

CITY COUNCIL:  
BARBARA G. VOLK  
Mayor  
JERRY A. SMITH, JR  
Mayor Pro Tem  
JEFF MILLER  
DR. JENNIFER HENSLEY  
LYNDESEY SIMPSON

# CITY OF HENDERSONVILLE

## *The City of Four Seasons*



OFFICERS:  
JOHN F. CONNET  
City Manager  
ANGELA S. BEEKER  
City Attorney  
ANGELA REECE  
City Clerk

December 14, 2021

To the **Mayor, Members of City Council, City Manager and Citizens of the City of Hendersonville:**

North Carolina General Statute 159-34 states that “each unit of local government and public authority shall have its accounts audited as soon as possible after the close of each fiscal year by a certified public accountant or by an accountant certified by the Commission as qualified to audit local government accounts. A complete set of financial statements shall be presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards.” Pursuant to that requirement, it is our pleasure to present the Annual Comprehensive Financial Report (ACFR) for the fiscal year ended June 30, 2021.

This report consists of management’s representations concerning the finances of the City of Hendersonville. Consequently, management assumes full responsibility for the completeness and reliability of all the information presented in this report. To provide a reasonable basis for making these representations, management of the City of Hendersonville has established a comprehensive internal control framework that is designed both to protect the government’s assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City of Hendersonville’s financial statements in conformity with GAAP. Because the costs of internal controls should not outweigh their benefits, the City of Hendersonville’s comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City of Hendersonville’s financial statements have been audited by Mauldin & Jenkins, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Hendersonville for the fiscal year ended June 30, 2021, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded that there was a reasonable basis for rendering an unmodified opinion that the City of Hendersonville’s financial statements for the fiscal year ended June 30, 2021 are fairly presented in conformity with GAAP. The independent auditor’s report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the City of Hendersonville was part of a broader, federally mandated compliance audit designed to meet the special needs of federal and state grantor agencies. The standards governing compliance audits, in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States, require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government’s internal controls and compliance with legal requirements, with special requirements involving the administration of federal grants and awards. These documents are available in the Compliance Report Section of this report.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management’s Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City of Hendersonville’s MD&A can be found immediately following the independent auditor’s report.

## **Profile of the Government**

The City of Hendersonville was chartered in 1847 and is located in Henderson County (the “County”) in western North Carolina. Significant economic growth occurred with the completion of the railroad from Charleston, South Carolina to Hendersonville in 1879. Popular as a summer resort and health center for more than a century, the City today has an economic base of industry, agriculture and tourism, and is a growing retirement center.

The City is the County seat of Henderson County and the largest among five municipalities located within the County. The City is recognized for its vibrant Historic Downtown which includes dining, shopping, parks and a business district. A short walk from the heart of downtown is the revitalized Historic Seventh Avenue District. The City continues to see population growth. The U.S. Department of Commerce, Bureau of the Census estimates that the July 1, 2020 population of the City is 15,137.

The City encompasses an area of 6.97 square miles and is located on a mountain plateau 2,200 feet above sea level. It is 185 miles north of Atlanta and 450 miles south of Washington, D.C. The City is located at the base of the Blue Ridge Mountains with easy access to I-26, I-40, U.S. Highway 64, and the Blue Ridge Parkway.

The City has operated under the “Manager-Council” form of government since January 1994. Policy making and legislative authority are vested in the City Council, which consists of a mayor and a four-member council. The governing council is responsible for, among other things, passing ordinances, adopting the budget, appointing committees, and hiring the City Manager, City Clerk and City Attorney. The City Manager is responsible for carrying out the policies and ordinances of the governing council, for overseeing the day-to-day operations of the government, and for appointing heads of the City's departments. The Council is elected on a nonpartisan basis.

The City is authorized by the *Machinery Act of North Carolina* to levy a property tax on both real and personal property located within its legal boundaries. A full range of services, including police and fire protection, construction and maintenance of highways, streets and other infrastructure, certain sanitation services, and a stormwater program are provided by the City. The City also provides water and sewer service to more than 60,000 people, both inside and outside the City limits.

The Council is required to adopt an initial budget for the fiscal year no later than June 30 preceding the beginning of the fiscal year on July 1. This annual budget serves as the foundation for the City of Hendersonville’s financial planning and control. The budget is prepared by fund, function and department. Department heads may transfer budget resources within a department as they find necessary. Transfers between departments may be approved by the City Manager, however transfers between funds need special approval from the governing council.

## **Factors Affecting Financial Condition**

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City of Hendersonville operates. This past year saw significant uncertainty due to the COVID-19 pandemic. The Pandemic may have a continued material adverse impact on economic and market conditions, triggering a period of global economic slowdown. In preparing the City’s budget for the fiscal year ended June 30, 2021, City leaders considered the potential impact of the Pandemic. The property tax collection percentage for the fiscal year ended June 30, 2020 was 98.6%. The City’s fiscal year ended June 30, 2021 budget assumed a decrease in collections of 1% of property taxes. However, the City’s property tax collections for the fiscal year ended June 30, 2021 are estimated to be \$10,632,856, an increase of approximately \$250,000 over the fiscal year ended June 30, 2020. The City’s sales tax revenue was also expected to be severely impacted by the Pandemic, but collections remained strong for the City in the fiscal year ended June 30, 2021, totaling an estimated 19% over the prior fiscal year. Additionally, the City received approximately \$597,000 of COVID-19 relief funds from the County to reimburse the City for Pandemic-related expenses. Hendersonville's financial position remains strong and should remain strong in the foreseeable future.

## **Local Economy**

The City continues to have a strong and growing economy with a solid residential, commercial and industrial tax base. It is a priority of City Council to develop strong partnerships with residents, businesses, other local governments, non-profits and visitors to ensure there is effective two-way communication and effective interaction with City Departments. The economy of the area is sustained by the local employment markets, agriculture, healthcare, summer camps, community college system, and industries located within the County. Henderson County has a strong and diversified industrial employment environment, including headquarters and office locations, production and assembly operations as well as logistics and distribution facilities.

Hendersonville remains a North Carolina Main Street Community, designated by the NC Department of Commerce and Main Street & Rural Planning Center. As a Main Street America™ Accredited program, the City has met a set of National Accreditation Standards of Performance as outlined by the National Main Street Center and is a recognized leading program among the national network.

More than 200 businesses, including over 20 restaurants, call the Historic District home and cater to residents' needs as well as attracting many visitors to the area. The County Courthouse, City Hall, and other government offices are all a part of the business district. First Bank, PNC Bank, First-Citizens Bank & Trust Company, Truist Bank, Bank of America and Wells Fargo Bank, National Association also have offices in the district.

Economic vitality remains focus area for the City Council, and they continue to promote policies that encourage growth in all areas of our City, establishing Hendersonville as a good place for all types of business. A key component to continued economic growth is The Henderson County Partnership for Economic Development (The Partnership). The Partnership is a non-profit organization that serves as the professional economic development entity for the County and the five municipalities located within it, managing existing industry, marketing, product development and advocacy programs while positively impacting the employment and investment in the local economy.

Several industrial parks are located within the County in addition to sites with quality infrastructure and access. Facilities added or announced include an Amazon and Lowe's distribution facility and large greenhouse facility. An advanced manufacturing cluster has been cultivated and encouraged in Henderson County, driving significant employment and investment in the plastics, automotive, medical, outdoor recreation, food and beverage, advanced materials, and metals sectors.

Henderson County has a labor force of approximately 53,364 persons including approximately 5,670 individuals working in manufacturing businesses. North Carolina is a right-to-work state; therefore, Henderson County virtually has no unionization. Unemployment in Henderson County was 4.3% at June 30, 2021. This was an decrease over the prior year as the area continued to recover from the effects of the COVID 19 pandemic.

### ***Long-term Financial Planning***

The City of Hendersonville prepares a five-year Capital Improvement Plan (CIP) to function as a planning tool for capital improvements and major capital equipment purchases. The CIP represents a multi-year forecast of the capital needs but only the current year schedule is adopted annually by the City Council and becomes part of the operating budget. The CIP not only identifies capital projects but also the financing required for the projects and their impact on the operating budget. Capital projects differ from annual operating expenses in that they involve large dollar amounts, often require special financing, occur at irregular intervals, and involve development of assets expected to last several years. Future forecast in the CIP serve the City by helping plan for capital repairs, replacements, and acquisitions, which aides in financial planning to ensure the Cities' fiscal health and credit. The capital improvement program for the water and sewer system is reviewed annually during the budget process to determine the system's capital needs. These funds are only used for water and sewer capital projects and must be approved by the City Council.

### ***Relevant Financial Policies***

The Hendersonville City Council supports fiscal policies and controls that ensure the long-term financial health of the City and enable it to respond to unforeseen challenges and opportunities. The City has implemented policies and practices to promote responsible management of public resources to ensure efficient and effective delivery of quality services.

The City Council has adopted an Investment and Cash Management Policy to provide parameters within which the City's funds should be managed to provide for sound, efficient and professional investments to achieve primary objectives, in order of importance, of safety of principal, liquidity for operations and return on investment. The policy follows best practices of the Government Finance Officers Association and incorporates the NC State Statue G.S. 159-30 Investment of Idle Funds.

The City of Hendersonville's budget process, as with other municipalities, is regulated by North Carolina General Statute 159, Article 3-The Local Government Budget and Fiscal Control Act. This comprehensive set of financial policies dictates what a municipality can and cannot do during the course of the budgeting period which typically runs from July 1 to June 30 of the following year.

The City follows the purchasing procedures as required by NC state statutes and Federal Uniform Guidance when required. The City has additionally adopted a Purchasing Policy which, through competitive pricing, planning and efficient procurement, strives to secure the lowest, most responsible cost for the City in order to provide our citizens and customers with the quality services that they expect.

The City established an Available Fund Balance policy with a goal for percent available fund balance for the General Fund to be at a minimum of fifty percent (50%) of the City's population group average percent available fund balance. Furthermore, the City Council

hereby establishes a goal for the Water and Sewer Fund percent available fund balance to range between fifty to seventy-five percent (50%-75%). The City will adjust this goal as appropriate based upon the recommendation from the LGC, modifications in North Carolina law, and potential changes in the City's financial outlook.

The City of Hendersonville recognizes the importance of protecting the City, its taxpayers, its employees, and its assets against financial risks, operational breaches and unethical activities. Therefore, City Council adopted a Fraud and Whistleblower Policy to establish guidelines to enforce controls to aid in the prevention and detection of fraud and for responding to allegations of embezzlement, theft, misappropriations of public funds or property, and other types of fraud related to the business of the City of Hendersonville.

### ***Governmental Initiatives and Projects***

Sound infrastructure is one of the top priorities of the City. A major goal for the City of Hendersonville is to construct and maintain efficient and accessible roadway, sidewalk, and greenway systems to extend internal and regional connectivity. As an element of this goal, street maintenance continues to be a high priority as City Council again committed one cent of the property tax to be allocated to the expenditure budget for street resurfacing in addition to the amounts received from the state for street repairs and maintenance. During fiscal year 2021, the City continued the grant project for the replacement of the bridge on Old Tracey Grove Road.

The Mud Creek Dump project continued during fiscal year 2021 in order to conduct an environmental assessment and remediation of the Mud Creek Dump area which was a pre-1983 landfill, which predated State and Federal landfill regulations. The City will receive reimbursement of costs under a work plan approved by the pre-Regulatory Landfill Program of NCDEQ.

The City continued construction on a new Police Department headquarters in fiscal year 2021 that will be located near the Seventh Avenue district. The new headquarters is a major component of plans to help revitalize the Seventh Avenue district and surrounding areas. The project will be funded through a loan with the United States Department of Agriculture Community Facilities Program.

### ***Water & Sewer Initiatives and Projects***

The City of Hendersonville provides high quality water services to approximately 65,000 customers and wastewater services to approximately 21,000 while protecting natural resources and ensuring capacity for sustainable growth.

Several major construction projects were started, continued, or completed during the fiscal year ended June 30, 2021 including the following:

**French Broad River Raw Water Intake** -The City has determined that Mills River tends to be more drought sensitive than the larger French Broad River. The purpose of this project is to design, permit, and construct a new raw water intake and pump station along the French Broad River to increase the redundancy, resiliency, and reliability of source water for the Water Treatment Plant during drought conditions and other water supply needs, and eliminate water scarcity concerns currently experienced during drought conditions. This new intake will have an initial firm pumping capacity of 12 MGD with expansion to 21 MGD. The new pump station will discharge into the existing 30-inch raw water line which extends from the intake site to the Water Treatment Plant.

**The Etowah Water System Improvement project** continued in fiscal year 2021. This project will include the installation of approximately 14,000-ft. of 12-inch ductile iron water main from the proposed booster pumping station to be located adjacent to Morgan Rd. in the Etowah area. This new pump station will lift water up to the 500,000-gallon storage tank to be located on Little Mountain off of Drexel Rd. These improvements should allow the City to remove several hydro-pneumatic pump stations currently boosting water pressure at some of the higher elevations of the City's water system in the Etowah area. This project is expected to be completed in March 2022.

**Northside Water System Improvements Project** – This project involves the installation of 16-inch water main, a booster pumping station and 1.0-MG ground storage tank. This project will increase the pressure in the area in addition to adding more water storage capacity in that portion of Henderson County. Construction started in June 2020 and is expected to be complete by late 2021.

**Mud Creek Interceptor Project** – This project is to replace approximately 10,620 feet of gravity sewer along Mud Creek. The project includes re-routing existing tributary mains to connect to the interceptor and installing cure-in-place pipe in the existing 24" clay sewer main to connect existing flows to minimize additional creek and railroad crossings. Streambank restoration will also be completed, stabilizing approximately 700 linear feet of one side of Mud Creek. This project is expected to be completed in mid-2023.

### ***Stormwater Initiatives and Projects***

The City's NPDES Phase II MS4 Permit issued by the NC Department of Environmental Quality, requires the City to satisfy six minimum control measures as part of a comprehensive stormwater management program. The goal of two of these measures, Public

Education and Outreach and Public Participation/Involvement, are to foster an active, involved, informed, and knowledgeable community, which is crucial to a successful stormwater management program. Some of the programs supported by the stormwater fund to meet these goals include the rain barrel program, “Trash Trout” stream trash collection, stormwater workshops, and stream clean-up events.

### **Awards and Acknowledgments**

The Government Finance Officers Association (GFOA) of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Hendersonville for its Annual Comprehensive Financial Report for the Fiscal Year Ended June 30, 2020. This was the 31st consecutive year the City of Hendersonville received this prestigious award. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement Program requirements, and we are submitting it to GFOA for review.

The preparation of the Fiscal Year 2021 Annual Comprehensive Financial Report could not have been possible without the combined effort of Mauldin & Jenkins, LLC and the staff of the Hendersonville Finance and City Administration Departments. Credit must also be given to the Mayor, City Council, City Manager and Assistant City Manager for their unfailing support for maintaining the highest standards of professionalism in the management of the City of Hendersonville.

Sincerely,

A handwritten signature in black ink, appearing to read 'C B', followed by a long horizontal line.

John Buchanan, CPA, CLGFO  
Finance Director