

TOWN OF BANNER ELK, NORTH CAROLINA

FINANCIAL STATEMENTS

JUNE 30, 2016

TOWN COUNCIL MEMBERS

Allen R. Bollick

Mike Dunn

David C. Lecka

Robert Tufts

Charles B. VonCanon

Brenda Lyerly, Mayor

Rick Owen, Town Manager

TOWN OF BANNER ELK, NORTH CAROLINA

AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

TABLE OF CONTENTS

<u>Exhibit</u>		<u>Page</u>
	Independent Auditor's Report	1-3
	Management Discussion and Analysis	4-12
	Basic Financial Statements:	
	Government-Wide Financial Statements:	
1	Statement of Net Position	13
2	Statement of Activities	14
	Fund Financial Statements:	
3	Balance Sheet - Governmental Funds	15
4	Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	16
	Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds to the Statement of Activities	17
5	General Fund - Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual	18
6	Statement of Fund Net Position - Proprietary Fund	19
7	Statement of Revenues, Expenses, and Changes in Fund Net Position - Proprietary Fund	20
8	Statement of Cash Flows - Proprietary Fund	21
	Notes to the Financial Statements	22-47

TOWN OF BANNER ELK, NORTH CAROLINA

AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

TABLE OF CONTENTS

<u>Schedule</u>		<u>Page</u>
	Required Supplementary Information:	
A-1	Other Post-Employment Benefits – Schedule of Funding Progress and Schedule of Employer Contributions	48
A-2	Law Enforcement Officers’ Special Separation Allowance – Schedule of Funding Progress and Schedule of Employer Contributions	49
A-3	Schedule of Proportionate Share of Net Pension Liability (Asset) - LGERS	50
A-4	Schedule of Employer Contributions - LGERS	51
	Governmental Activities:	
1	General Fund - Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual	52-53
2	Capital Improvement Plan - Capital Improvement Capital Project Fund - Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual	54
3	Combining Balance Sheet - Nonmajor Governmental Funds	55
4	Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds	56
5	Streets and Sidewalks Capital Project Fund - Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual	57
6	Police Special Revenue Fund - Nonmajor Special Revenue Fund - Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual	58

TOWN OF BANNER ELK, NORTH CAROLINA

AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

TABLE OF CONTENTS

<u>Schedule</u>		<u>Page</u>
	Business-Type Activities:	
7	Cops Golf Tournament Special Revenue Fund - Nonmajor Special Revenue Fund - Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual	59
8	Nonmajor Debt Service Fund - Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual	60
9	Historic Banner Elk School Special Revenue Fund - Nonmajor Special Revenue Fund - Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual	61
10	Enterprise Fund - Water and Sewer Fund - Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)	62-63
11	Capital Improvement Plan - Water and Sewer Capital Improvement Plan Fund - Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)	64
	Supplemental Financial Data:	
12	Schedule of Ad Valorem Taxes Receivable	65
13	Analysis of Current Year Levy - Town-Wide Levy	66

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members of the
Town Council
Town of Banner Elk, North Carolina

Report on the Financial Statements

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 Town of Banner Elk, North Carolina, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Banner Elk Tourism Development Authority were not audited in accordance with *Government Auditing Standards*.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly in all material respects the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Banner Elk, North Carolina, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Other Post-Employment Benefits' Schedules of Funding Progress and Employer Contributions and the Law Enforcement Officers' Special Separation Allowance, the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Asset and Contributions, be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economical, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

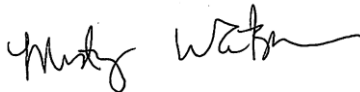
Supplementary Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Banner Elk's basic financial statements. The combining and individual fund financial statements, budget and actual schedules, and supplemental ad valorem tax schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements, budget and actual schedules, and supplemental ad valorem tax schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit, the procedures as described above, the combining and individual fund financial statements, budget and actual schedules, and supplemental ad valorem tax 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 September 13, 2016, on our consideration of the Town of Banner Elk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Banner Elk's internal control over financial reporting and compliance.

A handwritten signature in black ink, appearing to read "Misty Watson". The signature is fluid and cursive, with a long horizontal stroke at the end.

Misty D Watson, CPA, PA
Boone, North Carolina
September 13, 2016

Management's Discussion and Analysis

As management of the Town of Banner Elk, we offer readers of the Town of Banner Elk's financial statements this narrative overview and analysis of the financial activities of the Town of Banner Elk for the fiscal year ended June 30, 2016. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

Financial Highlights

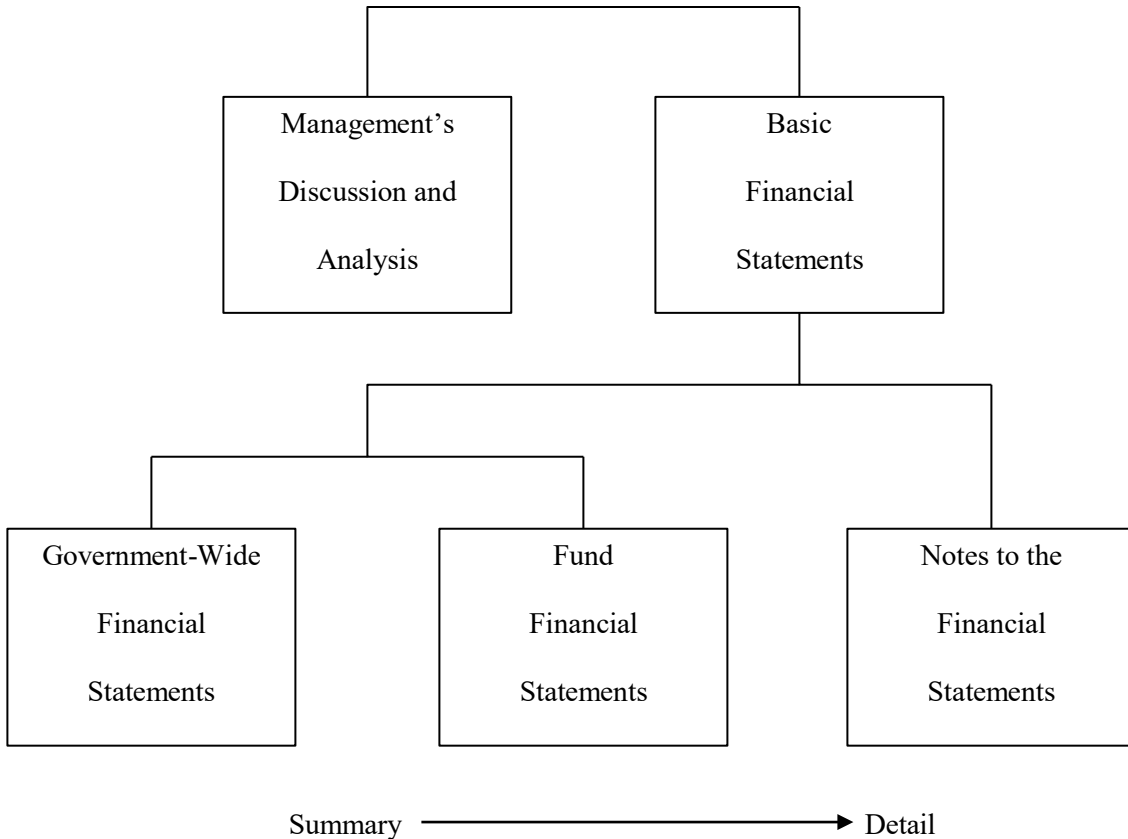
- The assets of the Town of Banner Elk exceeded its liabilities at the close of the fiscal year by \$8,264,059 (*net position*).
- The government's total net position increased by \$808,441, primarily due to governmental fund related activities.
- As of the close of the current fiscal year, the Town of Banner Elk's governmental funds reported combined ending fund balances of \$2,192,443, an increase of \$339,342 in comparison with the prior year. Approximately 8% of this total amount, or \$192,916, is restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$1,415,676, or 91%, of total General Fund expenditures and transfers out for the fiscal year.

Overview of the Financial Statements

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

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

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

The next statements (Exhibits C through I) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the Town's government. These statements provide more detail than the government-wide statements. There are three parts to the fund financial statements: 1) the governmental funds statements, 2) the budgetary comparison statements, and 3) the proprietary fund statements.

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

Government-Wide Financial Statements

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

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

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

The government-wide financial statements are on Exhibits A and B of this report.

Fund Financial Statements

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

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

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

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

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

Other Information. Combining and individual fund statements and schedules can be found beginning on page 52 of this report. Required supplementary information can be found beginning on page 48.

**Government-Wide Financial Analysis
Town of Banner Elk's Net Position**

Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Assets:						
Current and other assets	\$2,347,204	\$2,066,632	\$953,357	\$746,568	\$3,300,561	\$2,813,200
Capital assets	4,350,441	4,123,876	3,111,738	3,294,229	7,462,179	7,418,105
Deferred outflows of resources	54,764	59,777	9,732	11,134	64,496	70,911
Total assets and deferred outflows of resources	6,752,409	6,250,285	4,074,827	4,051,931	10,827,236	10,302,216
Liabilities:						
Long-term liabilities outstanding	2,016,819	2,107,894	312,742	361,565	2,329,561	2,469,459
Other liabilities	106,121	84,337	86,847	61,531	192,968	145,868
Deferred inflows of resources	34,514	194,960	6,134	36,311	40,648	231,271
Total liabilities and deferred inflows of resources	2,157,454	2,387,191	405,723	459,407	2,563,177	2,846,598
Net Position:						
Net investment in capital assets	2,824,645	2,598,080	2,836,738	2,956,229	5,661,383	5,554,309
Restricted	192,916	181,958	-	-	192,916	181,958
Unrestricted	1,577,394	1,083,056	832,366	636,295	2,409,760	1,719,351
Total net position	4,594,955	3,863,094	3,669,104	3,592,524	8,264,059	7,455,618

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets of the Town of Banner Elk exceeded liabilities by \$8,264,059 as of June 30, 2016. The Town's net position increased by \$808,441 for the fiscal year ended June 30, 2016. However, the largest portion (69%) reflects the Town's net investment in capital assets (e.g., land, buildings, machinery, and equipment). The Town of Banner Elk uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Banner Elk's net investment in capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Town of Banner Elk's net position, \$12,916, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$2,409,760 is unrestricted.

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

- In the current year, there was an increase in local options sales tax and water and sewer collections.
- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 97.76%.

Town of Banner Elk Changes in Net Position

Figure 3

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Revenues:						
Program revenues:						
Charges for services	\$ 36,537	\$ 32,654	\$ 726,626	\$ 684,908	\$ 763,163	\$ 717,562
Operating grants and contributions	130,581	87,192	-	-	130,581	87,192
Capital grants and contributions	407,500	253,500	-	-	407,500	253,500
General Revenues:						
Property taxes	1,117,022	1,147,816	-	-	1,117,022	1,147,816
Other taxes	613,046	578,352	-	-	613,046	578,352
Investment earnings	7,159	2,030	623	544	7,782	2,574
Sale of capital assets	21	21,990	-	-	21	21,990
Other	65,326	35,408	-	-	65,326	35,408
Total revenues	<u>2,377,192</u>	<u>2,158,942</u>	<u>727,249</u>	<u>685,452</u>	<u>3,104,441</u>	<u>2,844,394</u>
Expenses:						
General government	403,670	442,745	-	-	403,670	442,745
Public Safety	775,597	726,786	-	-	775,597	771,085
Transportation	291,632	263,279	-	-	291,632	263,279
Cultural and recreation	129,248	138,041	-	-	129,248	138,041
Public works	27,535	-	-	-	27,535	-
Interest on long-term debt	17,649	19,002	12,776	15,044	30,425	34,046
Water and sewer	-	-	637,893	634,133	637,893	634,133
Total expenses	<u>1,645,331</u>	<u>1,589,853</u>	<u>650,669</u>	<u>649,177</u>	<u>2,296,000</u>	<u>2,239,030</u>
Increase (decrease) in net position	731,861	569,089	76,580	36,275	808,441	605,364
Net position, beginning	<u>3,863,094</u>	<u>3,632,009</u>	<u>3,592,524</u>	<u>3,574,939</u>	<u>7,455,618</u>	<u>7,206,948</u>
Prior period adjustment	<u>-</u>	<u>(338,004)</u>	<u>-</u>	<u>(18,690)</u>	<u>-</u>	<u>(356,694)</u>
Net position, restated	<u>3,863,094</u>	<u>3,294,005</u>	<u>3,592,524</u>	<u>3,556,249</u>	<u>7,455,618</u>	<u>6,850,254</u>
Net position, June 30	<u>\$ 4,594,955</u>	<u>\$ 3,863,094</u>	<u>\$ 3,669,104</u>	<u>\$ 3,592,524</u>	<u>\$ 8,264,059</u>	<u>\$ 7,455,618</u>

Governmental Activities. Governmental activities increased the Town’s net position by \$731,861. Key elements of this increase are as follows:

- Property tax collections exceeded expectations.
- Town management closely monitored expenditures.
- Increased collections from local option sales tax.

Business-Type Activities. Business-type activities increased the Town of Banner Elk’s net position by \$76,580. Key element of this increase are as follows:

- Increased collections from water and sewer charges.

Financial Analysis of the Town's Funds

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

Governmental Funds. The focus of the Town of Banner Elk's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the Town of Banner Elk's financing requirements. Specifically, available fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the chief operating fund of the Town of Banner Elk. At the end of the current fiscal year, fund balance available in the General Fund was \$1,415,676 while total fund balance reached \$1,534,101.

At June 30, 2016, the governmental funds of the Town of Banner Elk reported a combined fund balance of \$2,192,443, an 18% increase over last year. Included in this change in fund balance is an increase in the General Fund of \$284,979, a decrease in the Capital Improvement Capital Project Fund of \$36,350, and a net increase in other nonmajor funds of \$90,713.

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

Revenues exceeded budgeted amounts due to conservative estimates.

Capital Improvement Capital Project Fund. There were several reasons the Town revised its budget through the year. The Town received some capital grants and contributions that became available for distribution in 2016. Several budget amendments were required to comply with budgetary requirements to account for unexpected capital outlay expenditures.

Proprietary Funds. The Town of Banner Elk's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the Water and Sewer Fund at the end of the fiscal year amounted to \$832,366. The change in net position was an increase of \$76,580. Other factors concerning the finances of the fund have already been addressed in the discussion of the Town of Banner Elk's business-type activities.

Capital Asset and Debt Administration

Capital Assets. The Town of Banner Elk's capital assets for its governmental and business-type activities as of June 30, 2016, totals \$7,462,179 (net of accumulated depreciation). These assets include buildings, roads and bridges, land, machinery and equipment, park facilities, and vehicles.

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

- | | |
|----------------------------|-----------|
| • Governmental building | \$23,975 |
| • Construction in progress | \$319,728 |
| • Governmental equipment | \$30,327 |
| • Governmental vehicles | \$28,575 |

Town of Banner Elk's Capital Assets

Figure 4

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land	\$ 973,019	\$ 973,019	\$ 23,466	\$ 23,466	\$ 996,485	\$ 996,485
Construction in progress	319,728	-	-	-	319,728	-
Infrastructure	2,099,453	2,099,453	-	-	2,099,453	2,099,453
Buildings	1,323,020	1,299,045	-	-	1,323,020	1,299,045
Plant	-	-	6,485,665	6,485,665	6,485,664	6,485,665
Equipment and furniture	837,751	778,849	597,109	597,109	1,434,860	1,375,958
Total	5,552,971	5,150,366	7,106,240	7,106,240	12,659,211	12,256,606
Less: accumulated depreciation	(1,202,530)	(1,026,490)	(3,994,502)	(3,812,011)	(5,197,032)	(4,838,501)
Net capital assets	\$ 4,350,441	\$ 4,123,876	\$ 3,111,738	\$ 3,294,229	\$ 7,462,179	\$ 7,418,105

Additional information on the Town's capital assets can be found in note 2 of the basic financial statements.

Long-Term Debt. As of June 30, 2016, the Town of Banner Elk had total bond debt outstanding of \$275,000. Of this, \$275,000 is debt backed by the full-faith and credit of the Town.

Town of Banner Elk's Outstanding Debt General Obligation Bonds and Other Long-Term Liabilities

Figure 5

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
General obligation bonds	\$ -	\$ -	\$ 275,000	\$ 338,000	\$ 275,000	\$ 338,000
Compensated absences	57,258	56,223	26,482	23,565	83,740	79,788
Other post-employment benefits	514,864	525,875	-	-	514,864	525,875
Net pension liability	63,373	-	11,260	-	74,633	-
Installment purchases	1,381,324	1,525,796	-	-	1,381,324	1,525,796
Total	\$ 2,016,819	\$ 2,107,894	\$ 312,742	\$ 361,565	\$ 2,329,561	\$ 2,469,459

The Town of Banner Elk's total long-term liabilities decreased by \$139,898 during the past fiscal year, due to principal payments.

North Carolina General Statutes limit the amount of general obligation debt that a unit of government can issue to 8% of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for the Town of Banner Elk is \$14,870,068.

Additional information regarding the Town of Banner Elk's long-term debt can be found in note 2 of the basic financial statements.

Economic Factors and Next Year's Budgets and Rates

The following key economic indicators reflect the stability and prosperity of the Town:

- Tourism continues to be a source of strength for the Town during the current year.
- Housing construction activity continues steadily but is still below historical highs.

Budget Highlights for the Fiscal Year Ending June 30, 2017

Governmental Activities. Property tax revenues are expected to remain the same as prior year at fifty-four cents per hundred dollars. State shared revenues are expected to increase slightly due to an improving State economy.

Budgeted expenditures in the General Fund are expected to remain constant due to the continuing economic factors and to build reserves.

Business-Type Activities. The water and sewer revenues in the Town are expected to remain consistent with the prior year.

Capital outlays relating to the Water and Sewer Fund are expected to remain at or near zero due to continuing economic factors and the need to build reserves for future growth.

Requests for Information

This report is designed to provide an overview of the Town's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Director of Finance, Town of Banner Elk, P.O. Box 2049, Banner Elk, North Carolina 28604.

Town of Banner Elk, North Carolina
Statement of Net Position
June 30, 2016

	<u>Primary Government</u>			Town of Banner Elk Tourism Development Authority
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 2,176,334	\$ 775,722	\$ 2,952,056	\$ 232,278
Taxes receivable, net	48,640	-	48,640	-
Accounts receivable, net	2,533	69,516	72,049	-
Due from other governments	119,697	2,609	122,306	13,036
Inventories	-	66,982	66,982	-
Restricted cash and cash equivalents	-	38,528	38,528	-
Total current assets	<u>2,347,204</u>	<u>953,357</u>	<u>3,300,561</u>	<u>245,314</u>
Non-current assets:				
Capital assets (Note 4):				
Land, non-depreciable improvements, and construction in progress	1,292,747	23,466	1,316,213	-
Other capital assets, net of depreciation	3,057,694	3,088,272	6,145,966	-
Total capital assets	<u>4,350,441</u>	<u>3,111,738</u>	<u>7,462,179</u>	<u>-</u>
Total assets	<u>6,697,645</u>	<u>4,065,095</u>	<u>10,762,740</u>	<u>245,314</u>
DEFERRED OUTFLOWS OF RESOURCES				
Changes in proportion and differences between Town contributions and proportionate share of contributions	6,472	1,150	7,622	-
Contributions to pension plan in current fiscal year	48,292	8,582	56,874	-
Total deferred outflows of resources	<u>54,764</u>	<u>9,732</u>	<u>64,496</u>	<u>-</u>
LIABILITIES				
Current liabilities:				
Accounts payable	106,121	48,319	154,440	1,245
Current portion of long-term liabilities	145,858	65,000	210,858	-
Payable from restricted assets	-	38,528	38,528	-
Total current liabilities	<u>251,979</u>	<u>151,847</u>	<u>403,826</u>	<u>1,245</u>
Long-term liabilities:				
Net pension liability	63,373	11,260	74,633	-
Due in more than one year	1,807,588	236,482	2,044,070	-
Total liabilities	<u>2,122,940</u>	<u>399,589</u>	<u>2,522,529</u>	<u>1,245</u>
DEFERRED INFLOWS OF RESOURCES				
Pension deferrals	34,514	6,134	40,648	-
Total deferred inflows of resources	<u>34,514</u>	<u>6,134</u>	<u>40,648</u>	<u>-</u>
NET POSITION				
Net investment in capital assets	2,824,645	2,836,738	5,661,383	-
Restricted for:				
Public safety	70,686	-	70,686	-
Stabilization by State Statute	122,230	-	122,230	13,036
Tourism	-	-	-	231,033
Unrestricted	1,577,394	832,366	2,409,760	-
Total net position	<u>\$ 4,594,955</u>	<u>\$ 3,669,104</u>	<u>\$ 8,264,059</u>	<u>\$ 244,069</u>

The accompanying notes are an integral part of these financial statements

Town of Banner Elk, North Carolina
Statement of Activities
June 30, 2016

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position				Town of Banner Elk Tourism Development Authority
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total		
Primary government:									
Governmental Activities:									
General government	\$ 403,670	\$ 4,391	\$ -	\$ -	\$ (399,279)	\$ -	\$ (399,279)	\$ -	
Public safety	775,597	-	26,713	-	(748,884)	-	(748,884)	-	
Transportation	291,632	-	42,601	-	(249,031)	-	(249,031)	-	
Cultural and recreation	129,248	32,146	61,267	400,000	364,165	-	364,165	-	
Public works	27,535	-	-	7,500	(20,035)	-	(20,035)	-	
Interest on long-term debt	17,649	-	-	-	(17,649)	-	(17,649)	-	
Total governmental activities (See Note 1)	1,645,331	36,537	130,581	407,500	(1,070,713)	-	(1,070,713)	-	
Business-type activities:									
Water and sewer	650,669	726,626	-	-	-	\$ 75,957	75,957	-	
Total business-type activities	650,669	726,626	-	-	-	75,957	75,957	-	
Total primary government	\$ 2,296,000	\$ 763,163	\$ 130,581	\$ 407,500	(1,070,713)	75,957	(994,756)	-	
Component unit:									
Town of Banner Elk Tourism Development Authority									
Total component unit	\$ 113,663	-	-	-	-	-	-	(113,663)	
General revenues:									
Taxes:									
Property taxes, levied for general purpose					1,117,022	-	1,117,022	-	
Other taxes					239,564	-	239,564	169,876	
Local option sales tax					373,482	-	373,482	-	
Unrestricted investment earnings					7,159	623	7,782	686	
Gain on sale of capital assets					21	-	21	-	
Miscellaneous					65,326	-	65,326	-	
Total general revenues and transfers					1,802,574	623	1,803,197	170,562	
Change in net position					731,861	76,580	808,441	56,899	
Net position, beginning					3,863,094	3,592,524	7,455,618	187,170	
Net position, ending					\$ 4,594,955	\$ 3,669,104	\$ 8,264,059	\$ 244,069	

The accompanying notes are an integral part of these financial statements

Town of Banner Elk, North Carolina
Balance Sheet
Governmental Funds
June 30, 2016

	Major Funds				Total Governmental Funds
	General	Capital Project Reserve Fund	Corner Project and Mill Pond Sidewalk Extension	Total Non- Major Funds	
ASSETS					
Cash and cash equivalents	\$ 1,521,300	\$ 448,499	\$ 121,133	\$ 85,402	\$ 2,176,334
Receivables, net:					
Taxes	48,640	-	-	-	48,640
Accounts	233	-	2,300	-	2,533
Due from other governments	118,192	-	31	1,474	119,697
Total assets	<u>1,688,365</u>	<u>448,499</u>	<u>123,464</u>	<u>86,876</u>	<u>2,347,204</u>
LIABILITIES					
Accounts payable and accrued liabilities	105,624	-	497	-	106,121
Total liabilities	<u>105,624</u>	<u>-</u>	<u>497</u>	<u>-</u>	<u>106,121</u>
DEFERRED INFLOWS OF RESOURCES					
Property taxes receivable	48,640	-	-	-	48,640
Total deferred inflows of resources	<u>48,640</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>48,640</u>
FUND BALANCES					
Restricted					
Stabilization by State Statute	118,425	-	2,331	1,474	122,230
Public Safety	-	-	-	70,686	70,686
Assigned					
Capital projects	-	448,499	-	-	448,499
Cultural and recreation	-	-	-	14,716	14,716
Committed					
Capital projects	-	-	120,636	-	120,636
Unassigned	1,415,676	-	-	-	1,415,676
Total fund balances	<u>1,534,101</u>	<u>448,499</u>	<u>122,967</u>	<u>86,876</u>	<u>2,192,443</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 1,688,365</u>	<u>\$ 448,499</u>	<u>\$ 123,464</u>	<u>\$ 86,876</u>	

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

Total Fund Balance, Governmental Funds	2,192,443
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Gross capital assets at historical cost	\$ 5,552,971
Accumulated depreciation	<u>(1,202,530)</u>
Contributions to the pension plan in the current fiscal year are deferred outflows of resources on the Statement of Net Position	48,292
Changes in proportion and differences between Town contributions and proportionate share of contributions	6,472
Earned revenues considered deferred inflows of resources in fund statements.	48,640
Net pension liability	(63,373)
Gross long-term debt	(1,953,446)
Pension related deferrals	(34,514)
Net position of governmental activities	<u>\$ 4,594,955</u>

The accompanying notes are an integral part of these financial statements

Town of Banner Elk, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
June 30, 2016

	Major Funds				
	General Fund	Capital Project Reserve Fund	Corner Project and Mill Pond Sidewalk Extension	Total Non-Major Funds	Total Governmental Funds
REVENUES					
Ad valorem taxes	\$ 1,117,584	\$ -	\$ -	\$ -	\$ 1,117,584
Other taxes and licenses	253	-	-	-	253
Unrestricted intergovernmental	612,793	-	-	-	612,793
Restricted intergovernmental	69,221	-	-	-	69,221
Permits and fees	2,341	-	-	-	2,341
Sales and services	29,166	-	-	50,398	79,564
Investment earnings	4,729	2,224	90	116	7,159
Miscellaneous	11,932	8,026	400,000	68,860	488,818
Total revenues	1,848,019	10,250	400,090	119,374	2,377,733
EXPENDITURES					
Current:					
General government	376,582	-	-	-	376,582
Public safety	750,817	-	-	25,939	776,756
Transportation	237,833	-	319,728	-	557,561
Public works	-	-	-	-	-
Culture and recreation	119,041	-	-	46,351	165,392
Debt service:					
Principal	61,139	-	-	83,333	144,472
Interest and other charges	17,649	-	-	-	17,649
Total expenditures	1,563,061	-	319,728	155,623	2,038,412
Excess (deficiency) of revenues over expenditures	284,958	10,250	80,362	(36,249)	339,321
OTHER FINANCING SOURCES (USES)					
Transfers from other funds	-	-	6,600	40,000	46,600
Transfers to other funds	-	(46,600)	-	-	(46,600)
Sales of capital assets	21	-	-	-	21
Total other financing sources (uses)	21	(46,600)	6,600	40,000	21
Net change in fund balance	284,979	(36,350)	86,962	3,751	339,342
Fund balances, beginning	1,249,122	484,849	36,005	83,125	1,853,101
Fund balances, ending	\$ 1,534,101	\$ 448,499	\$ 122,967	\$ 86,876	\$ 2,192,443

The accompanying notes are an integral part of these financial statements

Town of Banner Elk, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
June 30, 2016

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

Net changes in fund balances - total governmental funds	\$	339,342
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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	\$ 402,605	
Depreciation expense for governmental assets	<u>(176,040)</u>	226,565
Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities		48,292

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		65
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The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Principal payments on long-term debt	<u>144,472</u>	144,472
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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	(1,035)	
Pension expense	(36,851)	
Other postemployment benefits	<u>11,011</u>	<u>(26,875)</u>

Total changes in net position of governmental activities	\$	<u><u>731,861</u></u>
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Town of Banner Elk, North Carolina
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the Year Ended June 30, 2016

	General Fund			Variance with Final Budget - Positive (Negative)
	Budget - Original	Budget - Final	Actual Amounts	
Revenues:				
Ad valorem taxes	\$ 1,064,622	\$ 1,064,622	\$ 1,117,584	\$ 52,962
Other taxes and licenses	500	500	253	(247)
Unrestricted intergovernmental	482,596	482,596	612,793	130,197
Restricted intergovernmental	85,000	100,000	69,221	(30,779)
Permits and fees	2,000	2,000	2,341	341
Sales and services	11,500	23,840	29,166	5,326
Investment earnings	1,000	1,000	4,729	3,729
Miscellaneous	7,500	7,500	11,932	4,432
Total revenues	<u>1,654,718</u>	<u>1,682,058</u>	<u>1,848,019</u>	<u>165,961</u>
Expenditures:				
Current:				
General government	457,943	477,943	376,582	101,361
Public safety	803,851	818,851	750,817	68,034
Transportation	320,060	320,060	316,621	3,439
Cultural and recreation	122,194	134,534	119,041	15,493
Total expenditures	<u>1,704,048</u>	<u>1,751,388</u>	<u>1,563,061</u>	<u>188,327</u>
Revenues over (under) expenditures	<u>(49,330)</u>	<u>(69,330)</u>	<u>284,958</u>	<u>354,288</u>
Other financing sources (uses):				
Sales of capital assets	-	-	21	21
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>21</u>	<u>21</u>
Fund balance appropriated	<u>49,330</u>	<u>69,330</u>	<u>-</u>	<u>69,330</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>284,979</u>	<u>\$ 284,979</u>
Fund balances, beginning			1,249,122	
Fund balances, ending			<u>\$ 1,534,101</u>	

The accompanying notes are an integral part of these financial statements

Town of Banner Elk, North Carolina
Statement of Fund Net Position
Proprietary Fund
June 30, 2016

	Water and Sewer Fund
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 775,722
Accounts receivable, net	69,516
Due from other governments	2,609
Inventories	66,982
Restricted cash and cash equivalents	38,528
Total current assets	953,357
Noncurrent assets:	
Capital assets:	
Land and construction in progress	23,466
Other capital assets, net of depreciation	3,088,272
Capital assets	3,111,738
2032-2036	3,111,738
Total assets	\$ 4,065,095
DEFERRED OUTFLOWS OF RESOURCES	
Changes in proportion and differences between Town contributions and proportionate share of contributions	\$ 1,150
Contributions to pension plan	8,582
Total deferred outflows of resources	9,732
LIABILITIES	
Current liabilities:	
Accounts payable and accrued liabilities	48,319
Current portion of long-term debt	65,000
Liabilities payable from restricted assets:	
Customer deposits	38,528
Total current liabilities	151,847
Noncurrent liabilities:	
Compensated absences	26,482
Notes and bonds payable	210,000
Net pension liability	11,260
Total noncurrent liabilities	247,742
Total liabilities	399,589
DEFERRED INFLOWS OF RESOURCES	
Pension deferrals	6,134
NET POSITION	
Net investment in capital assets	2,836,738
Unrestricted	832,366
Total net position	\$ 3,669,104

The accompanying notes are an integral part of these financial statements

Town of Banner Elk, North Carolina
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Fund
For the Year Ended June 30, 2016

	Water and Sewer Fund
OPERATING REVENUES	
Charges for services	\$ 701,656
Water and sewer taps	5,771
Other operating revenues	19,199
Total operating revenues	726,626
OPERATING EXPENSES	
Water and sewer operations	455,402
Depreciation	182,491
Total operating expenses	637,893
Operating income (loss)	88,733
NONOPERATING REVENUES (EXPENSES)	
Investment earnings	623
Interest and other charges	(12,776)
Total nonoperating revenue (expenses)	(12,153)
Change in net position	76,580
Total net position, beginning	3,592,524
Total net position, ending	\$ 3,669,104

The accompanying notes are an integral part of these financial statements

Town of Banner Elk, North Carolina
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2016

	Water and Sewer Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 734,479
Cash paid for goods and services	(242,672)
Cash paid to employees	(187,332)
Customer deposits received	3,699
Customer deposits returned	(3,764)
Net cash provided (used) by operating activities	304,410
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal paid on long-term debt	(63,000)
Interest and other charges	(12,776)
Net cash provided (used) by capital and related financing activities	(75,776)
 CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and dividends	623
Net cash provided (used) by investing activities	623
Net increase (decrease) in cash and cash equivalents	229,257
Balances, beginning	584,993
Balances, ending	\$ 814,250
 Reconciliation of operating income to net cash provided by operating activities	
Operating income	\$ 88,733
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	182,491
Changes in assets, deferred outflows of resources, and liabilities:	
(Increase) decrease in accounts receivable, net	4,526
(Increase) decrease in due from other governments	3,327
(Increase) decrease in inventories	(283)
Decrease in net pension asset	14,898
Increase in net pension liability	11,260
Increase (decrease) in accounts payable and accrued liabilities	25,381
Increase (decrease) in customer deposits	(65)
Increase (decrease) in compensated absences	2,917
Increase (decrease) in deferred inflows of resources for pensions	(30,177)
(Increase) decrease in deferred outflows of resources for pensions	1,402
Total adjustments	215,677
Net cash provided by operating activities	\$ 304,410

The accompanying notes are an integral part of these financial statements

**TOWN OF BANNER ELK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

1. Summary of Significant Accounting Policies

The accounting policies of the Town of Banner Elk, North Carolina, (the Town) conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant accounting policies:

A. Reporting Entity

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

Town of Banner Elk Tourism Development Authority (TDA)

The members of the TDA's governing board are appointed by the Town. The TDA Board, which has a June 30 year-end, is presented as if it were a governmental fund (discrete presentation). Complete financial statements for the TDA Board may be obtained from the entity's administrative offices at the Town of Banner Elk TDA, P.O. Box 2049, Banner Elk, North Carolina 28604.

B. Basis of Presentation

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

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

**TOWN OF BANNER ELK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

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

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

Capital Project Reserve Fund. The Capital Improvement Capital Project Fund is used to account for capital asset purchases and major construction projects of the Town, excluding streets, sidewalks, and water/sewer projects.

Capital Project Fund. The Corner Project and Mill Pond Sidewalk Extension Project Fund is used to account for the construction and major maintenance of a sidewalk extension and corner project owned by the Town.

The Town maintains the following nonmajor governmental funds:

Police Special Revenue Fund. This fund is used to account for Federal and State drug enforcement funds remitted to the Town that are restricted for the benefits of the police department.

Cops Golf Tournament Special Revenue Fund. This fund is used to account for the annual activity of the Cops Golf Tournament.

Debt Service Fund. The Debt Service Fund accounts for funds set aside to meet certain long-term debt requirements.

Historic Banner Elk School Special Revenue Fund. This fund is used to account for activity for the Banner Elk School.

**TOWN OF BANNER ELK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

The Town reports the following major enterprise fund:

Water and Sewer Fund. Enterprise funds account for those operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided that the periodical determination of revenues earned, expense incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The Water and Sewer Fund is the only enterprise fund of the Town.

Water and Sewer Capital Improvement Plan Fund. The Water and Sewer Capital Improvement Plan Fund is used to account for capital asset purchases and major construction projects of the Town's water and sewer activity.

C. Measurement Focus and Basis of Accounting

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

Government-Wide and Proprietary Fund Financial Statements. The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus. The government-wide proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions in which the Town gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which 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 Town's enterprise funds are charges to customers for sales and services. The Town also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**TOWN OF BANNER ELK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

The Town considers all revenues available if they are collected within 60 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. 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, 2014, and for limited registration plates are shown as a receivable in these financial statements and are offset by deferred inflows of resources.

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

D. Budgetary Data

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund, Capital Improvement Capital Project Fund, Police Special Revenue Fund, Cops Golf Tournament Special Revenue Fund, Debt Service Fund, Water and Sewer Fund, and Water and Sewer Capital Improvement Plan Fund. All annual appropriations lapse at the fiscal year-end.

**TOWN OF BANNER ELK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

A project ordinance is adopted for the Streets and Sidewalk Capital Project Fund. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the object level for the multi-year funds. Amendments are required for any revisions that alter total expenditures of any fund or that change functional appropriations by more than \$2,500. All amendments must be approved by the governing board. During the year, several amendments to the original budget were necessary. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

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

Deposits and Investments

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

State law [G.S. 159-30(c)] authorizes the Town to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States, obligations of the State of North Carolina, bonds and notes of any North Carolina local government or public authority, obligations of certain non-guaranteed federal agencies, certain high quality issues of commercial paper and bankers' acceptances, and the North Carolina Capital Management Trust (NCCMT).

The Town's investments are reported at fair value. The NCCMT-Cash Portfolio, a SEC-registered (2a-7) external investment pool, is measured at amortized cost, which is the NCCMT's share price. The NCCMT- Term Portfolio's securities are valued at fair value.

Cash and Cash Equivalents

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

**TOWN OF BANNER ELK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

Restricted Cash

Security deposits held by the Town before any services are supplied are restricted to the service for which the deposit was collected.

Restricted cash at June 30, 2016, consist of the following:

Business-Type Activities:

Water and Sewer Fund: Customer deposits	<u>\$38,528</u>
Total restricted cash	<u>\$38,528</u>

Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, interest does not accrue until the following January 6. These taxes are based on the assessed values as of January 1, 2015.

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.

Inventory and Prepaid Items

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

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.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Town as assets with an initial, individual cost greater than \$5,000 and an estimated useful life greater than two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. The cost of normal maintenance and repairs that do not add to the value of the asset or significantly extend the asset's life are not capitalized.

**TOWN OF BANNER ELK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

The Town capitalizes interest costs which are incurred during the construction period of capital assets.

In conjunction with implementing GASB 34, “The New Reporting Model”, the Town began capitalizing public domain (“infrastructure”) capital assets consisting of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems as of July 1, 2003. Infrastructure assets exceeding the Town’s capitalization threshold of \$5,000 will be reported as capital assets in the Statement of Net Position. Donated capital assets received prior to June 15, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 15, 2015 are recorded at acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical cost. General governmental infrastructure assets acquired prior to July 1, 2003, were not retroactively reported; therefore, the infrastructure capital assets in the Statement of Net Position only include assets purchased after July 1, 2003.

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

<u>Assets</u>	<u>Estimated Useful Lives</u>
Infrastructure	50 years
Buildings and improvements	50 years
Furniture and equipment	10 years
Vehicles	5 years
Computer equipment	5 years

Compensated Absences

Town employees are granted vacation and sick leave in varying amounts. In the event of termination, an employee is reimbursed for accumulated vacation days up to a maximum of thirty days. All vacation pay is accrued when earned in the government-wide and proprietary fund financial statements. Vacation pay taken is reduced using the first-in-first-out method. The portion of that time that is estimated to be used in the next fiscal year has been designated as a current liability in the government-wide financial statements. The Town’s sick leave policy provides for unlimited accumulation of earned sick leave. Sick leave does not vest but any unused sick leave at the time of retirement may be used in the determination of length of service for retirement benefit purposes. In accordance with the provisions of Statement of Governmental Accounting Standards No. 16, *Accounting for Compensated Absences*, no liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

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. The separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Town has two items that meet this criterion, contributions made to the pension plan in the 2016 fiscal year and pension related deferrals.

**TOWN OF BANNER ELK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

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 future period and so will not be recognized as revenues until then. The Town has two items that meets this criterion – property taxes receivable and deferrals of pension expense that result from the implementation of GASB Statement 68.

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 the proprietary fund type Statement of Net Position. Debt issuance costs, except for prepaid insurance costs, are expensed in the reporting period in which they are incurred. Prepaid insurance costs are expensed over the life of the debt.

In the fund financial statements, governmental fund types recognized bond premiums and discounts, as well as debt issuance costs, during the current period. The face amount of the debt is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual net proceeds received, are reported as debt service expenditures.

Net Position/Fund Balances Net

Position

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

Fund Balances

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

The governmental fund types classify fund balances as follows:

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

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

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

Stabilization by State Statute – portion of fund balance that is not an available resource for

**TOWN OF BANNER ELK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

appropriation in accordance with State law [G.S. 159-8(a)].

Restricted for Public Safety – portion of fund balance that is restricted by revenue source for public safety expenditures.

Committed Fund Balance: This classification represents the portion of fund balance that can only be used for specific purposes imposed by majority vote by quorum of the Town of Banner Elk’s governing body (highest level of decision making authority, the Town Council). Any changes or removal of specific purpose restrictions requires majority action by the governing body. 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.

Committed for Capital Projects – portion of fund balance that has been budgeted by the Board for future expenditures within the Streets and Sidewalks Capital Project Fund.

Assigned Fund Balance: Assigned fund balance is the portion of fund balance that the Town of Banner Elk has budgeted for specific purposes.

Assigned for Capital Projects – portion of fund balance that has been budgeted by the Board for future expenditures within the Capital Improvements Capital Project Fund.

Restricted for Cultural and Recreational – portion of fund balance that is restricted by revenue source for cultural and recreational expenditures.

Unassigned Fund Balance: Unassigned fund balance represents the portion of fund balance that has not been assigned to another fund or is not restricted, committed, or assigned to specific purposes or other funds.

The Town of Banner Elk has a revenue spending policy that provides guidance for programs with multiple revenue sources. The Finance Officer will use resources in the following order: bond/debt proceeds, Federal funds, State funds, local non-Town funds, and Town funds. For purposes of fund balance classification, expenditures are to be spent from restricted fund balance first, followed in-order by committed fund balance, assigned fund balance, and, lastly, unassigned fund balance. The Finance Officer has the authority to deviate from this policy if it is in the best interest of the Town or when required by grant or other contractual agreements.

The Town has not officially adopted a fund balance policy.

Interfund Transactions

Interfund services provided are accounted for as revenues or expenses in the government-wide financial statements since they would be treated as such if they involved organizations external to the Town. Transactions that constitute reimbursements to a fund or expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other interfund transactions are reported as transfers.

**TOWN OF BANNER ELK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

Use of Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Significant areas where estimates made are: allowance for doubtful accounts and depreciation lives.

Pensions

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

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

2. Detail Notes on All Funds

A. Assets

1. Deposits

All the deposits of the Town and TDA are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits exceeding the federal depository insurance coverage level are collateralized with securities held by the Town's or TDA's agents in the units' name. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town and TDA, these deposits are considered to be held by the Town's and TDA's agents in their names. The amount of the pledged collateral is based on an approved averaging method for non-interest-bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Town and TDA or with the escrow agent. Because of the inability to measure the exact amount of collateral pledged for the Town and TDA under the Pooling Method, the potential exists for under collateralization, and this risk may increase in periods of high

**TOWN OF BANNER ELK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Town and TDA has no policy regarding custodial credit risk for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The Town and TDA complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2016, the Town's deposits had a carrying amount of \$600,271 and a bank balance of \$619,398. Of the bank balance, \$250,000 was covered by FDIC. The Town held \$1,881 in petty cash as of June 30, 2016.

At June 30, 2016, the TDA's deposits had a carrying amount of \$232,278 and a bank balance of \$242,063. Of the bank balance, \$232,278 was covered by the FDIC.

2. Investments

At June 30, 2016, the Town's investments balances were as follows:

Investment Type	Valuation Measurement Method	Book Value At 6/30/2016	Maturity	Rating
NC Capital Management Trust – Cash Portfolio	Amortized Cost	\$ 1,163,766	N/A	AAAm
NC Capital Management Trust – Term Portfolio	Fair Value Level 1	1,224,666	.14 years	Unrated
Total:		<u>\$ 2,388,432</u>		

All investments are measured using the market approach; using prices and other relevant information generated by market transactions involving identical or comparable assets or a group of assets.

Level of fair value hierarchy: Level 1: Debt securities valued using directly observable, quoted prices (unadjusted) in active markets for identical assets.

Interest Rate Risk. The Town has no formal investment policy regarding interest rate risk. The Town does not have a formal investment policy. However, the Town's internal management policy requires purchases of securities to be laddered with staggered maturity dates and limits all securities to a final maturity of no more than two years.

Credit Risk. The Town has no formal policy regarding credit risk, but has internal management procedures that limits the Town's investments to the provisions of G.S. 159-30 and restricts the purchase of securities to the highest possible ratings whenever particular types of securities are rated. The Town's investment in the NC Capital Management Trust Cash Portfolio carried a credit rating of AAAm by Standard & Poor's as of June 30, 2016. The Town's investment in the NC Capital Management Trust Term Portfolio is unrated. The Term Portfolio is authorized to invest in obligations of the U.S. government and agencies and in high grade money market instruments as permitted under North Carolina General Statutes 159-30 as amended.

**TOWN OF BANNER ELK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

Receivables – Allowances for Doubtful Accounts:

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

	Accounts	Taxes	Due from other governments	Total
Governmental Activities:				
Payroll advance	\$ 233	-	-	\$ 233
Other	2,300	-	-	2,300
Property taxes	-	54,106	-	54,106
Local options sales/franchise tax	-	-	82,557	82,557
ABC revenues - unrestricted	-	-	21,250	21,250
ABC revenues law enforcement - restricted	-	-	250	250
Beech Mountain	-	-	2,500	2,500
Sales tax refunds due	-	-	6,005	6,005
Motor vehicle taxes	-	-	7,135	7,135
Allowance for doubtful accounts	-	(5,466)	-	(5,466)
Total governmental activities	\$ 2,533	48,640	119,697	\$ 170,870

**TOWN OF BANNER ELK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

Capital Assets

Governmental Capital Assets

The capital assets of the government fund of the Town at June 30, 2016, were as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 973,019	\$ -	\$ -	\$ 973,019
Construction in progress	-	319,728	-	319,728
Total capital assets not being depreciated	<u>973,019</u>	<u>319,728</u>	<u>-</u>	<u>1,292,747</u>
Capital assets being depreciated:				
Buildings	1,299,045	23,975	-	1,323,020
Equipment and furniture	778,849	58,902	-	837,751
Infrastructure	2,099,453	-	-	2,099,453
Total capital assets being depreciated	<u>4,177,347</u>	<u>82,877</u>	<u>-</u>	<u>4,260,224</u>
Less accumulated depreciation for:				
Buildings	246,446	27,889	-	274,335
Equipment and furniture	517,329	100,002	-	617,331
Infrastructure	262,715	48,149	-	310,864
Total accumulated depreciation	<u>1,026,490</u>	<u>176,040</u>	<u>-</u>	<u>1,202,530</u>
Total capital assets being depreciated, net	<u>3,150,857</u>			<u>3,057,694</u>
Governmental activity capital assets, net	<u><u>\$4,123,876</u></u>			<u><u>\$4,350,441</u></u>

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

Governmental Activities:	
General government	\$ 30,137
Public safety	64,569
Transportation	53,799
Cultural and recreation	27,535
Total	<u><u>\$ 176,040</u></u>

**TOWN OF BANNER ELK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

Proprietary Capital Assets

The capital assets of the proprietary fund of the Town at June 30, 2016, were as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
Water and Sewer Fund				
Capital assets not being depreciated:				
Land	\$ 23,466	\$ -	\$ -	\$ 23,466
Construction in progress	-	-	-	-
Total capital assets not being depreciated	<u>23,466</u>	<u>-</u>	<u>-</u>	<u>23,466</u>
Capital assets being depreciated:				
Plant	6,485,665	-	-	6,485,665
Furniture and maintenance equipment	597,109	-	-	597,109
Total capital assets being depreciated	<u>7,082,773</u>	<u>-</u>	<u>-</u>	<u>7,082,774</u>
Less accumulated depreciation for:				
Plant	3,250,176	169,264	-	3,419,440
Furniture and maintenance equipment	561,835	13,227	-	575,062
Total accumulated depreciation	<u>3,812,011</u>	<u>182,491</u>	<u>-</u>	<u>3,994,502</u>
Total capital assets being depreciated, net	<u>3,270,762</u>			<u>3,088,272</u>
Water and Sewer fund capital assets, net	<u>\$ 3,294,228</u>			<u>\$ 3,111,738</u>

B. Liabilities

Pension Plan and Postemployment Obligations

Local Governmental Employees' Retirement System

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

Benefits Provided. LGERS provides retirement and survivor benefits. Retirement benefits are

TOWN OF BANNER ELK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016

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

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

Contributions. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. Town of Banner Elk employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Town of Banner Elk's contractually required contribution rate for the year ended June 30, 2016, was 7.15% of compensation for law enforcement officers and 6.67% for general employees and firefighters, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Town of Banner Elk were \$56,875 for the year ended June 30, 2016.

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

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

At June 30, 2016, the Town reported a liability of \$74,633 for its proportionate share of the net pension asset. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of

**TOWN OF BANNER ELK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

December 31, 2014. The total pension liability was then rolled forward to the measurement date of June 30, 2015 utilizing update procedures incorporating the actuarial assumptions. The Town's proportion of the net pension asset was based on a projection of the Town's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2015, the Town's proportion was 0.016%, which was a decrease of 0.001% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the Town recognized pension expense of \$42,196. At June 30, 2016, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 17,543
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	21,248
Changes in proportion and differences between Town contributions and proportionate share of contributions	7,622	1,857
Town contributions subsequent to the measurement date	56,874	-
Total	<u>\$ 64,496</u>	<u>\$ 40,648</u>

\$56,874 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2016	\$ (22,696)
2017	(22,696)
2018	(22,696)
2019	35,056
2020	-
Thereafter	-

Actuarial Assumptions. The total pension liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	4.25 to 8.55 percent, including inflation and productivity factor
Investment rate of return	7.25 percent, net of pension plan investment expense, including inflation

**TOWN OF BANNER ELK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

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

The actuarial assumptions used in the December 31, 2014 valuation were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

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, 2014 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	29.0%	2.2%
Global Equity	42.0%	5.8%
Real Estate	8.0%	5.2%
Alternatives	8.0%	9.8%
Credit	7.0%	6.8%
Inflation Protection	6.0%	3.4%
Total	<u>100%</u>	

The information above is based on 30 year expectations developed with the consulting actuary for the 2014 asset liability and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.00%. All rates of return and inflation are annualized.

Discount rate. The discount rate used to measure the total pension liability was 7.25%. 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

**TOWN OF BANNER ELK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

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

Sensitivity of the Town’s proportionate share of the net pension asset to changes in the discount rate. The following presents the Town’s proportionate share of the net pension asset calculated using the discount rate of 7.25 percent, as well as what the Town’s proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.25 percent) or one percentage point higher (8.25 percent) than the current rate:

	1% Decrease (6.25%)	Discount Rate (7.25%)	1% Increase (8.25%)
Town's proportionate share of the net pension liability (asset)	\$ 520,433	\$ 74,634	\$ (300,942)

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

Law Enforcement Officers’ Special Separation Allowance

Plan Description. The Town administers a public employee retirement system (the “Separation Allowance”), a single-employer defined benefit pension plan that provides retirement benefits to the Town’s qualified sworn law enforcement officers. The Separation Allowance is equal to .85% 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. For reporting purposes, the Separation Allowance is presented as a pension trust fund; however, it does not meet the criteria for trust funds outlined in GASB Statement 68.

All full-time law enforcement officers of the Town are covered by the Separation Allowance. At December 31, 2015, the Separation Allowance’s membership consisted of:

Retirees receiving benefits	2
Terminated plan members entitled to, but not yet receiving, benefits	-
Active plan members	8
Total	10

A separate report was not issued for the plan.

**TOWN OF BANNER ELK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

Summary of Significant Accounting Policies

Basis of Accounting. The Town has chosen to fund the Separation Allowance on a pay-as-you-go basis. Pension expenditures are made from the General Fund, which is maintained on the modified accrual basis of accounting.

Method Used to Value Investments. No funds are set aside to pay benefits and administration costs. These expenditures are paid as they come due.

Contributions. The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the benefit payments on a pay-as-you-go basis through appropriations made in the General Fund operation budget. The Town's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. There were no contributions made by employees.

The annual required contribution for the current year was determined as part of the December 31, 2015 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 3.57% investment rate of return (net of administrative expenses) and (b) projected salary increases of 3.50-7.35% per year. Both (a) and (b) included an inflation component of 3.0%. The assumptions did not include post-employment benefit increases. The actuarial value of assets was market value. The remaining amortization period at December 31, 2015 was 15 years.

Annual Pension Cost and Net Pension Obligation. The Town's annual pension cost and net pension obligation to the Separation Allowance for the current year were as follows:

Annual required contribution	\$	36,579
Interest on net pension obligation		22,050
Adjustment to annual required contribution		(38,753)
Annual OPEB cost (expense)		19,876
Contributions made		30,887
Increase (decrease) in net OPEB obligation		(11,011)
Net OPEB obligation, beginning of year		440,995
Net OPEB obligation, end of year	\$	429,984

Trend Information. Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. Trend information for the years ended June 30, 2014, 2015, and 2016 is as follows:

3-year Trend Information			
For the Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2014	19,128	143.46%	452,440
2015	19,442	158.87%	440,995
2016	19,876	155.40%	429,984

**TOWN OF BANNER ELK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

Funding Status and Funding Progress. As of December 31, 2015, the plan was not funded. The actuarial accrued liability for benefits and, thus the unfunded actuarial accrued liability (UAAL) was \$359,409. The covered payroll (annual payroll of active employees covered by the plan) was \$388,163, and the ratio of the UAAL to the covered payroll was 92.59%.

Supplemental Retirement Income Plan for Law Enforcement Officers

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

Funding Policy. Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to 5% of each officer’s salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2016, were \$46,213 which consisted of \$31,658 from the Town and \$14,555 from the law enforcement officers.

Other Post-Employment Benefits

Plan Description. The Town (by local ordinance) administers a single employer defined benefit Healthcare Benefit Plan which provides post-employment healthcare benefits to retirees of the Town, provided they participate in the North Carolina Local Governmental Employees’ Retirement System (LGERS) and meet the following criteria. The employee must exercise their LGERS retirement if they have at least ten years of creditable service with the Town to remain on the Town’s policy with the retiree paying the full cost. If the employee has twenty- five years of creditable service with the Town, the Town will pay the full cost of coverage of these benefits for retirees. Retirees will cease to be eligible for group health once they are Medicare eligible. Retirees who do not meet the aforementioned criteria have the option to purchase basic medical insurance for themselves and their dependents through the Town for eighteen months. The entire cost of this insurance is borne by the retirees. The Town maintains healthcare coverage through a combination of self-insurance and private insurers (see Risk Management Note). The plan was eliminated for all active employees as of December 10, 2012. A separate report was not issued for the plan.

Membership of the post-employment health benefit plan consisted of the following at December 31, 2013, the date of the latest actuarial valuation:

Retirees and dependents receiving benefits	1
Active members	-
Total	1

**TOWN OF BANNER ELK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

Funding Policy. The Town agrees to provide medical insurance to certain retired employees as an extended benefit. Eligible retirees who elect this coverage will be enrolled in the group health plan. For members that retire with at least 25 years of service, the Town pays 100% of the cost for pre-Medicare healthcare coverage for the retiree. Years of service are considered years of creditable service with the Local Governmental Employees' Retirement System. Retirees will cease to be eligible for group health once they are Medicare eligible. The retiree will be responsible for paying the cost of dependent coverage if dependent coverage is elected. The Town has chosen to fund the health care benefits on a pay-as-you-go basis.

The current annual required contribution rate (ARC) is \$14,520. There is no annual covered payroll due to closure of the plan. For fiscal year 2016, the Town contributed \$0. Contributions by employees for the fiscal year ended June 30, 2016, were \$0. The Town's obligation to contribute to the post-retirement benefit plan is established and was amended by the Town Council in January 2013.

Summary of Significant Accounting Policies. Post-employment expenditures are made from the General Fund which is maintained on the modified accrual basis of accounting. No funds are set aside to pay benefits and administration costs. These expenditures are paid as they come due.

Annual OPEB Cost and Net OPEB Obligation. The Town's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Town's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Town's net OPEB obligation for the post-retirement benefits:

Annual required contribution	\$ 13,554
Interest on net OPEB obligation	3,043
Adjustment to annual required contribution	(7,794)
Annual OPEB cost (expense)	<u>8,803</u>
Contributions made	<u>-</u>
Increase (decrease) in net OPEB obligation	8,803
Net OPEB obligation, beginning of year	76,077
Net OPEB obligation, end of year	<u>\$ 84,880</u>

**TOWN OF BANNER ELK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the years ended June 30, 2013, 2014, and 2015 were as follows:

For the Year Ended June 30	3 Year Trend Information		
	Annual OPEB Cost	Percentage of OPEB Contributed	Net OPEB Obligation
2013	19,063	0.00%	74,186
2014	8,920	78.80%	76,077
2015	8,803	0.00%	84,880

Funded Status and Funding Progress. As of December 31, 2013, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and, thus, the unfunded actuarial accrued liability (UAAL) was \$132,294. The covered payroll (annual payroll of active employees covered by the plan) was \$0, and the ratio of the UAAL to the covered payroll was not applicable. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members at that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The annual required contribution for the current year was determined as part of the December 31, 2013, actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 4.0% investment rate of return (net of administrative expenses), which included an inflation component of 3.0% and (b) a 7.5% – 5.0% pre-Medicare trend rate with 2019, the year of ultimate trend rate. The actuarial value of assets was determined using the market value of assets. The unfunded actuarial accrued liability is being amortized as level dollar amount on a closed basis. The remaining amortization period at December 31, 2013, was 12 years.

Other Employment Benefits

The Town has elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, State-administered, cost-sharing plan funded on a one-year term

**TOWN OF BANNER ELK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

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 Town, the Town does not determine the number of eligible participants. The Town 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 Town considers these contributions to be immaterial.

Deferred Inflows and Outflows of Resources

The Town has two deferred outflows of resources. Deferred outflows of resources are comprised of the following:

Source	Amount
Changes in proportion and differences between Town contributions and proportionate share of contributions	7,622
Contributions to pension plan in current fiscal year	56,874
	\$ 64,496
Deferred inflows of resources at year-end are comprised of the following:	
Taxes Receivable, less penalties (General Fund)	\$ 48,640
Pension deferrals	40,648

Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town participates in two self-funded risk-financing pools administered by the North Carolina League of Municipalities. Through these pools, the Town obtains general liability and auto liability coverage of \$1 million per occurrence, property coverage up to the total insurance values of the property policy, and workers' compensation coverage up to statutory limits. The pools are reinsured through commercial companies for single occurrence claims against general liability, auto liability, and property in excess of \$500,000 and \$300,000 up to statutory limits for workers' compensation. The property liability pool has an aggregate limit for the total property losses in a single year, with the reinsurance limit based upon a percentage of the total insurance values. The pools are audited annually by certified public accountants, and the audited financial statements are available to the Town upon request. The Town purchases employee health insurance from a private insurance company. The health insurance plan is fully insured by the private carrier.

**TOWN OF BANNER ELK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

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

In accordance with G.S. 159-29, the Town's employees that have access to \$100 or more of the Town's funds at any given time of the Town's funds are performance bonded through a commercial surety bond with a \$50,000 coverage limit per incident. The Finance Officer and Tax Collector are each individually bonded for \$100,000 each.

Long-Term Obligations

The long-term obligations of the Town are as follows:

Governmental Activities:

4.625% note for \$300,000, payable to USDA issued August 2003; payable in annual installments of \$16,595, including interest; beginning August 2005 with final payment due August 2043; secured by real estate	\$ 257,635
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2.28% note for \$201,200, payable to BB&T issued May 2014; payable in annual installments of \$31,423, including interest; beginning May 2015 with final payment due May 2021; secured by real estate	146,916
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1.89% note for \$118,000, payable to BB&T issued January 2014; payable in semi-annual installments of \$15,384, including interest; beginning July 2014 with final payment due January 2018; secured by equipment	60,110
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0.0% note for \$1,000,000, payable to Avery County issued March 2015; payable in annual installments of \$83,333 beginning July 2015 with final payment due July 2026; secured by real estate	916,663
	\$ 1,381,324

Business-Type Activities:

General Obligation Bonds:

3.98% bonds issued for \$865,000 in October 2005 to refund water sewer bonds; serviced by the revenues of the Water and Sewer Fund with the full-faith credit and taxing power of the Town pledged; interest payable semi-annual and annual principal payments ranging from \$56,000 to \$73,000 with the final payment due 2020	<u>\$ 275,000</u>
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TOWN OF BANNER ELK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016

Maturities of long-term debt, including interest are as follows:

Year Ending June 30	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2017	\$ 145,858	\$ 16,262	\$ 65,000	\$ 10,396
2018	147,280	14,840	67,000	7,940
2019	117,823	13,528	70,000	5,406
2020	118,730	12,621	73,000	2,760
2021	119,663	11,688	-	-
2022-2016	448,839	50,802	-	-
2027-2031	123,667	42,641	-	-
2032-2035	50,564	32,411	-	-
2037-2040	63,390	19,585	-	-
2041-2046	45,510	4,273	-	-
Total	\$ 1,381,324	\$ 218,651	\$275,000	\$ 26,502

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion of Balance
Governmental activities:					
Notes payable	\$ 1,525,796	\$ -	\$ 144,472	\$ 1,381,324	\$ 145,858
Net pension liability	-	63,373	-	63,373	-
Compensated absences	56,223	13,497	12,462	57,258	-
Other postemployment benefits	525,875	-	11,011	514,864	-
Governmental activity long- term liabilities	\$ 2,107,894	\$ 76,870	\$ 167,945	\$ 2,016,819	\$ 145,858
Business-type activities:					
General obligation bonds	\$ 338,000	\$ -	\$ 63,000	\$ 275,000	\$ 65,000
Net pension liability	-	11,260	-	11,260	-
Compensated absences	23,565	6,029	3,112	26,482	-
Water Sewer Fund long- term liabilities	\$ 361,565	\$ 17,289	\$ 66,112	\$ 312,742	\$ 65,000

Other post-employment benefits and compensated absences typically have been liquidated in the General Fund. Compensated absences are accounted for on a FIFO basis, assuming that the employees are taking leave time as it is earned. At June 30, 2016, the Town had a legal debt margin of \$14,870,068.

**TOWN OF BANNER ELK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

3. Interfund Transactions

Transfers to/from Other Funds at June 30, 2016 consists of the following:

The Capital Project Fund transferred to \$6,600 to the Streets and Sidewalks Capital project Fund and \$40,000 to the Historic Banner Elk School Fund.

Jointly Governed Organizations

The Town, in conjunction with seven counties and eighteen municipalities, established the Region D Council of Governments (Council). The participating governments established the Council to coordinate various funding received from Federal and State agencies. Each participating government appoints one member to the Council's governing board.

The Town, in conjunction with the Town of Seven Devils and the Village of Sugar Mountain, merged to form the High Country Municipal Alcoholic Beverage Control Board. Profits from the High Country Municipal Alcoholic Beverage Control Board are distributed pursuant to an agreement signed by the three Towns. Each Town appoints one member to serve on the High Country Municipal Alcoholic Beverage Control Board.

3. Summary Disclosure of Significant Contingencies Federal and State-Assisted Programs

The Town 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 monies 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.

4. Stewardship, Compliance, and Accountability

A. Non-Compliance with North Carolina General Statutes

N.C. General Statute 159-25 requires dual signatures on all checks. The Town of Banner Elk TDA did not have dual signatures on several checks written. The Authority has since increased controls to ensure all checks receive dual signatures.

5. Fund Balance

Total fund balance - General Fund	<u>\$ 1,534,101</u>
Less:	
Stabilization by State Statute	118,425
Remaining fund balance	1,415,676

**Town of Banner Elk, North Carolina
Other Postemployment Benefits
Required Supplementary Information**

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Projected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b - a)/c)
12/31/11	-	242,316	242,316	0%	814,296	29.8%
12/31/13 *	-	132,294	132,294	0%	-	N/A

* The Plan was eliminated for all active employees as of December 10, 2012. The covered payroll displayed excludes members who are ineligible for benefits due to the closure of the Plan.

Schedule of Employer Contributions

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2016	14,520	0.0%
2015	13,554	0.0%
2014	13,554	51.86%
2013	18,760	0.0%

Notes to the Required Schedules:

The information presented above was determined as part of the actuarial valuation dates at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	12/31/2013
Actuarial cost method	Projected unit credit
Amortization method	Level dollar closed
Remaining amortization period	12 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	4.00%
Projected salary increases	5.00-7.50%
Cost of living adjustments	None
Inflation	3.00%

**Town of Banner Elk, North Carolina
Law Enforcement Officers' Special Separation Allowance
Required Supplementary Information**

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Projected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b - a)/c)
12/31/14	-	312,938	312,938	0%	423,028	73.98%
12/31/15	-	359,409	359,409	0%	388,163	92.59%

Schedule of Employer Contributions

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2013	19,721	20.54%
2014	19,128	143.46%
2015	19,442	158.87%
2016	36,579	84.44%

Notes to the Required Schedules:

The information presented above was determined as part of the actuarial valuation dates at the dates indicated.

Additional information as of the latest actuarial valuation follows:

Valuation date	12/31/2015
Actuarial cost method	Entry age normal
Amortization method	Level dollar closed
Remaining amortiz	15 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	3.57%
Projected salary increases	3.50-7.35%
Cost of living adjustments	None
Inflation	3.00%

Town of Banner Elk, North Carolina
Town of Banner Elk's Proportionate Share of Net Pension Liability (Asset)
Required Supplementary Information
Last Three Fiscal Years *

Local Government Employees' Retirement System

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Banner Elk's proportion of the net pension liability (asset) (%)	0.01663%	0.01609%	0.01470%
Banner Elk's proportion of the net pension liability (asset) (\$)	\$ 74,633	(94,890)	\$ 177,191
Banner Elk's covered-employee payroll	\$ 824,874	841,796	\$ 830,250
Banner Elk's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	9.05%	(11.27%)	21.34%
Plan fiduciary net position as a percentage of the total pension liability**	98.09%	102.64%	94.35%

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

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

**Town of Banner Elk, North Carolina
Town of Banner Elk's Contributions
Required Supplementary Information
Last Two Fiscal Years**

Local Government Employees' Retirement System

	2016	2015	2014
Contractually required contribution	\$ 56,874	\$ 60,743	\$ 59,477
Contributions in relation to the contractually required contribution	56,874	60,743	59,477
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Banner Elk's covered-employee payroll	\$ 824,874	\$ 830,250	\$ 830,250
Contributions as a percentage of covered-employee payroll	6.89%	7.32%	7.16%

Town of Banner Elk, North Carolina
General Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2016

	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Revenues:			
Ad valorem taxes:			
Taxes	\$	\$ 1,113,286	\$
Interest		4,298	
Total	<u>1,064,622</u>	<u>1,117,584</u>	<u>52,962</u>
Other taxes and licenses:			
Privilege licenses		253	
Total	<u>500</u>	<u>253</u>	<u>(247)</u>
Unrestricted intergovernmental:			
Local option sales taxes		373,842	
Utilities franchise tax		122,596	
Beer and wine tax		5,054	
Contributions - TDA		21,301	
ABC profit distribution		90,000	
Total	<u>482,596</u>	<u>612,793</u>	<u>130,197</u>
Restricted intergovernmental:			
Powell Bill allocation		42,601	
Other local grants and matching contributions		7,500	
ABC Revenue for law enforcement		4,120	
Highway Safety Grant		15,000	
Total	<u>100,000</u>	<u>69,221</u>	<u>(30,779)</u>
Permits and fees:			
Building permits		2,341	
Total	<u>2,000</u>	<u>2,341</u>	<u>341</u>
Sales and services:			
Rental income	23,840	29,166	5,326
Investment earnings			
	1,000	4,729	3,729
Miscellaneous:			
	7,500	11,932	4,432
Total revenues	1,682,058	1,848,019	165,961
Expenditures:			
Governing body:			
Salaries and employee benefits		13,564	
Operating expenditures		37,631	
Total		<u>51,195</u>	
Administration:			
Salaries and employee benefits		116,866	
Operating expenditures		74,582	
Total		<u>191,448</u>	
Finance:			
Operating expenditures		24,092	
Total		<u>24,092</u>	

Town of Banner Elk, North Carolina
General Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2016

	Budget	Actual	Variance Positive (Negative)
Planning			
Salaries and employee benefits		66,709	
Operating expenditures		19,602	
Total		<u>86,311</u>	
Public buildings:			
Operating expenditures		23,536	
Capital outlay			
Total		<u>23,536</u>	
Total general government	<u>477,943</u>	<u>376,582</u>	<u>101,361</u>
Public safety:			
Police:			
Salaries and employee benefits		605,255	
Operating expenditures		81,653	
Capital outlay		38,528	
Total		<u>725,436</u>	
Drug Task Force:			
Salaries and employee benefits		23,023	
Operating expenditures		2,358	
Total		<u>25,381</u>	
Total public safety	<u>818,851</u>	<u>750,817</u>	<u>68,034</u>
Transportation:			
Streets and highways:			
Salaries and employee benefits		97,925	
Operating expenditures		218,696	
Total transportation	<u>320,060</u>	<u>316,621</u>	<u>3,439</u>
Cultural and recreation:			
Parks and recreation:			
Salaries and employee benefits		71,797	
Other operating expenditures		47,244	
Total culture and recreation	<u>134,534</u>	<u>119,041</u>	<u>15,493</u>
Total expenditures	<u>1,751,388</u>	<u>1,563,061</u>	<u>188,327</u>
Revenues over (under) expenditures	(69,330)	284,958	354,288
Other financing sources (uses):			
Transfers to other funds:			
Sale of capital assets	-	21	21
Total	<u>\$ -</u>	<u>21</u>	<u>\$ 21</u>
Fund balance appropriated	69,330	-	(69,330)
Net change in fund balance	<u>\$ -</u>	<u>284,979</u>	<u>\$ 284,979</u>
Fund balances, beginning		1,249,122	
Fund balances, ending		<u>\$ 1,534,101</u>	

Town of Banner Elk, North Carolina
Capital Improvement Plan - Capital Improvement Capital Project Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2016

	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Revenues			
Restricted intergovernmental:			
Miscellaneous:			
Miscellaneous	\$ -	\$ 8,026	\$ 8,026
Investment income	-	2,224	2,224
Total revenues	<u>-</u>	<u>10,250</u>	<u>10,250</u>
Revenues under expenditures	<u>-</u>	<u>10,250</u>	<u>10,250</u>
Other financing sources (uses):			
Transfer to Old Banner Elk School Fund	(73,333)	(40,000)	33,333
Transfer to Mill Pond Project 60	<u>(36,000)</u>	<u>(6,600)</u>	<u>29,400</u>
Total	(109,333)	(46,600)	62,733
Fund balance appropriated	109,333	-	(109,333)
Net change in fund balance	<u>\$ -</u>	<u>\$ (36,350)</u>	<u>\$ (36,350)</u>
Fund balances, beginning		<u>484,849</u>	
Fund balances, ending		<u>\$ 448,499</u>	

Town of Banner Elk, North Carolina
Combining Balance Sheets
Nonmajor Governmental Funds
For the Year Ended June 30, 2016

	Police Special Revenue Fund	Cops Golf Tournament Special Revenue Fund	Historic Banner Elk School Special Revenue Fund	Total Nonmajor Governmental Funds
Assets				
Cash and cash equivalents	\$ 39,131	\$ 31,555	\$ 14,716	\$ 85,402
Due from other governments	-	675	799	1,474
Total assets	39,131	32,230	15,515	\$ 86,876
Liabilities and Fund Balances				
Liabilities:				
Accounts payable and accrued liabilities	-	-	-	-
Fund balances:				
Restricted:				
Stabilization by State Statute	-	675	799	1,474
Public safety	39,131	31,555	-	70,686
Assigned:				
Cultural and recreation	-	-	14,716	14,716
Total fund balances	39,131	32,230	15,515	86,876
Total liabilities and fund balances	\$ 39,131	\$ 32,230	\$ 15,515	\$ 86,876

Town of Banner Elk, North Carolina
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2016

	Police Special Revenue Fund	Cops Golf Tournament Special Revenue Fund	Historic Banner Elk School Special Revenue Fund	Total Nonmajor Governmental Funds
Revenues:				
Sales and services	\$ -	\$ 20,347	\$ 30,051	\$ 50,398
Capital donations			61,267	61,267
Interest	-	116	-	116
Miscellaneous	7,593	-	-	7,593
Total revenues	7,593	20,463	91,318	119,374
Expenditures:				
Public safety	9,327	16,612	-	25,939
Cultural and recreation	-	-	46,351	46,351
Debt service:				
Principal repayments	-	-	83,333	83,333
Interest	-	-	-	-
Total expenditures	9,327	16,612	129,684	155,623
Revenues over expenditures	(1,734)	3,851	(38,366)	(36,249)
Other Financing Sources (Uses):				
Transfers in	-	-	40,000	40,000
Net change in fund balance	(1,734)	3,851	1,634	3,751
Fund balance, beginning	40,865	28,379	13,881	83,125
Fund balance, ending	\$ 39,131	\$ 32,230	\$ 15,515	\$ 86,876

Town of Banner Elk, North Carolina
Corner Project and Mill Pond Sidewalk Extension
Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2016

	Project Authorization	Prior Years	Actual	
			Current Year	Total To Date
Revenues				
Miscellaneous:				
Contributions	\$ 368,007	\$ -	\$ 400,000	\$ 400,000
Investment income		-	90	90
Total revenues	<u>368,007</u>	<u>-</u>	<u>400,090</u>	<u>400,090</u>
Expenditures				
Capital outlay:				
Corner Project:				
Land purchase	310,000	-	312,437	312,437
Demolition	48,777	-	-	-
Miscellaneous project cost	9,230	-	691	691
Mill pond sidewalk extension	36,000	-	6,600	6,600
Total expenditures	<u>404,007</u>	<u>-</u>	<u>319,728</u>	<u>319,728</u>
Revenues under expenditures	<u>(36,000)</u>	<u>-</u>	<u>80,362</u>	<u>80,362</u>
Other Financing Sources				
Transfers from other funds:				
Capital project reserve fund	36,000	-	6,600	6,600
Total other financing sources	<u>36,000</u>	<u>-</u>	<u>6,600</u>	<u>6,600</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 86,962</u>	<u>\$ 86,962</u>

Town of Banner Elk, North Carolina
Police Special Revenue Fund - Nonmajor Special Revenue Fund
Schedule of Revenues, Expenditures, and Changes in
Fund Balance - Budget and Actual
For the Year Ended June 30, 2016

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Miscellaneous	\$ 5,500	7,593	\$ 2,093
Expenditures:			
Public safety:			
Other	14,135	9,327	4,808
Revenues over expenditures	(8,635)	(1,734)	6,901
Other financing (uses):			
Appropriated fund balance	8,635	-	(8,635)
Total other financing (uses)	8,635	-	(8,635)
Net change in fund balance	\$ -	(1,734)	\$ (1,734)
Fund balance, beginning		40,865	
Fund balance, Ending		\$ 39,131	

Town of Banner Elk, North Carolina
Golf Tournament Special Revenue Fund - Nonmajor Special Revenue Fund
Schedule of Revenues, Expenditures, and Changes in
Fund Balance - Budget and Actual
For the Year Ended June 30, 2016

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Golf tournament revenues	\$ 21,000	20,347	\$ (653)
Interest	-	116	116
Total revenues	<u>21,000</u>	<u>20,463</u>	<u>(537)</u>
Expenditures:			
Public safety:			
Golf tournament	<u>21,000</u>	<u>16,612</u>	<u>4,388</u>
Net change in fund balance	<u>\$ -</u>	3,851	<u>\$ 3,851</u>
Fund balance, beginning		<u>28,379</u>	
Fund balance, Ending		<u>\$ 32,230</u>	

Town of Banner Elk, North Carolina
Nonmajor Debt Service Fund
Schedule of Revenues, Expenditures, and Changes in
Fund Balance - Budget and Actual
For the Year Ended June 30, 2016

	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Expenditures:			
Debt service:			
Principal repayments	\$ 4,276		4,276
Interest	12,320		12,320
Total expenditures	<u>16,596</u>	-	<u>16,596</u>
Revenues over expenditures	<u>(16,596)</u>	-	<u>(16,596)</u>
Other financing (uses):			
Transfer from other funds	16,596	-	(16,596)
Total other financing (uses)	<u>16,596</u>	-	<u>(16,596)</u>
Net change in fund balance	<u>\$ -</u>	-	<u>\$ -</u>
Fund balance, beginning		-	
Fund balance, Ending		<u>\$ -</u>	

Town of Banner Elk, North Carolina
Historic Banner Elk School Special Revenue Fund - Nonmajor Special Revenue Fund
Schedule of Revenues, Expenditures, and Changes in
Fund Balance - Budget and Actual
For the Year Ended June 30, 2016

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Golf tournament revenues	10,000	27,071	17,071
Donations	50,000	61,267	11,267
Miscellaneous	-	2,980	2,980
Total revenues	<u>60,000</u>	<u>91,318</u>	<u>31,318</u>
Expenditures:			
Cultural and recreation:			
Other	11,000	10,637	363
Capital outlay	39,000	35,714	3,286
Debt Service:			
Principal	83,333	83,333	-
Total	<u>133,333</u>	<u>129,684</u>	<u>3,649</u>
Revenues over expenditures	<u>(73,333)</u>	<u>(38,366)</u>	<u>34,967</u>
Other financing (uses):			
Transfer from Capital Project Fund	73,333	40,000	33,333
Total other financing (uses)	<u>73,333</u>	<u>40,000</u>	<u>33,333</u>
Net change in fund balance	<u>\$ -</u>	1,634	<u>\$ 1,634</u>
Fund balance, beginning		<u>13,881</u>	
Fund balance, Ending		<u>\$ 15,515</u>	

Town of Banner Elk, North Carolina
Water and Sewer Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non - GAAP)
For the Year Ended June 30, 2016

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Water sales:			
Residential		\$ 278,620	
Impact fees		2,896	
Total	\$ 224,000	281,516	\$ 57,516
Sewer charges:			
Residential		409,481	
Sewer CIP surcharge		10,659	
Total	365,000	420,140	55,140
Water and sewer taps	10,250	5,771	(4,479)
Other operating revenues	12,000	19,199	7,199
Total operating revenues	611,250	726,626	115,376
Nonoperating revenues:			
Interest earnings	350	547	197
Total revenues	611,600	727,173	115,573
Expenditures:			
Water and sewer administration:			
Salaries and employee benefits		46,377	
Supplies		4,638	
Insurance		949	
Contracted services		2,312	
Other operating expenditures		23,534	
Total water and sewer administration	92,119	77,810	14,309
Wastewater treatment:			
Water treatment plant:			
Salaries and employee benefits		27,746	
Utilities		48,356	
Supplies		3,385	
Insurance		2,116	
Maintenance		18,524	
Other operating expenditures		14,060	
Contracted services		21,887	
Total	136,932	136,074	858
Water treatment:			
Water treatment plant:			
Salaries and employee benefits		27,767	
Utilities		26,294	
Supplies		11,402	
Insurance		866	
Maintenance		8,615	
Other operating expenditures		840	
Contracted services		14,902	
Total	98,351	90,686	7,665
Distributions and collections:			
Salaries and employee benefits		91,276	
Utilities		2,298	
Supplies		10,136	
Insurance		4,142	
Maintenance		21,318	
Other operating expenditures		27,191	
Total	208,422	156,361	52,061
Total water treatment and distribution	535,824	383,121	60,584

Town of Banner Elk, North Carolina
Water and Sewer Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non - GAAP)
For the Year Ended June 30, 2016

	Budget	Actual	Variance Positive (Negative)
Debt service:			
Interest and other charges		12,776	-
Principal retirement		63,000	-
Total debt service	75,776	75,776	-
Capital outlay:			
Total expenditures	611,600	536,707	74,893
Revenues over(under) expenditures	-	190,466	40,680
Revenues and other sources over expenditures and other uses	\$ -	190,466	\$ 190,466
Reconciliation from budgetary basis (modified accrual) to full accrual:			
Revenues and other sources over expenditures and other uses		\$ 190,466	
Reconciling items:			
Principal retirement		63,000	
Increase in accrued vacation pay		2,917	
Decrease in deferred outflows of resources - pensions		(1,402)	
Increase in net pension liability		(11,260)	
Decrease in deferred inflows of resources - pensions		30,177	
Decrease in net pension asset		(14,898)	
Depreciation		(182,491)	
Interest income from Water and Sewer Capital Projects Fund		71	
Total reconciling items		(113,886)	
Change in net position		\$ 76,580	

Town of Banner Elk, North Carolina
Capital Improvement Plan - Water and Sewer Capital Improvement Plan Fund
Schedule of Revenues and Expenditures - Budget and Actual (Non - GAAP)
For the Year Ended June 30, 2016

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Investment earnings	\$ -	71	71
Total revenues	-	71	71
Revenues over (under) expenditures	-	71	71
Revenues over (under) expenditures and other financing sources	\$ -	71	71

Town of Banner Elk, North Carolina
Schedule of Ad Valorem Taxes Receivable
June 30, 2016

<u>Fiscal Year</u>	<u>Uncollected Balance June 30, 2015</u>	<u>Additions</u>	<u>Collections And Credits</u>	<u>Uncollected Balance June 30, 2016</u>
2015-2016	\$ -	\$ 1,074,743	\$ 1,049,718	\$ 25,025
2014-2015	36,237	-	22,148	14,089
2013-2014	7,144	-	3,504	3,640
2012-2013	1,549	-	-	1,549
2011-2012	456	-	-	456
2010-2011	582	-	-	582
2009-2010	266	-	-	266
2008-2009	167	-	-	167
2007-2008	-	-	-	-
2006-2007	9	-	-	9
Motor Vehicles	<u>8,258</u>	<u>41,862</u>	<u>41,797</u>	<u>8,323</u>
	<u>\$ 54,668</u>	<u>\$ 1,116,605</u>	<u>\$ 1,117,167</u>	<u>54,106</u>
	Less: allowance for uncollectible accounts:			
				<u>5,466</u>
				<u>\$ 48,640</u>
	<u>Reconciliation to revenues:</u>			
				\$ 1,117,584
	Ad valorem taxes - General Fund			
	Reconciling items:			
				3,946
				<u>(4,298)</u>
				<u>(352)</u>
				<u>\$ 1,117,232</u>
	Total collections and credits			

Town of Banner Elk, North Carolina
Analysis of Current Tax Levy
Town - Wide Levy
June 30, 2016

	Town - Wide		Total Levy		
	Property Valuation	Rate	Total Levy	Property excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Property taxed at current rate	\$ 197,566,982	0.54	\$ 1,066,862	\$ 1,066,862	\$ -
Registered motor vehicles taxed	7,752,222	0.54	41,862	-	41,862
Penalties	-		1,073	1,073	-
Total	<u>205,319,204</u>		<u>1,109,797</u>	<u>1,067,935</u>	<u>41,862</u>
Discoveries:					
Current year taxes	<u>3,097,941</u>	0.54	<u>16,729</u>	<u>16,729</u>	<u>-</u>
Abatements	<u>(1,837,243)</u>	0.54	<u>(9,921)</u>	<u>(9,921)</u>	<u>-</u>
Total property valuation	<u>\$ 206,579,902</u>				
Net levy			1,116,605	1,074,743	41,862
Uncollected taxes at June 30, 2016			<u>(25,090)</u>	<u>(25,025)</u>	<u>(65)</u>
Current year's taxes collected			<u>\$ 1,091,515</u>	<u>\$ 1,049,718</u>	<u>\$ 41,797</u>
Current levy collection percentage			<u>97.75%</u>	<u>97.67%</u>	<u>99.84%</u>