408 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2022. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2021. The total pension liability was then rolled forward to the measurement date of June 30, 2022, utilizing updated procedures incorporating the actuarial assumptions. The City's proportion of the net pension liability was based on a projection of the City's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2022 (measurement date), the City's proportion was 0.00591%, which was an decrease of 0.00229% from its proportion measured as of June 30, 2021.

Note 3 - Detail Notes on All Funds (continued)

For the year ended June 30, 2023, the City recognized pension expense of \$90,284. At June 30, 2023, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 14,366	\$ 1,409
Changes of assumptions	33,267	
Net difference between projected and actual earnings on pension plan investments	110,195	
Changes in proportion and differences between City contributions and proportionate share of contributions	19,040	43,326
City contributions subsequent to the measurement date	67,298	
Total	<u>\$ 244,166</u>	<u>\$ 44,735</u>

\$67,298 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2023. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2024	\$ 42,273
2025	37,127
2026	234
2027	52,499
2028	
Thereafter	

Actuarial Assumptions. The total pension liability in the December 31 2022, , actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5 percent
Salary increases	3.25 to 8.25 percent, including inflation and productivity factor
Investment rate of return	6.50 percent, net of pension plan investment expense, including inflation

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

Note 3 - Detail Notes on All Funds (continued)

The actuarial assumptions used in the December 31, 2021 valuation were based on the results of an actuarial experience study for the period January 1, 2011, through December 31, 2015.

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, 2022, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	33.0%	0.9%
Global Equity	38.0%	6.5%
Real Estate	8.0%	5.9%
Alternatives	8.0%	8.2%
Credit	7.0%	5.0%
Inflation Protection	6.0%	2.7%
Total	<u>100%</u>	

This information above is based on 30-year expectations developed with the consulting actuary for the 2021 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 6.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Note 3 - Detail Notes on All Funds (continued)

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

	1% Decrease (5.50%)	Discount Rate (6.50%)	1% Increase (7.50%)
Saluda's proportionate share of the net pension liability (asset)	\$ 601,759	\$ 333,408	\$ 112,272

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

b. Law Enforcement Officers Special Separation Allowance

(1) Plan Description

The City administers a public employee retirement system (the *Separation Allowance*), a single-employer defined benefit pension plan that provides retirement benefits to the City's qualified sworn law enforcement officers under the age of 62 who have completed at least 30 years of creditable service or have attained 55 years of age and have completed 5 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 City law enforcement officers are covered by the Separation Allowance. At December 31, 2021, the valuation date, the Separation Allowance's membership consisted of:

Retirees receiving benefits	-
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	<u>3</u>
Total	<u><u>3</u></u>

(2) Summary of Significant Accounting Policies

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

Note 3 - Detail Notes on All Funds (continued)

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

(3) Actuarial Assumptions

The entry age actuarial cost method was used in the December 31, 2021 valuation. The total pension liability in the December 31, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5 percent
Salary increases	3.25 to 7.75 percent, including inflation and productivity factor
Discount rate	4.31 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, 2021.

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

(4) Contributions

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

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

At June 30, 2023, the City reported a total pension liability of \$26,548. The total pension liability was measured as of December 31, 2022 based on a December 31, 2021 actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2022 utilizing updated procedures incorporating the actuarial assumptions. For the year ended June 30, 2023, the City recognized pension expense of \$6,980.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 13,663	\$ 1,908
Changes of assumptions	19	1,491
Total	<u>\$ 13,682</u>	<u>\$ 3,399</u>

Note 3 - Detail Notes on All Funds (continued)

Amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2024	\$	6,869
2025		3,414
2026		
2027		
2028		
Thereafter		

Sensitivity of the City's total pension liability to changes in the discount rate. The following presents the City's total pension liability calculated using the discount rate of 4.31 percent, as well as what the City's total pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.31 percent) or 1-percentage-point higher (5.31 percent) than the current rate:

	1% Decrease (3.31%)	Discount Rate (4.31%)	1% Increase (5.31%)
Total pension liability	\$ 27,747	\$ 26,548	\$ 25,380

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

	2023
Beginning balance	\$ 3,361
Service cost	2,191
Interest on the total pension liability	76
Difference between expected and actual experience	23,417
Changes of assumptions or other inputs	(2,497)
Ending balance of the total pension liability	<u>\$ 26,548</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, 2021 valuation were based on the results of an actuarial experience study for the period January 1, 2011 through December 31, 2015.

Note 3 - Detail Notes on All Funds (continued)***Total Expense, Liabilities, and Deferred Outflows and Inflows of Resources Related to Pensions***

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

	LGERS	LEOSSA	Total
Pension expense	\$ 90,284	\$ 6,980	\$ 97,264
Pension liability	333,408	26,548	359,956
Proportionate share of the net pension liability	0.00591%	na	

Deferred outflows of resources:

Difference between expected and actual experience	14,366	13,663	28,029
Change of assumptions	33,267	19	33,286
Net difference between projected and actual Earnings on plan investments	110,195		110,195
Changes in proportion and differences between contributions and proportionate share of contributions	19,040		19,040
Benefit payments paid subsequent to the measurement date	67,298		67,298

Deferred inflows of resources:

Differences between expected and actual experience	1,409	1,908	3,317
Changes of assumptions		1,491	1,491
Changes in proportion and differences between contributions and proportionate share of contributions	43,326		43,326

c. Supplemental Retirement Income Plan for Law Enforcement Officers and General Employees

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

Note 3 - Detail Notes on All Funds (continued)

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

The City made contributions of \$8,749 for the reporting year. No amounts were forfeited.

The City has extended a similar benefit to general employees. The City made contributions of \$9,025 for the reporting year for general employees. No amounts were forfeited.

2. Other Employment Benefits

The City 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. Because all death benefit payments are made from the Death Benefit Plan and not by the City, the City does not determine the number of eligible participants. The City has no liability beyond the payment of monthly contributions. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount. Contributions are determined as a percentage of monthly payroll based upon rates established annually by the State. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. The City considers these contributions to be immaterial.

3. Deferred Outflows and Inflows of Resources

Deferred outflows of resources reported on the Statement of Net Position is comprised of the following:

<u>Source</u>	<u>Amount</u>
Contributions to pension plan in current fiscal year	\$ 67,298
Differences between expected and actual experience	28,029
Changes of assumptions	33,286
Difference in projected and actual earnings in investments	110,195
Changes in proportion and differences between employer contributions and proportionate share of contributions	19,040
Total	<u>\$ 257,848</u>

Note 3 - Detail Notes on All Funds (continued)

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

	Statement of Net Position	General Fund Balance Sheet
Deposits made in advance (General Fund)	\$ 8,400	\$ 8,400
Taxes receivable, net (General Fund)		17,924
Differences between expected and actual experience	3,317	
Changes in assumptions	1,491	
Changes in proportion and differences between employer contributions and proportionate share of contributions	43,326	
Total	<u>\$ 56,534</u>	<u>\$ 26,324</u>

4. Risk Management

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

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

The City does not carry flood insurance. The city does not believe it is necessary to obtain coverage as no portion of the City has been mapped and designated as an "A" area (an area close to a river, lake, or stream) by the Federal Emergency Management Agency.

In accordance with G.S. 159-29, the City's employees that have access to \$100 or more at any given time of the City's funds are performance bonded through a commercial surety bond. The finance officer is individually bonded for \$50,000. The tax collector is bonded for \$10,000. The remaining employees that have access to funds are bonded under a blanket bond for \$20,000.

Note 3 - Detail Notes on All Funds (continued)

5. Claims, Judgments, and Contingent Liabilities

The City is periodically involved in legal actions and claims arising in the normal course of operations. The ultimate resolution of these actions is not expected to have a material adverse effect upon the financial position of the City.

6. Long-term Obligations

a. Revolving Loans

In March 2008, the City entered into an agreement with the Town of Columbus and the Town of Tryon for the funding, design, and construction of a water infrastructure project. The project consists of construction of a water line between Saluda and Tryon, installation of a booster pump and valve in the existing line between Columbus and Tryon, and the rehabilitation by Tryon of its mountain water system intake. In June 30, 2014, the City was allocated its share of a NC Revolving Loan debt that was received by the Town of Tryon. The City's portion of this debt totaled \$469,918. The loan has a term of twenty years at an annual interest rate of 2.5%. Because the loan was used to construct facilities utilized in the operation of the water and sewer system and is being retired by its resources, it has been reported as long-term obligation of the Water and Sewer Fund.

In October 2014, the City obtained loan assistance in the amount of \$488,750 to fund the renovation of City Hall. The loan has a term of twenty years at an annual interest rate of 3.5%. Because the loan was used to renovate assets utilized by the general government, it has been reported as a long-term obligation on the Statement of Net Position of Governmental Activities.

In April 2020, the City obtained a loan from the USDA in the amount of \$2,081,000 to fund the renovation of water lines. The loan has a term of thirty-nine years at an annual interest rate of 2.375%. Because the loan was used for water line repairs and is being retired by its resources, it has been reported as long-term obligation of the Water and Sewer Fund.

Note 3 - Detail Notes on All Funds (continued)

Annual debt service requirements to maturity for revolving loans are as follows:

Years Ending June 30	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	Principal	Interest	Principal	Interest
2024	\$ 24,438	\$ 9,529	\$ 58,496	\$ 49,822
2025	24,438	8,636	59,496	48,403
2026	24,438	7,769	59,496	46,960
2027	24,438	6,902	60,496	45,518
2028	24,438	6,051	61,496	44,052
2029-2033	122,188	12,005	276,488	198,000
2034-2038	34,617	923	230,000	168,849
2039-2043			260,000	140,254
2044-2048			292,000	107,788
2049-2053			319,887	71,548
2054-2058			338,000	33,036
2059-2063			72,000	1,710
	<u>\$ 278,995</u>	<u>\$ 51,815</u>	<u>\$ 2,087,855</u>	<u>\$ 955,940</u>

b. Changes in Long-term Liabilities

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Current Portion of Balance</u>
Governmental activities:					
Revolving loan	\$ 303,432	\$	\$ 24,437	\$ 278,995	\$ 24,438
Compensated absences	23,097	22,229	14,802	30,524	
Net pension liability (LGERS)	87,369	141,687		229,056	
Total pension liability (LEO)	<u>3,361</u>	<u>23,187</u>		<u>26,548</u>	
Governmental activities long-term liabilities	<u>\$ 417,259</u>	<u>\$ 187,103</u>	<u>\$ 39,239</u>	<u>\$ 565,123</u>	<u>\$ 24,438</u>
Business-type activities:					
Revolving loans	\$ 2,145,351	\$	\$ 57,496	\$ 2,087,855	\$ 58,496
Compensated absences	7,894	7,994	5,353	10,535	
Net pension liability (LGERS)	<u>38,386</u>	<u>65,966</u>		<u>104,352</u>	
Business-type activities long-term liabilities	<u>\$ 2,191,631</u>	<u>\$ 73,960</u>	<u>\$ 62,849</u>	<u>\$ 2,202,742</u>	<u>\$ 58,496</u>

Note 3 - Detail Notes on All Funds (continued)

C. Interfund Balances and Activity

Balances due to/from other funds at June 30, 2023, consist of the following:

Due from Enterprise Fund to General Fund	\$ <u>14,601</u>
--	------------------

Interfund balances resulted from a time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, or (3) payments between funds are made. There were no interfund balances at June 30, 2023.

Transfers to/from other funds during the year ended June 30, 2023, consist of the following:

From the Capital Reserve Fund to the General Fund	\$ <u>19,749</u>
---	------------------

D. Net Investment in Capital Assets

Net investment in capital assets at June 30, 2023, consists of the following elements:

	<u>Governmental</u>	<u>Business-type</u>
Capital assets	\$ 1,811,843	\$ 4,785,851
Installment debt	<u>(278,995)</u>	<u>(2,087,855)</u>
Net investment in capital assets	<u>\$ 1,532,848</u>	<u>\$ 2,697,996</u>

E. Fund Balance

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

Total fund balance - General Fund	\$ <u>1,985,123</u>
Less:	
Stabilization by State Statute	153,087
Amphitheatre	565
Centennial	620
Pace Park	7,693
Historical Committee	5,615
Streets	2,957
Street Lights	368
Police	1,349
McCreery Park	200,000
Appropriated Fund Balance in 2024 budget	169,739
Working capital / fund balance policy	<u>467,909</u>
<u>Fund Balance Available for Appropriation</u>	<u>\$ 975,221</u>

Note 3 - Detail Notes on All Funds (continued)

The City of Saluda has adopted a minimum fund balance policy for the General Fund which instructs management to conduct the business of the City in such a manner that available fund balance is at least equal to or greater than 26% of budgeted expenditures.

Note 4 - Jointly Governed Organization

The City, in conjunction with other area counties and municipalities, established the Foothills Regional Commission, formerly Isothermal Planning and Development Commission, (the Commission). The participating governments established the Commission to coordinate various funding received from federal and State agencies. Each participating government appoints one member to the Commission's governing board. The City paid \$730 in membership fees to the Commission during the fiscal year ended June 30, 2023.

Note 5 - Summary Disclosure of Significant Contingencies

Federal and State Assisted Programs

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

Note 6 - Significant Effects of Subsequent Events

Subsequent events were evaluated through November 8, 2023, which is the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SALUDA, NORTH CAROLINA

Schedule of the Proportionate Share of Net Pension Liability Local Government Employees' Retirement System Last Ten Fiscal Years*

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Saluda's proportion of the net pension liability (asset) (%)	0.00591%	0.00820%	0.00657%	0.00813%	0.00528%	0.00432%	0.00363%	0.00351%	0.00655%	0.00760%
Saluda's proportion of the net pension liability (asset) (\$)	\$ 333,408	\$ 125,755	\$ 234,774	\$ 222,024	\$ 125,260	\$ 65,998	\$ 77,041	\$ 15,574	\$ (38,628)	\$ 91,609
Saluda's covered payroll	\$ 541,377	\$ 478,143	\$ 492,868	\$ 450,869	\$ 466,153	\$ 385,553	\$ 333,098	\$ 265,035	\$ 286,826	\$ 405,305
Saluda's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	61.59%	26.30%	47.63%	49.24%	26.87%	17.12%	23.13%	5.88%	(13.47%)	22.60%
Plan fiduciary net position as a percentage of the total pension liability**	84.14%	95.51%	88.61%	90.86%	91.63%	94.18%	91.47%	98.09%	99.07%	102.64%

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

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

CITY OF SALUDA, NORTH CAROLINA

Schedule of Contributions Local Government Employees' Retirement System Last Ten Fiscal Years

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 67,298	\$ 55,520	\$ 51,176	\$ 41,308	\$ 37,181	\$ 30,212	\$ 25,279	\$ 18,427	\$ 20,811	\$ 32,287
Contributions in relation to the contractually required contribution	<u>67,298</u>	<u>55,520</u>	<u>51,176</u>	<u>41,308</u>	<u>37,181</u>	<u>30,212</u>	<u>25,279</u>	<u>18,427</u>	<u>20,365</u>	<u>32,287</u>
Contribution deficiency	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____	\$ 446	\$ _____
Saluda's covered payroll	<u>\$ 541,074</u>	<u>\$ 478,143</u>	<u>\$ 492,868</u>	<u>\$ 450,869</u>	<u>\$ 466,153</u>	<u>\$ 385,553</u>	<u>\$ 333,098</u>	<u>\$ 265,035</u>	<u>\$ 286,826</u>	<u>\$ 405,305</u>
Contributions as a percentage of covered payroll	12.44%	11.61%	10.38%	9.16%	7.98%	7.84%	7.59%	6.95%	7.26%	7.97%

CITY OF SALUDA, NORTH CAROLINA

Schedule of Changes in Total Pension Liability Law Enforcement Officers' Special Separation Allowance Last seven Fiscal Years *

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Beginning balance	\$ 3,361	\$ 3,356	\$ 10,833	\$ 24,619	\$ 17,127	\$ 26,858	\$ 23,508
Service cost	2,191	2,455	1,583	2,106	3,129	2,053	2,815
Interest on the total pension liability	76	65	353	896	541	1,037	839
Difference between expected and actual experience	23,417	(2,405)	(9,264)	(17,063)	4,409	(15,223)	
Changes of assumptions or other inputs	<u>(2,497)</u>	<u>(110)</u>	<u>(149)</u>	<u>275</u>	<u>(587)</u>	<u>2,402</u>	<u>(304)</u>
Ending balance of the total pension liability	<u>\$ 26,548</u>	<u>\$ 3,361</u>	<u>\$ 3,356</u>	<u>\$ 10,833</u>	<u>\$ 24,619</u>	<u>\$ 17,127</u>	<u>\$ 26,858</u>

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

CITY OF SALUDA, NORTH CAROLINA

Schedule of Total Pension Liability as a Percentage of Covered Payroll Law Enforcement Officers' Special Separation Allowance June 30, 2023

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total pension liability	\$ 26,548	\$ 3,361	\$ 3,356	\$ 10,833	\$ 24,619	\$ 17,127	\$ 26,858
Covered payroll	\$179,735	\$161,891	\$110,878	\$148,884	\$186,193	\$136,798	\$171,425
Total pension liability as a percentage of covered payroll	14.77%	2.08%	3.03%	7.28%	13.22%	12.52%	15.67%

Notes to the schedules

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

The pension schedules are intended to show information for ten years; additional years' information will be displayed as it becomes available.

INDIVIDUAL FUND STATEMENTS AND SCHEDULES

CITY OF SALUDA, NORTH CAROLINA

General Fund Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual For the Year Ended June 30, 2023

	Budget	Actual	Variance Positive (Negative)
Revenues			
Ad valorem taxes:			
Current year taxes	\$ 958,000	\$ 965,091	\$ 7,091
Prior year taxes	9,000	6,750	(2,250)
Interest	<u>2,800</u>	<u>5,375</u>	<u>2,575</u>
Total	<u>969,800</u>	<u>977,216</u>	<u>7,416</u>
Other taxes and licenses:			
Privilege licenses	<u>2,000</u>	<u>3,705</u>	<u>1,705</u>
Unrestricted intergovernmental:			
Local option sales tax	270,000	290,220	20,220
Beer and wine tax	2,800	2,864	64
Utility franchise tax	<u>80,000</u>	<u>79,239</u>	<u>(761)</u>
Total	<u>352,800</u>	<u>372,323</u>	<u>19,523</u>
Restricted intergovernmental:			
Highway use tax	12,000	12,260	260
Powell Bill allocation	29,500	29,370	(130)
Grants	110,500	320,500	210,000
Solid waste disposal	<u>400</u>	<u>492</u>	<u>92</u>
Total	<u>152,400</u>	<u>362,622</u>	<u>210,222</u>
Permits and fees:			
Zoning permits	1,500	2,050	550
Citations	<u>2,800</u>	<u>2,979</u>	<u>179</u>
Total	<u>4,300</u>	<u>5,029</u>	<u>729</u>
Sales and services:			
Garbage collection	138,500	132,983	(5,517)
Cemetery lots	5,600	5,600	
Rents	<u>525</u>	<u>600</u>	<u>75</u>
Total	<u>144,625</u>	<u>139,183</u>	<u>(5,442)</u>
Investment earnings	<u>61,000</u>	<u>78,625</u>	<u>17,625</u>
Miscellaneous:			
Miscellaneous	20,320	22,080	1,760
Contributions	<u>175</u>	<u></u>	<u>(175)</u>
Total	<u>20,495</u>	<u>22,080</u>	<u>1,585</u>
Total revenues	<u>\$ 1,707,420</u>	<u>\$ 1,960,783</u>	<u>\$ 253,363</u>

CITY OF SALUDA, NORTH CAROLINA

General Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (continued) For the Year Ended June 30, 2023

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Expenditures			
General government:			
Salaries and employee benefits	\$ 296,150	\$ 264,697	\$ 31,453
Professional services	55,500	41,873	13,627
Other operating expenditures	96,944	66,995	29,949
Election costs	2,400		2,400
County collection charges	15,500	14,732	768
City Hall	33,358	30,690	2,668
Capital outlay	<u>52,500</u>	<u>51,969</u>	<u>531</u>
Total general government	<u>552,352</u>	<u>470,956</u>	<u>81,396</u>
Public safety:			
Salaries and employee benefits	311,969	284,017	27,952
Other operating expenditures	106,114	92,797	13,317
Capital outlay	46,000	32,975	13,025
Contracted fire services	<u>164,810</u>	<u>151,076</u>	<u>13,734</u>
Total public safety	<u>628,893</u>	<u>560,865</u>	<u>68,028</u>
Transportation:			
Salaries and employee benefits	10,000	7,425	2,575
Other operating expenditures	167,461	161,079	6,382
Capital outlay	<u>132,650</u>	<u>132,281</u>	<u>369</u>
Total transportation	<u>310,111</u>	<u>300,785</u>	<u>9,326</u>
Environmental protection:			
Contracted services	<u>161,200</u>	<u>158,774</u>	<u>2,426</u>
Cultural and recreation:			
Library	43,073	25,210	17,863
Cemetery	7,000	5,254	1,746
Parks	46,520	34,100	12,420
Capital outlay	<u>15,500</u>	<u>12,605</u>	<u>2,895</u>
Total cultural and recreation	<u>112,093</u>	<u>77,169</u>	<u>34,924</u>
Debt service	<u>35,000</u>	<u>34,821</u>	<u>179</u>
Total expenditures	<u>\$ 1,799,649</u>	<u>\$ 1,603,370</u>	<u>\$ 196,279</u>

CITY OF SALUDA, NORTH CAROLINA

General Fund Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (continued) For the Year Ended June 30, 2023

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues over (under) expenditures	\$ <u>(92,229)</u>	\$ <u>357,413</u>	\$ <u>449,642</u>
Other financing sources (uses)			
Transfers to other funds	<u>26,000</u>	<u>19,749</u>	<u>(6,251)</u>
Fund balance appropriated	<u>66,229</u>		<u>(66,229)</u>
Net change in fund balance	\$ <u> </u>	377,162	\$ <u>377,162</u>
Fund balance, beginning		<u>1,607,961</u>	
Fund balance, ending		\$ <u>1,985,123</u>	

CITY OF SALUDA, NORTH CAROLINA

Water and Sewer Fund Schedule of Revenues and Expenditures Budget and Actual (Non-GAAP) For the Year Ended June 30, 2023

	Budget	Actual	Variance Positive (Negative)
Revenues			
Operating revenues:			
Charges for services	\$ 981,100	\$ 872,477	\$ (108,623)
Non-operating revenues:			
Miscellaneous income	234,741	62,556	(172,185)
Total revenues	<u>1,215,841</u>	<u>935,033</u>	<u>(280,808)</u>
Expenditures			
Administration:			
Salaries and employee benefits	283,292	243,849	39,443
Insurance	7,400	7,907	(507)
Other operating expenditures	361,100	165,719	195,381
Total operating expenditures	<u>651,792</u>	<u>417,475</u>	<u>234,317</u>
Water purchases	<u>221,500</u>	<u>221,045</u>	<u>455</u>
Water system operations:			
Contracted services	35,000	32,400	2,600
Equipment maintenance and supplies	85,000	59,845	25,155
Total water system operations	<u>120,000</u>	<u>92,245</u>	<u>27,755</u>
Water system repairs and maintenance	<u>280,168</u>	<u>275,426</u>	<u>4,742</u>
Debt services:			
Principal retirement	57,500	57,496	4
Interest	51,300	51,217	83
Total debt services	<u>108,800</u>	<u>108,713</u>	<u>87</u>
Capital outlay	<u>140,964</u>	<u>137,691</u>	<u>3,273</u>
Total expenditures	<u>1,523,224</u>	<u>1,252,595</u>	<u>270,629</u>
Operating income	<u>(307,383)</u>	<u>(317,562)</u>	<u>(10,179)</u>
Other financing sources (uses)			
Transfers to other funds	<u>(50,000)</u>		<u>50,000</u>
Fund balance appropriated	<u>357,383</u>		<u>(357,383)</u>
Revenues under expenditures and other financing sources (uses)	<u>\$</u>	<u>\$ (317,562)</u>	<u>\$ (317,562)</u>

CITY OF SALUDA, NORTH CAROLINA

Water and Sewer Fund Statement of Revenues and Expenditures Budget and Actual (Non-GAAP) (continued) For the Year Ended June 30, 2023

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Reconciliation from budgetary basis to full accrual			
Revenues under expenditures and other financing sources (uses):		\$ (317,562)	
Reconciling items:			
Capital outlays		137,691	
Depreciation		(153,795)	
Principal retirement		57,496	
Increase in deferred outflows of resources		12,915	
Increase in net pension liability		(65,965)	
Decrease in deferred inflows of resources		<u>45,002</u>	
Total reconciling items		<u>33,344</u>	
Change in net position		<u>\$ (284,218)</u>	

CITY OF SALUDA, NORTH CAROLINA

Water and Sewer Capital Projects Fund Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP) From Inception and for the Fiscal Year Ended June 30, 2023

	Project Author- ization	Prior Years	Actual Current Year	Total to Date	Variance Positive (Negative)
Revenues					
Grant income	\$ 160,000	\$	\$	\$	\$ (160,000)
Total revenues	<u>160,000</u>				<u>(160,000)</u>
Expenditures					
Legal and engineering	31,000		14,601	14,601	16,399
Construction	220,000				220,000
Other	<u>23,200</u>				<u>23,200</u>
Total expenditures	<u>274,200</u>		<u>14,601</u>	<u>14,601</u>	<u>259,599</u>
Other financing sources					
Transfers from other funds:					
Transfer from Sewer Fund	<u>114,200</u>				<u>(114,200)</u>
Total other financing sources	<u>114,200</u>				<u>(114,200)</u>
Revenues and other financing sources over (under) expenditures	<u>\$</u>	<u>\$</u>	<u>\$ (14,601)</u>	<u>\$ (14,601)</u>	<u>\$ (14,601)</u>

OTHER SCHEDULES

CITY OF SALUDA, NORTH CAROLINA

Schedule of Ad Valorem Taxes Receivable June 30, 2023

<u>Fiscal Year</u>	<u>Uncollected Balance June 30, 2022</u>	<u>Additions</u>	<u>Collections and Credits</u>	<u>Uncollected Balance June 30, 2023</u>
2022-2023	\$	\$ 985,449	\$ (975,541)	\$ 9,908
2021-2022	8,805		(6,601)	2,204
2020-2021	1,196		(13)	1,183
2019-2020	1,203		(18)	1,185
2018-2019	1,206		(13)	1,193
2017-2018	227		(43)	184
2016-2017	38			38
2015-2016	64			64
2014-2015	1,857			1,857
2013-2014	608			608
2012-2013	206		(206)	
	<u>\$ 15,410</u>	<u>\$ 985,449</u>	<u>\$ (982,435)</u>	<u>18,424</u>
Less: allowance for uncollectable accounts				
Ad valorem taxes				<u>500</u>
Ad valorem taxes receivable - net				<u>\$ 17,924</u>
<u>Reconciliation to revenues:</u>				
Ad valorem taxes - General Fund				\$ 977,216
Reconciling items:				
Interest collected				(5,375)
Discounts allowed				11,587
Collection of prior year taxes				(7,297)
Taxes written off				<u>(590)</u>
Total collections and credits				<u>\$ 975,541</u>

CITY OF SALUDA, NORTH CAROLINA

Analysis of Current Tax Levy City - Wide Levy June 30, 2023

	City-Wide			Total Levy	
	Property Valuation	Rate	Total Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Property taxed at current year rate	\$ 138,126,297	0.6800%	\$ 939,258	\$ 939,258	\$
Property taxed at prior year rate	7,748,755	0.6750%	46,759		46,759
Discoveries	93,470		636	636	
Releases and exemptions	(177,100)		(1,204)	(1,204)	
Total property valuation	<u>\$ 145,791,422</u>				
Net levy			985,449	938,690	46,759
Uncollected taxes at June 30, 2023			<u>9,908</u>	<u>9,908</u>	
Current year's taxes collected			<u>\$ 975,541</u>	<u>\$ 928,782</u>	<u>\$ 46,759</u>
Current levy collection percentage			<u>98.99%</u>	<u>98.94%</u>	<u>100.00%</u>

CITY OF SALUDA, NORTH CAROLINA

Schedule of Net Position Water and Sewer Fund by Function June 30, 2023

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Assets			
Current assets:			
Cash and cash equivalents	\$ 308,787	\$ 69,497	\$ 378,284
Accounts receivable (net)	80,057	47,657	127,714
Escrow account receivable	9,754		9,754
Restricted cash and cash equivalents	<u>106,125</u>	<u>76,106</u>	<u>182,231</u>
Total current assets	<u>504,723</u>	<u>193,260</u>	<u>697,983</u>
Noncurrent assets:			
Capital assets, net of depreciation	<u>2,101,788</u>	<u>2,684,063</u>	<u>4,785,851</u>
Total noncurrent assets	<u>2,101,788</u>	<u>2,684,063</u>	<u>4,785,851</u>
Total assets	<u>\$ 2,606,511</u>	<u>\$ 2,877,323</u>	<u>\$ 5,483,834</u>
Deferred outflows of resources	<u>\$ 38,210</u>	<u>\$ 38,210</u>	<u>\$ 76,420</u>
Liabilities			
Current liabilities:			
Accounts payable and accrued liabilities	\$ 44,042	\$ 13,152	\$ 57,194
Due to other funds		14,601	14,601
Customer deposits	30,019		30,019
Current portion of notes payable	<u>40,996</u>	<u>17,500</u>	<u>58,496</u>
Total current liabilities	<u>115,057</u>	<u>45,253</u>	<u>160,310</u>
Noncurrent liabilities:			
Net pension liability	48,002	56,350	104,352
Compensated absences	7,269	3,266	10,535
Noncurrent portion of notes payable	<u>1,096,915</u>	<u>932,444</u>	<u>2,029,359</u>
Total noncurrent liabilities	<u>1,152,186</u>	<u>992,060</u>	<u>2,144,246</u>
Total liabilities	<u>\$ 1,267,243</u>	<u>\$ 1,037,313</u>	<u>\$ 2,304,556</u>
Deferred inflows of resources	<u>\$ 7,421</u>	<u>\$ 6,580</u>	<u>\$ 14,001</u>
Net position			
Net investment in capital assets	\$ 963,877	\$ 1,734,119	\$ 2,697,996
Unrestricted	<u>420,787</u>	<u>122,914</u>	<u>543,701</u>
Total net position	<u>\$ 1,384,664</u>	<u>\$ 1,857,033</u>	<u>\$ 3,241,697</u>

CITY OF SALUDA, NORTH CAROLINA

Schedule of Revenues, Expenses, and Changes in Fund Net Position Water and Sewer Fund by Function For the Year Ended June 30, 2023

	Water	Sewer	Total
Operating revenues			
Charges for services	\$ 593,947	\$ 278,530	\$ 872,477
Operating grants	29,366	21,225	50,591
Other operating revenues	11,965		11,965
Total operating revenues	<u>635,278</u>	<u>299,755</u>	<u>935,033</u>
Operating expenses			
Administration	277,923	239,151	517,074
Water treatment plant	148,845	127,275	276,120
Water distribution	221,045		221,045
Depreciation	58,811	94,984	153,795
Total operating expenses	<u>706,624</u>	<u>461,410</u>	<u>1,168,034</u>
Operating income loss	<u>(71,346)</u>	<u>(161,655)</u>	<u>(233,001)</u>
Nonoperating revenues (expenses)			
Interest expense	<u>(28,252)</u>	<u>(22,965)</u>	<u>(51,217)</u>
Change in net position	(99,598)	(184,620)	(284,218)
Total net position, beginning	<u>1,484,262</u>	<u>2,041,653</u>	<u>3,525,915</u>
Total net position, ending	<u>\$ 1,384,664</u>	<u>\$ 1,857,033</u>	<u>\$ 3,241,697</u>

CITY OF SALUDA, NORTH CAROLINA

Schedule of Cash Flows Water and Sewer Fund by Function For the Year Ended June 30, 2023

	Water	Sewer	Total
Cash flows from operating activities			
Cash received from customers	\$ 639,298	\$ 281,925	\$ 921,223
Cash paid for goods and services	(463,510)	(240,511)	(704,021)
Cash paid to employees for services	(143,672)	(96,114)	(239,786)
Customer deposits received, net	250		250
Net cash provided (used) by operating activities	<u>32,366</u>	<u>(54,700)</u>	<u>(22,334)</u>
Cash flows from capital and related financing activities			
Acquisition and construction of capital assets	(67,722)	(68,845)	(136,567)
Principal paid on long-term debt	(40,496)	(17,000)	(57,496)
Interest paid on long-term debt	(28,252)	(22,965)	(51,217)
Net cash used by capital and related financing activities	<u>(136,470)</u>	<u>(108,810)</u>	<u>(245,280)</u>
Net decrease in cash and equivalents	(104,104)	(163,510)	(267,614)
Cash and equivalents, beginning	<u>509,841</u>	<u>318,288</u>	<u>828,129</u>
Cash and equivalents, ending	<u>\$ 405,737</u>	<u>\$ 154,778</u>	<u>\$ 560,515</u>
Reconciliation of operating loss to net cash provided by operating activities			
Operating loss	\$ (71,346)	\$ (161,655)	\$ (233,001)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	58,811	94,984	153,795
Change in assets and liabilities:			
(Increase) decrease in accounts receivable	4,020	(17,830)	(13,810)
Increase in accounts payable and accrued liabilities	40,420	4,722	45,142
Increase in due to other funds		14,601	14,601
Increase in customer deposits	250		250
Increase in accrued compensated absences	1,898	743	2,641
Increase in net pension liability	28,360	37,605	65,965
Increase in deferred outflows of resources	(6,464)	(6,451)	(12,915)
Decrease in deferred inflows of resources	<u>(23,583)</u>	<u>(21,419)</u>	<u>(45,002)</u>
Net cash provided (used) by operating activities	<u>\$ 32,366</u>	<u>\$ (54,700)</u>	<u>\$ (22,334)</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 Members of the City Council
City of Saluda, North Carolina

We have audited, 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, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Saluda, North Carolina, as of and for the year ended June 30 2023, and the related notes to the financial statements, which collectively comprises City of Saluda, North Carolina's basic financial statements, and have issued our report thereon dated November 8, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Saluda, North Carolina's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Saluda, North Carolina's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Saluda, 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 entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

CITY OF SALUDA, NORTH CAROLINA

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Saluda, 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Asheville, North Carolina
November 8, 2023